

In the opinion of Procopio, Cory, Hargreaves & Savitch, LLP, San Diego, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2017 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law such interest is exempt from personal income taxes of the State of California. See, however, “TAX MATTERS” in this Official Statement.



\$22,115,000
SAN ELIJO JOINT POWERS AUTHORITY
(SAN DIEGO COUNTY, CALIFORNIA)
2017 REVENUE BONDS
(CLEAN WATER PROJECTS)

Dated: Date of Delivery

Due: as shown on inside front cover page

The \$22,115,000 San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”) are being issued by the San Elijo Joint Powers Authority (the “Authority”) for the purpose of funding facilities and improvements as part of the Authority’s capital improvement plan and certain costs of issuance of the Series 2017 Bonds, pursuant to laws of the State of California (the “State”) and the Series 2017 Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”) between the Authority and MUFG Union Bank N.A., as Trustee (the “Trustee”). The Series 2017 Bonds will be dated their date of delivery, in authorized denominations of \$5,000 and any integral multiple of \$5,000 and will mature March 1 of the years as shown on the inside front cover page. The Series 2017 Bonds will bear interest payable semi-annually March 1 and September 1, commencing September 1, 2017, until maturity or earlier redemption. The Series 2017 Bonds are subject to optional and mandatory sinking fund redemption. The Series 2017 Bonds initially will be delivered only in book-entry form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2017 Bonds. Individual purchases of the Series 2017 Bonds will be made in book-entry form only. Purchasers of Series 2017 Bonds will not receive physical certificates representing their ownership interests in Series 2017 Bonds purchased. Principal and interest will be payable directly to DTC by the Trustee. Upon receipt of such payments, DTC will in turn distribute them to the Beneficial Owners (defined herein) of the Series 2017 Bonds.

The Authority is a joint exercise of powers authority between the City of Encinitas, as successor to the Cardiff Sanitation District (“Encinitas”) and the City of Solana Beach, as successor to the Solana Beach Sanitation District (“Solana Beach”). Encinitas and Solana Beach are each a “City” and together, the “Cities”. Each City will enter into a Series 2017 Loan Agreement, each dated as of June 1, 2017 (each, a “Series 2017 Loan Agreement” and collectively, the “Series 2017 Loan Agreements”), to assist in the financing of the Cities’ respective shares of the Series 2017 Bonds. Each Series 2017 Loan Agreement is an absolute and unconditional obligation of Encinitas and Solana Beach, respectively, to make payments (“Loan Installments”) from and secured by a pledge of System Revenues (defined below) and other funds of each respective City lawfully available therefor and does not constitute an obligation of the other City. The pledge of System Revenues is on a parity with each City’s pledge of System Revenues for its obligations under its respective Third Amended and Restated Loan Agreement, each dated as of December 1, 2011, which will remain in full force and effect until final payment of the Authority’s 2011 Refunding Revenue Bonds as described below. Each of the Cities has agreed to pay its respective Loan Installments from its “System Revenues” comprised of gross revenues derived from its respective wastewater collection and disposal system (including the Authority’s treatment of wastewater collected by its system) after the deduction of maintenance and operation expenses, in an amount sufficient to pay the annual principal and interest due under its respective Series 2017 Loan Agreement. In addition, each City has made covenants under its respective Series 2017 Loan Agreement regarding the collection of its System Revenues, and the Authority has made certain covenants with respect to the operation and maintenance of its facilities. The Loan Installments paid by Encinitas would pay approximately 50% of total debt service on the Series 2017 Bonds, and the Loan Installments paid by Solana Beach would pay approximately 50% of total debt service on the Series 2017 Bonds. **NEITHER CITY IS RESPONSIBLE FOR ANY LOAN INSTALLMENT OWED BY THE OTHER CITY, AND A DEFAULT UNDER ONE SERIES 2017 LOAN AGREEMENT WILL NOT RESULT IN A DEFAULT UNDER THE OTHER SERIES 2017 LOAN AGREEMENT. NO OTHER LOCAL AGENCY OR OTHER CUSTOMER OF THE AUTHORITY HAS ANY OBLIGATION REGARDING THE SERIES 2017 LOAN AGREEMENTS OR THE SERIES 2017 BONDS.** See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS.”

Under the Series 2017 Indenture, the Authority will assign its rights, title and interest under and pursuant to the Series 2017 Loan Agreements to the Trustee, as assignee of the Authority. The Series 2017 Bonds and the interest thereon are payable solely from certain funds and accounts established and maintained under the Series 2017 Indenture (but excluding amounts held in the Series 2017 Rebate Fund), which in turn are funded principally through the foregoing assignments by the Authority, subject only to the provisions of the Series 2017 Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series 2017 Indenture.

THE AUTHORITY HAS PREVIOUSLY ISSUED ITS 2011 REFUNDING REVENUE BONDS (SAN ELIJO WATER RECLAMATION FACILITY) (“SERIES 2011 BONDS”), WHICH ARE OUTSTANDING IN THE PRINCIPAL AMOUNT OF \$3,015,000 AND WHICH ARE SECURED ON A PARITY WITH THE SERIES 2017 BONDS. ADDITIONAL PARITY OBLIGATIONS MAY BE ISSUED IN THE FUTURE AS PROVIDED IN THE SERIES 2017 INDENTURE. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – OUTSTANDING AND ADDITIONAL PARITY DEBT.”

THE SERIES 2017 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE REVENUES AND OTHER FUNDS PLEDGED THEREFOR IN THE SERIES 2017 INDENTURE, AND ARE NOT SECURED BY ANY LEGAL, EQUITABLE OR OTHER PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR THE LOCAL AGENCIES, OR ANY OF THE AUTHORITY’S INCOME OR RECEIPTS, EXCEPT AS PROVIDED IN THE SERIES 2017 INDENTURE. THE SERIES 2017 BONDS DO NOT CONSTITUTE A DEBT OF THE AUTHORITY OR THE STATE OF CALIFORNIA, OR OF ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF OR THE CITIES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2017 BONDS OR OTHER PAYMENTS REQUIRED TO BE MADE UNDER THE SERIES 2017 INDENTURE OR THE LOAN AGREEMENTS. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2017 Bonds are offered when, as and if executed, delivered, received and accepted by Hilltop Securities Inc. (the “Underwriter”), subject to the approval of Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by Procopio, Cory, Hargreaves & Savitch LLP, as Disclosure Counsel and general counsel to the Authority, for the Underwriter by its counsel, Nixon Peabody LLP and for each City by its respective counsel. Fieldman, Rolapp & Associates, Irvine, California, has served as municipal advisor to the Authority in connection with the execution and delivery of the Series 2017 Bonds. It is anticipated that the Series 2017 Bonds in definitive form will be available for delivery through the book-entry facilities of DTC on or about July 6, 2017.

MATURITY SCHEDULE

\$22,115,000
SAN ELIJO JOINT POWERS AUTHORITY
2017 REVENUE BONDS
(CLEAN WATER PROJECTS)

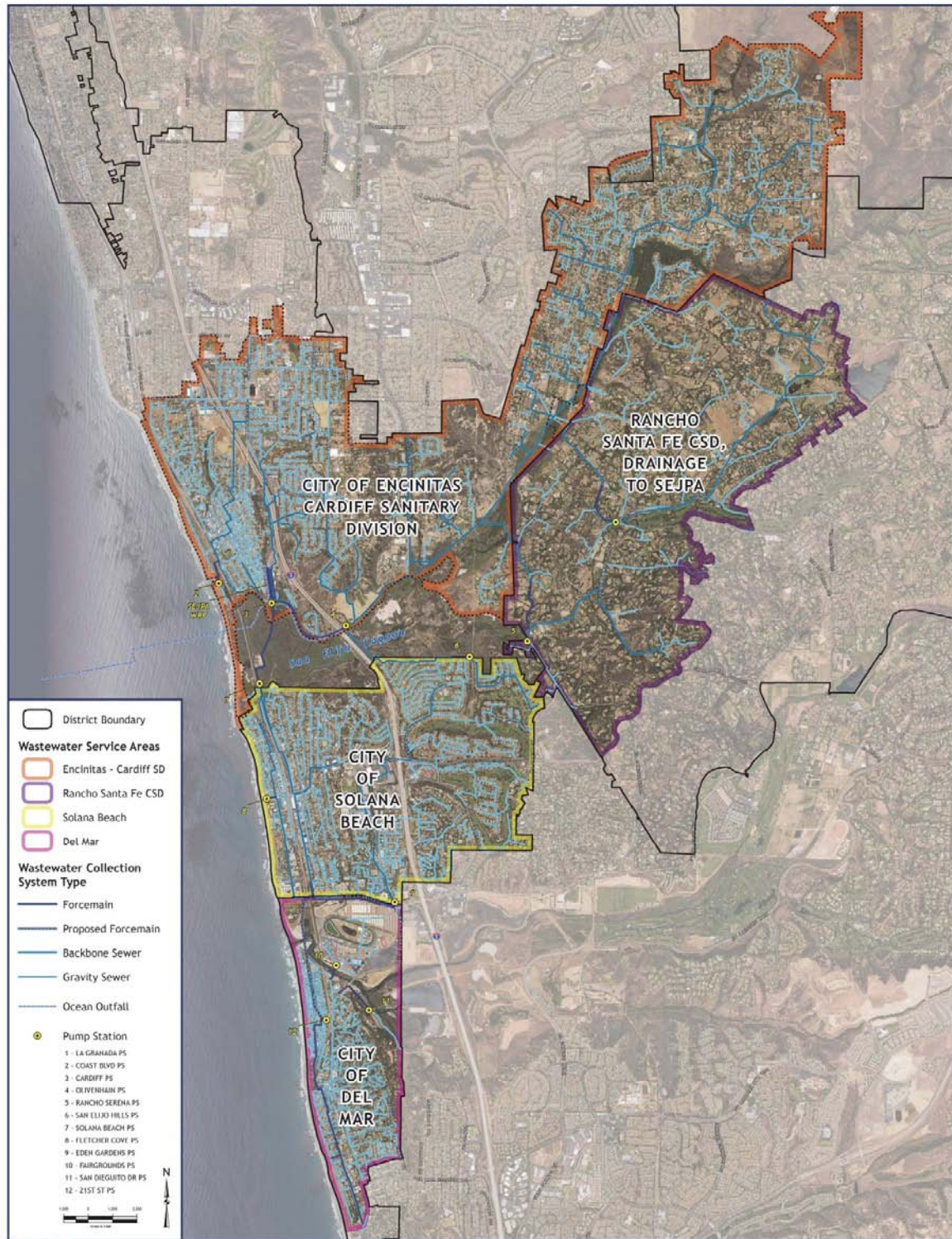
MATURITY DATE (March 1)	PRINCIPAL AMOUNT (\$)	INTEREST RATE (%)	YIELD (%)	PRICE (%)	CUSIP*
2020	435,000	3.000	1.000	105.222	797544CP6
2021	450,000	3.000	1.080	106.857	797544CQ4
2022	460,000	3.000	1.180	108.215	797544CR2
2023	475,000	3.000	1.330	109.063	797544CS0
2024	490,000	4.000	1.450	116.114	797544CT8
2025	510,000	5.000	1.610	124.314	797544CU5
2026	535,000	5.000	1.800	125.531	797544CV3
2027	560,000	5.000	1.940	126.816	797544CW1
2028	590,000	5.000	2.100 ^(c)	125.216	797544CX9
2029	620,000	5.000	2.200 ^(c)	124.228	797544CY7
2030	650,000	5.000	2.330 ^(c)	122.958	797544CZ4
2031	680,000	5.000	2.440 ^(c)	121.895	797544DA8
2032	715,000	5.000	2.530 ^(c)	121.033	797544DB6
2033	750,000	3.000	3.150	98.155	797544DC4
2034	775,000	5.000	2.670 ^(c)	119.707	797544DD2
2035	815,000	5.000	2.720 ^(c)	119.238	797544DE0
2036	855,000	4.000	3.160 ^(c)	106.938	797544DF7
2039	2,750,000	3.250	3.450	96.964	797544DG5
2047	9,000,000	4.000	3.370 ^(c)	105.151	797544DH3

^(c) Priced to the first optional call on March 1, 2027 at par.

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SAN ELIJO JOINT POWERS AUTHORITY



WASTEWATER SERVICE AREAS



SAN ELIJO JOINT POWERS AUTHORITY

BOARD OF DIRECTORS

GINGER MARSHALL, *Chair (City of Solana Beach, member since 2015)*
TASHA BOERNER HORVATH, *Vice Chair (City of Encinitas, member since 2017)*
JOSEPH MOSCA, *Member (City of Encinitas, since 2017)*
DAVID A. ZITO, *Member (City of Solana Beach, since 2013)*

AUTHORITY OFFICERS

MICHAEL T. THORNTON, P.E., *General Manager*
PAUL F. KINKEL, *Director of Finance and Administration*
CHRISTOPHER A. TREES, *Director of Operations*
JENNIFER BASCO, *Clerk of the Board*

GOVERNING BODIES OF LOCAL AGENCIES

CITY OF ENCINITAS

CATHERINE S. BLAKESPEAR, *Mayor and Councilmember*
TONY KRANZ, *Deputy Mayor and Councilmember*
TASHA BOERNER HORVATH, *Councilmember*
JOSEPH MOSCA, *Councilmember*
MARK MUIR, *Councilmember*

CITY OF SOLANA BEACH

MIKE NICHOLS, *Mayor and Councilmember*
GINGER MARSHALL, *Deputy Mayor and Councilmember*
DAVID A. ZITO, *Councilmember*
JEWEL EDSON, *Councilmember*
JUDY HEGENAUER, *Councilmember*

SPECIAL SERVICES

MUNICIPAL ADVISOR

FIELDMAN, ROLAPP & ASSOCIATES
Irvine, California

TRUSTEE

MUFG UNION BANK N.A.
Los Angeles, California

UNDERWRITER

HILLTOP SECURITIES INC.
Cardiff, California

UNDERWRITER'S COUNSEL

NIXON PEABODY LLP

BOND COUNSEL, DISCLOSURE COUNSEL, AUTHORITY GENERAL COUNSEL

PROCOPIO, CORY, HARGREAVES & SAVITCH LLP
San Diego, California

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Series 2017 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information in this Official Statement has been provided by the San Elijo Joint Powers Authority (the “Authority”), the City of Encinitas (“Encinitas”), the City of Solana Beach (“Solana Beach”) and other sources that are believed by the Authority to be reliable. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such information or representations must not be relied upon as having been authorized by the Authority, Encinitas, Solana Beach, Hilltop Securities Inc. (the “Underwriter”) or any other party in connection with any offering or reoffering of the Series 2017 Bonds.

This Official Statement is not a contract with the purchasers or Owners of the Series 2017 Bonds. Statements in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described, are intended solely as such and are not to be construed as representations of facts.

This Official Statement and the information and expressions of opinion in it are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, Encinitas or Solana Beach or any other parties described in this Official Statement since its date (shown at the bottom of the front cover), and this Official Statement speaks only as of its date. The Series 2017 Bonds may not be sold, nor may an offer to buy the Series 2017 Bonds be accepted, before the Official Statement is delivered in final form. This Official Statement is submitted with respect to the sale of the Series 2017 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all provisions of such documents and laws. The preparation of this Official Statement and its distribution have been duly authorized and approved by the Authority, Encinitas and Solana Beach.

In connection with the offering or any reoffering of the Series 2017 Bonds, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Series 2017 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer or reoffer and sell the Series 2017 Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside front cover page of this Official Statement, and said public offering prices may be changed from time to time by the Underwriter.

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project [as a verb],” “budget,” “intend” or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

The Series 2017 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act, and the Series 2017 Bonds have not been registered or qualified under the securities laws of any state.

The Authority and the Cities maintain internet websites; however, no information on or linked to or from such websites is part of this Official Statement and should not be relied upon in making any investment decision about the Series 2017 Bonds.

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OFFICIAL STATEMENT

\$22,115,000
SAN ELIJO JOINT POWERS AUTHORITY
2017 REVENUE BONDS
(CLEAN WATER PROJECTS)

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2017 Bonds being offered and a brief description of this Official Statement. All statements in this introduction are qualified in their entirety by reference to this entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the “State”) and any documents referred to in this Official Statement do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Series 2017 Indenture and the Series 2017 Loan Agreements (each, as hereinafter defined). See “APPENDIX B – CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Certain Definitions.”

This Official Statement, including the cover page and all appendices, provides certain information concerning the sale and delivery of \$22,115,000 aggregate principal amount of the San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”) to be issued by the San Elijo Joint Powers Authority (the “Authority”) for the purposes of funding improvements and additions to facilities used in its wastewater treatment and water reclamation and recycling services (the “San Elijo Clean Water Facilities”, as more fully defined below) and to pay certain expenses of the Authority in connection with the issuance of the Series 2017 Bonds.

The Series 2017 Bonds are being issued pursuant to: (a) the Constitution and laws of the State of California, including Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State (the “Act”); (b) a resolution (the “Resolution”) adopted by the Board of Directors of the Authority at its meeting held June 12, 2017; and (c) a Series 2017 Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”) by and between the Authority and MUFG Union Bank N.A., as trustee (the “Trustee”) thereunder.

Each of the City of Encinitas (“Encinitas”) and the City of Solana Beach (“Solana Beach”) will enter into separate Series 2017 Loan Agreements, each dated as of June 1, 2017 (each a “Series 2017 Loan Agreement,” and together, the “Series 2017 Loan Agreements”), to assist in the financing of their respective shares of the Series 2017 Bond obligations. The Series 2017 Loan Agreements are secured by pledges of revenues on a parity with the pledges of such revenues under the Third Amended and Restated Loan Agreement, dated as of December 1, 2011. See “**SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Outstanding and Additional Parity Debt.**” Encinitas and Solana Beach are each a “City” and together, the “Cities”. At the May 2017 regular meetings of the City Council of each City, respectively, acting by City Council resolutions, each City authorized and approved its respective Series 2017 Loan Agreement, the Disclosure Agreement (defined below) and other agreements, documents and instruments required in connection with the Authority’s issuance of the Series 2017 Bonds and their respective disclosure obligations related to the Series 2017 Bonds.

The Authority

The Authority was formed by the Cardiff Sanitation District and the Solana Beach Sanitation District pursuant to the Act. Initial facilities were developed as the wastewater treatment facility for the Cities pursuant to a joint powers agreement between Cardiff Sanitation District and the Solana Beach Sanitation District in 1963. In 1987, a Joint Exercise of Powers Agreement, as amended (the “Basic Agreement”), replaced the earlier agreement and provided for the joint ownership of certain wastewater conveyance, treatment and disposal facilities as well as management of the facilities. In 1990, the City of Solana Beach succeeded to the powers and responsibilities of the Solana Beach Sanitation District and assumed obligations of the Solana Beach Sanitation District with respect to the Authority. In 2001, the City of Encinitas succeeded to the powers and responsibilities of the Cardiff Sanitation District and assumed its obligations with respect to the Authority. In 2008, the Cities entered into a Restatement of Agreement between Cardiff Sanitation District and Solana Beach Sanitation District establishing the San Elijo Joint Powers Authority (the “Restatement of Agreement”). The Authority serves the wastewater collection and disposal systems (“City Systems”) of each City (specifically, the Cardiff Sanitary Division of Encinitas’ City System and all

of Solana Beach's City System). For all purposes related to the Series 2017 Bonds, the City System of Encinitas does not include divisions other than the Cardiff Sanitary Division. The facilities of the Authority used to treat effluent from each City System were first constructed in 1964 and then expanded in subsequent years. The Authority expects to use proceeds of the Series 2017 Bonds to fund portions of the cost of improvements and expansions of the San Elijo Clean Water Facilities in three phases, continuing through 2020. See "THE CLEAN WATER PROJECTS."

The San Elijo Clean Water Facilities

The Authority operates the San Elijo Clean Water Facilities ("Authority Facilities"), consisting primarily of wastewater treatment and disposal facilities serving the Cities (the "Wastewater Enterprise Facilities") and water reclamation, recycling and delivery facilities (the "Water Reclamation Facilities"). Encinitas and Solana Beach as the Cities are the Authority's principal Wastewater Enterprise Facilities customers, and other communities served by the Wastewater Enterprise Facilities include areas of the City of Del Mar ("Del Mar"), the Cardiff community in Encinitas ("Cardiff") and portions of Rancho Santa Fe Community Services District ("Rancho Santa Fe"). The San Elijo Clean Water Facilities handle mostly domestic wastewater and are permitted to discharge up to 3.02 million gallons per day ("MGD") of tertiary-treated wastewater to recycled water users and up to 5.25 MGD of secondary-treated wastewater to the Pacific Ocean through the San Elijo Ocean Outfall (capacity 25.5 MGD), approximately 1.5 miles offshore (the "Ocean Outfall"). The Ocean Outfall is owned jointly by the Authority (21%) and by the City of Escondido (79%).

The Wastewater Enterprise Facilities. The Wastewater Enterprise Facilities, which serve as the sole wastewater treatment and disposal facilities for the City Systems, are located at the Authority's headquarters site, approximately 23 miles north of the City of San Diego in a small valley on the northern side of San Elijo Lagoon immediately west of Interstate Highway 5 (the "I-5"). The Wastewater Enterprise Facilities, which also include the eight wastewater pumping stations (operated by the Authority but owned by each respective City as part of its City System), serve northern San Diego County areas including: (a) Encinitas' Cardiff Sanitation Division service area, comprising 5,250 gross acres (approximately 38% of the city limits of Encinitas) along the Pacific coast and extending inland; and (b) Solana Beach's service area, comprising 2,211 gross acres (the entire city limits of Solana Beach), also along the Pacific coast; and (c) Del Mar's service area, comprising approximately 1,240 gross acres (the entire city limits of Del Mar), also along the Pacific coast. Del Mar has no obligation with respect to the Series 2017 Bonds; accordingly, its wastewater collection and disposal system is not a "City System" with respect to the Series 2017 Bonds.

The Water Reclamation Facilities. The Water Reclamation Facilities are also located at the Authority's headquarters site. The Authority operates a recycled water delivery system, including 20 miles of recycled water distribution pipelines, two pumping stations and three recycled water reservoirs (one underground and two aboveground, with storage capacities ranging from 750,000 to 1,000,000 gallons), to communities extending northward and southward along the I-5 corridor (including the CalTrans I-5 right-of-way). Various cities and local agencies in the area are wholesale customers of recycled water delivered by the Authority, serving areas of Encinitas, Solana Beach, Del Mar, Rancho Santa Fe and the La Costa area of the City of Carlsbad ("La Costa"). Tertiary treatment components of the Water Reclamation Facilities produce approximately 1,400 to 1,600 acre-feet of recycled water annually for local use by parks, schools, churches, golf courses, freeway and street landscaping, landscape irrigation for businesses and homeowners' associations and industrial cooling towers. Tertiary treatment capacities by technology include 2.5 MGD of sand filtration, 1.4 MGD of micro filtration and 0.5 MGD of reverse osmosis. No revenues of the Water Reclamation Facilities are pledged to the payment of the Series 2017 Bonds.

No city or local agency other than Encinitas and Solana Beach (the Cities) has any obligation with respect to the Series 2017 Bonds, whether or not such city or local agency is a customer of the Authority's wastewater treatment or recycled water services.

Security and Sources of Payment for the Series 2017 Bonds

THE AUTHORITY HAS PREVIOUSLY ISSUED ITS 2011 REFUNDING REVENUE BONDS (SAN ELIJO WATER RECLAMATION FACILITY) ("SERIES 2011 BONDS"), WHICH ARE OUTSTANDING IN THE PRINCIPAL AMOUNT OF \$3,015,000 AND WHICH ARE SECURED ON A PARITY WITH THE SERIES 2017 BONDS. ADDITIONAL PARITY OBLIGATIONS MAY BE ISSUED IN THE FUTURE AS PROVIDED IN

THE SERIES 2017 INDENTURE. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Outstanding and Additional Parity Debt.”

Loan Installments. Under the Series 2017 Loan Agreements, each City is required to make its Loan Installment payments from certain revenues (“System Revenues”) derived from its respective City System, including services the Authority provides each City System through operation of the Wastewater Enterprise Facilities. System Revenues are comprised of Gross Revenues (defined below) less Operating and Maintenance Expenses (defined below). The Series 2017 Loan Agreements provide that, as long as the Series 2017 Bonds remain outstanding and unpaid, each City is absolutely and unconditionally required to pay its Loan Installments from its System Revenues (whether or not the Wastewater Enterprise Facilities are operating or operable).

Under the Series 2017 Loan Agreements, each City has covenanted and agreed to prescribe, revise and collect such charges from the services and facilities provided by its City System and the Wastewater Enterprise Facilities which, after allowances for contingencies and errors in the estimates, will produce Gross Revenues (defined below) sufficient in each Fiscal Year to provide System Revenues equal to at least 1.30 times the sum of (a) its Loan Installments coming due and payable during such Fiscal Year and (b) all payments required with respect to Parity Debt (as defined below) coming due and payable during such Fiscal Year. Aggregate Loan Installment payments by the Cities are intended to be sufficient, in both time and amount, to pay, when due, the annual principal of and interest on the Series 2017 Bonds.

Each Series 2017 Loan Agreement defines “Gross Revenues” as all gross income and revenue received by the respective City and allocated to its City System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of its City System and the Wastewater Enterprise Facilities; (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys; and (c) transfers to the respective City’s sanitary enterprise fund from (but exclusive of any transfers to) any rate stabilization reserve accounts; provided, that the term “Gross Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the respective City.

For purposes of each Series 2017 Loan Agreement, “Wastewater Enterprise Facilities” means any and all facilities of any kind or purpose of or used by the Authority (excluding the Authority’s Water Reclamation Facilities) used for the treatment and disposal of wastewater, including without limitation sewage treatment plants, intercepting and collecting sewers (owned by the Cities), outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery, safety and systems for the protection, monitoring, command, control and operation thereof, and all other appurtenances necessary, useful or convenient for the foregoing, and any necessary lands, rights of way and other real or personal property useful in connection therewith. **As stated above, the term “Wastewater Enterprise Facilities” expressly excludes the Water Reclamation Facilities of the Authority and the City Systems.**

“Operation and Maintenance Expenses” of each City System is defined in the Series 2017 Loan Agreements to be (a) all expenses and costs of management, operation, maintenance and repair incurred by the respective City for the collection of wastewater in its City System, as well as the cost of maintaining its City System, and all incidental costs, fees and expenses properly chargeable to its City System (but excluding debt service or other similar payments on Parity Debt or other obligations and depreciation and obsolescence charges or reserves therefor and amortization of intangibles and inter-fund transfers or other bookkeeping entries of a similar nature); and (b) all expenses and costs of management, operation, maintenance and repair billed by the Authority to the respective City for the treatment of wastewater at the Wastewater Enterprise Facilities, as well as the cost of maintaining the Wastewater Enterprise Facilities and all incidental costs, fees and expenses properly chargeable to the Wastewater Enterprise Facilities, which expenses and costs are billed to the respective City. “Operation and Maintenance Expenses” does not include the Loan Installments or the expenses and costs of management, operation, maintenance and repair of the Water Reclamation Facilities. See “THE SAN ELIJO CLEAN WATER FACILITIES –Water Reclamation Facilities”.

While Encinitas is also served by its Encinitas Sanitary Division and the Leucadia County Water District, no revenues from either of those enterprises will be aggregated with the revenues of Encinitas’s City System or pledged or assigned to the payment of debt service on the Series 2017 Bonds. **NO CITY OR LOCAL GOVERNMENT ENTITY OTHER THAN ENCINITAS AND SOLANA BEACH (THE CITIES) HAS ANY OBLIGATION WITH RESPECT TO LOAN INSTALLMENTS PAYABLE FOR THE SERIES 2017 BONDS, WHETHER**

OR NOT SUCH CITY OR OTHER ENTITY IS A CUSTOMER OF THE AUTHORITY'S WASTEWATER OR RECYCLED WATER SERVICES.

No Reserve Fund or Account. No reserve fund or account for the payment of debt service on the Series 2017 Bonds has been or will be established or funded.

Outstanding Parity Debt. The Loan Installments are also pledged and secured, on a parity basis with each City's pledge of System Revenues, for the payment of debt service on \$3,015,000 outstanding aggregate principal amount of the Authority's 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facilities) (the "2011 Bonds", and together with any permitted additional indebtedness or similar obligations subsequently issued or incurred, secured on a parity basis with the Series 2017 Bonds, "Parity Debt"). The 2011 Bonds are not subject to redemption prior to their maturities, which are March 1 annually as follows: 2018 redemption of \$1,365,000 principal; 2019 redemption of \$1,415,000 principal; 2020 redemption of \$115,000 principal; and 2021 redemption of \$120,000 principal.

Bond Payments, Interest and Maturities

The Series 2017 Bonds mature and bear interest (computed on the basis of a 360-day year of twelve 30-day months) at the rates set forth on the inside front cover page of this Official Statement. Interest on the Series 2017 Bonds will be payable September 1, 2017, and each March 1 and September thereafter to and including the maturity or redemption of such Series 2017 Bonds. See "**THE SERIES 2017 BONDS.**"

Redemption of the Series 2017 Bonds

Optional Redemption. The Series 2017 Bonds maturing on or before March 1, 2027, are not subject to optional redemption. The Series 2017 Bonds maturing on and after March 1, 2028 may be redeemed, at the option of the Authority (which the Authority may rescind at its discretion), from and after March 1, 2027, prior to their stated maturity on any date specified by the Authority in a notice of redemption given by the Trustee to the Owners of the Series 2017 Bonds to be redeemed at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. Subject to the Series 2017 Indenture, the term Series 2017 Bonds maturing March 1, 2039, and thereafter are subject to mandatory sinking fund redemption by the Authority and shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking account payments in the amounts and on the dates set forth in "**THE SERIES 2017 BONDS – Redemption.**"

Special Obligations

EACH SERIES 2017 LOAN AGREEMENT IS A SPECIAL, ABSOLUTE AND UNCONDITIONAL OBLIGATION OF THE RESPECTIVE CITY, AND LOAN INSTALLMENTS PAYABLE THEREUNDER ARE SECURED BY A PLEDGE OF SYSTEM REVENUES AND OTHER FUNDS OF THE CITY LAWFULLY AVAILABLE THEREFOR, AND DOES NOT CONSTITUTE A GENERAL OBLIGATION OF SUCH CITY OR AN OBLIGATION OF THE OTHER CITY. EACH OBLIGATION OF THE CITIES TO MAKE LOAN INSTALLMENT PAYMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS IS AN OBLIGATION OF THE RESPECTIVE CITY, PAYABLE FROM SYSTEM REVENUES OF THE RESPECTIVE CITY AND OTHER SOURCES IDENTIFIED IN THE SERIES 2017 LOAN AGREEMENTS AND THE SERIES 2017 INDENTURE. THE CITIES ARE NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION IN ORDER TO PAY THE LOAN INSTALLMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE SERIES 2017 BONDS NOR THE OBLIGATION OF THE LOCAL AGENCIES TO MAKE LOAN INSTALLMENT PAYMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS CONSTITUTES A DEBT OF EITHER CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE AUTHORITY'S OR THE CITIES' RESPECTIVE OFFICERS, EMPLOYEES AND AGENTS, NOR ANY PERSONS EXECUTING THE SERIES 2017 LOAN AGREEMENTS OR THE SERIES 2017 BONDS, SHALL BE PERSONALLY LIABLE ON THE SERIES 2017 LOAN AGREEMENTS OR THE SERIES 2017 BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE DELIVERY THEREOF.

Book-Entry Only Registration

The Series 2017 Bonds will be issued in fully registered form and will be registered initially in the name of “Cede & Co.” as nominee for The Depository Trust Company, New York, New York (“DTC”), a securities depository. Beneficial ownership interests in the Series 2017 Bonds may be acquired in denominations of \$5,000 or any multiple of \$5,000 through participants in the DTC system (the “Participants”). Such beneficial ownership interests will be recorded in the records of the Participants. Persons for whom Participants acquire interests in the Series 2017 Bonds (the “Beneficial Owners”) will not receive certificates evidencing their interests in the Series 2017 Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2017 Bonds. So long as DTC or its nominee is the registered owner of the Series 2017 Bonds, payments of principal, premium, if any, and interest on the Series 2017 Bonds, as well as notices and other communications made by or on behalf of the Authority pursuant to the Series 2017 Indenture, will be made to DTC or its nominee only. Disbursement of such payments, notices and other communications by DTC to Participants, and by Participants to the Beneficial Owners, is the responsibility of DTC and the Participants pursuant to rules and procedures established by such entities. See **“APPENDIX F – THE BOOK-ENTRY ONLY SYSTEM”** for a discussion of the operating procedures of the DTC system with respect to payments, registration, transfers, notices, and other matters.

Delivery of Series 2017 Bonds

The Series 2017 Bonds are offered when, as, and if issued by the Authority and accepted by Hilltop Securities Inc., as underwriter for the Series 2017 Bonds (the “Underwriter”), subject to prior sale and the approving legal opinion of Bond Counsel and certain other conditions. See **“MISCELLANEOUS – Underwriting.”** It is anticipated that the Series 2017 Bonds in definitive form will be available for delivery through the book-entry facilities of DTC on or about July 6, 2017.

Tax Matters

In the opinion of Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2017 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law such interest is exempt from personal income taxes of the State of California. See, however, **“TAX MATTERS”** and **“APPENDIX D – FORM OF BOND COUNSEL OPINION.”**

Audited Financial Statements

For the fiscal year 2015-16 of the Authority and each City, their respective audited financial statements and their accompanying reports are attached to this Official Statement in **“APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH.”** Except as otherwise expressly stated in this Official Statement, all other financial information about the Authority or either City is unaudited financial information.

The audit reports accompanying the financial statements were prepared: (a) for the Authority by The Pun Group, LLP, San Diego, California (“TPG”); (b) for Encinitas by TPG; and (c) for Solana Beach by Lance, Soll & Lunghard, LLP, Brea, California (“LSL”) (TPG and LSL, each an “Auditor”), to the extent and for the periods indicated in their respective reports. Such financial statements have been included in reliance upon the respective reports of each Auditor. Each Auditor has consented to the reproduction of its report in this Official Statement. Neither the Authority, Encinitas nor Solana Beach is aware of any facts that would make its respective financial statements misleading in any material respect.

Professionals, Service Providers and Advisors

Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, has acted as Bond Counsel and Disclosure Counsel to the Authority. Certain legal matters will be passed on for the Authority by its general counsel, Procopio, Cory, Hargreaves & Savitch LLP, and for each City by its respective City Attorney. Hilltop Securities Inc. will serve as the Underwriter (the “Underwriter”). Certain legal matters will be passed on for the Underwriter by its counsel, Nixon Peabody LLP. MUFG Union Bank N.A. will serve as the Trustee for the Series 2017 Bonds.

Fieldman, Rolapp & Associates, an independent registered municipal advisor, is serving as municipal advisor to the Authority (the “Municipal Advisor”). Certain fees that are payable by the Authority with respect to the Series 2017 Bonds to counsel, the Underwriter, the Trustee and the Municipal Advisor are contingent upon the issuance and delivery of the Series 2017 Bonds. For more information concerning circumstances in which certain of these professionals may have a financial or other interest in the offering of the bonds, see “**CERTAIN LEGAL MATTERS – General.**”

Bond Owner Risks

See “**BOND OWNER RISKS**” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in considering the investment quality of the Series 2017 Bonds. The purchase of the Series 2017 Bonds involves risks, and the Series 2017 Bonds may be appropriate investments for some types of investors but not others.

Additional Information

The summaries of or references to constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Official Statement do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the full provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge from the Authority’s administrative offices, 2695 Manchester Avenue, P.O. Box 1077, Cardiff, California 92007-7077, telephone: 760.753.3203 ext 73, or Hilltop Securities Inc., 2533 South Coast Highway 101, Suite 250, Cardiff, California 92007, telephone: 760.632.8614.

CONTINUING DISCLOSURE

The Authority and Encinitas, with Applied Best Practices, LLC, as Dissemination Agent, and Solana Beach with Urban Futures, Inc., as Dissemination Agent, will enter into and deliver a Disclosure Agreement (the “Disclosure Agreement”) with respect to the Series 2017 Bonds, under which the Authority and the Cities will provide to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board (“EMMA”), which can be found at www.emma.msrb.org, certain financial information and operating data relating to the Authority and the Cities by not later than eight months after the end of each Fiscal Year (the “Annual Reports”), and to provide notices of the occurrence of certain listed events. The Disclosure Agreement is made for the benefit of the registered and Beneficial Owners (as defined in the Disclosure Agreement) of the Series 2017 Bonds and in order to assist the Underwriter in complying with its obligations pursuant to United States Securities and Exchange Commission Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12) (“SEC Rule 15c2-12”), as amended and promulgated by the United States Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended. See “**APPENDIX E – FORM OF DISCLOSURE AGREEMENT.**”

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ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2017 Bonds are expected to be determined and applied as follows:

Sources of Funds

Par Amount of Series 2017 Bonds	\$22,115,000.00
Net Original Issue Premium on Series 2017 Bonds	<u>2,106,719.20</u>
TOTAL SOURCES	\$24,221,719.20

Uses of Funds

Deposit to Series 2017 Project Fund	\$23,883,452.20
Deposit to Costs of Issuance Fund ^(a)	210,000.00
Underwriter's Discount	<u>128,267.00</u>
TOTAL USES	\$24,221,719.20

- (a) Includes, without limitation, all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority, the Cities and the Trustee, compensation to the financial advisor or any consultants, rating agency fees and costs of printing.

THE SERIES 2017 BONDS

General

The Series 2017 Bonds will be dated as of their date of delivery, will be issued in the aggregate principal amounts and will bear interest at the rates and mature on the dates, subject to redemption as described under “**THE SERIES 2017 BONDS – Redemption**,” set forth on the inside front cover page of this Official Statement. The Series 2017 Bonds will be issuable as fully registered bonds without coupons in authorized denominations of \$5,000 and any multiple of \$5,000 in excess thereof.

Interest on the Series 2017 Bonds is payable semiannually each March 1 and September 1, commencing September 1, 2017 (each an “Interest Payment Date”). Interest on the Series 2017 Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months, until payment of principal has been made or provided for, payable on each Interest Payment Date. The principal of, interest on and Redemption Price, if any, with respect to the Series 2017 Bonds shall be payable in legal currency of the United States of America, to the person in whose name the Bond is registered in the registration books maintained by the Trustee (the “Owner”) as of the fifteenth day of the month preceding such Interest Payment Date, whether or not such day is a Business Day (the “Record Date”). Any interest not punctually paid or duly provided for shall cease to be payable to the Owner of the Bond on the respective Record Date and shall be paid to the Owner in whose name the Bond is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee. Under the Series 2017 Indenture, the Trustee will provide notice to the Owner of such special record date by first-class mail at least 15 days before the special record date.

Interest on the Series 2017 Bonds shall be payable on each Interest Payment Date by the Trustee by check mailed on the date on which due to the Owners of the Series 2017 Bonds at the close of business on the Record Date with respect to such Interest Payment Date, at the registered addresses of Owners as shall appear on the registration books of the Trustee. Any Owner of Series 2017 Bonds in an aggregate principal amount in excess of \$1,000,000 may be paid interest by wire transfer to a bank account located in the United States of America by providing written wire transfer instructions to the Trustee prior to the Record Date next preceding the applicable Interest Payment Date.

Redemption

Optional Redemption. The Series 2017 Bonds maturing on or before March 1, 2027, are not subject to optional redemption. The Series 2017 Bonds maturing on and after March 1, 2028, are subject to redemption prior to their stated maturity on or after March 1, 2027, at the option of the Authority, from any source of available funds, as a whole or in part on any date specified by the Authority in a notice of redemption given by the Trustee to the

Owners of the Series 2017 Bonds to be redeemed at least 30 days before such redemption date (in such amounts and of such mandatory sinking fund payments as may be specified by the Authority, or if the Authority fails to specify such amounts and such principal or Redemption Price, if any, of mandatory sinking fund payments, in inverse order of mandatory sinking fund payments), at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. Subject to the terms and conditions set forth in the Series 2017 Indenture, the Series 2017 Bonds maturing March 1, 2039, shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking fund payments in the following amounts and on the following dates:

SERIES 2017 BONDS MATURING MARCH 1, 2039

REDEMPTION DATE (MARCH 1)	PRINCIPAL AMOUNT
2037	\$890,000
2038	\$915,000
2039 ^(a)	\$945,000

^(a) Final Maturity

In addition to the foregoing, and subject to the terms and conditions set forth in the Series 2017 Indenture, the Series 2017 Bonds maturing March 1, 2047, shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking fund payments in the following amounts and on the following dates:

SERIES 2017 BONDS MATURING MARCH 1, 2047

REDEMPTION DATE (MARCH 1)	PRINCIPAL AMOUNT
2040	\$ 975,000
2041	\$ 1,015,000
2042	\$ 1,055,000
2043	\$ 1,100,000
2044	\$ 1,145,000
2045	\$ 1,190,000
2046	\$ 1,235,000
2047 ^(a)	\$ 1,285,000

^(a) Final Maturity

Notice of Redemption. The Trustee is required to cause notice of the call for redemption to be given in accordance with the Series 2017 Indenture and not more than 60 nor less than 30 days prior to the applicable redemption date by mailing by Electronic Means (as defined in the Series 2017 Indenture) and by first-class mail a copy of the notice to the Owners of the Series 2017 Bonds designated for redemption in whole or in part, at their last addresses appearing upon the bond register, together with a copy of the notice to EMMA; provided, however, receipt of such notice shall not be a condition precedent to such redemption and failure of any Owner of the Series 2017 Bonds to receive any such notice or any defect in such notice shall not affect the validity of any proceedings for the redemption of such Series 2017 Bonds.

Each notice of redemption is required to specify the series and maturities of the Series 2017 Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such redemption shall be payable and, if less than all of the Series 2017 Bonds of any like series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2017 Bonds to be so redeemed, and, in the case of Series 2017 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Such notice shall further state any conditions that must be satisfied prior to the redemption of the Series 2017 Bonds to be redeemed and that on such date there shall become due and payable upon each Series 2017 Bond to be redeemed the principal or Redemption Price of the specified portions of the principal amount thereof in the case of the Series 2017 Bonds to be redeemed in part only, together with interest accrued but unpaid on the principal amount of the Series 2017 Bonds to be redeemed to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be payable.

Under the Series 2017 Indenture, neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP® number that appears on any of the Series 2017 Bonds or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP® numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

Rescission or Cancellation of Optional Redemption. The Authority has the right to rescind any optional redemption notice by written notice to the Trustee, on or before the date fixed for optional redemption. Any such notice of redemption will be canceled and annulled if funds will not be or are not available on the date fixed for redemption for the payment in full of the Series 2017 Bonds then called for optional redemption, and such cancellation is not an Event of Default under the Series 2017 Indenture. The Authority and the Trustee will have no liability to the Owners or any other party related to or arising from rescission or cancellation of optional redemption. The Trustee will mail any rescission or cancellation notice in the same manner and to the same recipients as the original notice of optional redemption was sent.

Debt Service

TABLE 1 shows the debt service requirements for the Series 2017 Bonds.

TABLE 1: DEBT SERVICE SCHEDULE
\$22,115,000
San Elijo Joint Powers Authority
2017 Revenue Bonds
(Clean Water Projects)
(amounts in United States Dollars)

Date	Principal	Coupon	Interest	Total P+I
03/01/2018	-	-	589,311.46	589,311.46
03/01/2019	-	-	902,775.00	902,775.00
03/01/2020	435,000.00	3.000%	902,775.00	1,337,775.00
03/01/2021	450,000.00	3.000%	889,725.00	1,339,725.00
03/01/2022	460,000.00	3.000%	876,225.00	1,336,225.00
03/01/2023	475,000.00	3.000%	862,425.00	1,337,425.00
03/01/2024	490,000.00	4.000%	848,175.00	1,338,175.00
03/01/2025	510,000.00	5.000%	828,575.00	1,338,575.00
03/01/2026	535,000.00	5.000%	803,075.00	1,338,075.00
03/01/2027	560,000.00	5.000%	776,325.00	1,336,325.00
03/01/2028	590,000.00	5.000%	748,325.00	1,338,325.00
03/01/2029	620,000.00	5.000%	718,825.00	1,338,825.00
03/01/2030	650,000.00	5.000%	687,825.00	1,337,825.00
03/01/2031	680,000.00	5.000%	655,325.00	1,335,325.00
03/01/2032	715,000.00	5.000%	621,325.00	1,336,325.00
03/01/2033	750,000.00	3.000%	585,575.00	1,335,575.00
03/01/2034	775,000.00	5.000%	563,075.00	1,338,075.00
03/01/2035	815,000.00	5.000%	524,325.00	1,339,325.00
03/01/2036	855,000.00	4.000%	483,575.00	1,338,575.00
03/01/2037	890,000.00	3.250%	449,375.00	1,339,375.00
03/01/2038	915,000.00	3.250%	420,450.00	1,335,450.00
03/01/2039	945,000.00	3.250%	390,712.50	1,335,712.50
03/01/2040	975,000.00	4.000%	360,000.00	1,335,000.00
03/01/2041	1,015,000.00	4.000%	321,000.00	1,336,000.00
03/01/2042	1,055,000.00	4.000%	280,400.00	1,335,400.00
03/01/2043	1,100,000.00	4.000%	238,200.00	1,338,200.00
03/01/2044	1,145,000.00	4.000%	194,200.00	1,339,200.00
03/01/2045	1,190,000.00	4.000%	148,400.00	1,338,400.00
03/01/2046	1,235,000.00	4.000%	100,800.00	1,335,800.00
03/01/2047	1,285,000.00	4.000%	51,400.00	1,336,400.00
Total	\$22,115,000.00	-	\$16,822,498.96	\$38,937,498.96

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS

Capitalized terms used but not defined in this section have the meanings attributed to them in “APPENDIX B – CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

THE AUTHORITY HAS PREVIOUSLY ISSUED ITS 2011 REFUNDING REVENUE BONDS (SAN ELIJO WATER RECLAMATION FACILITY) (“SERIES 2011 BONDS”), WHICH ARE OUTSTANDING IN THE PRINCIPAL AMOUNT OF \$3,015,000 AND WHICH ARE SECURED ON A PARITY WITH THE SERIES 2017 BONDS. ADDITIONAL PARITY OBLIGATIONS MAY BE ISSUED IN THE FUTURE AS PROVIDED IN THE SERIES 2017 INDENTURE. See “**Outstanding and Additional Parity Debt**” in this section.

Special Obligations

EACH SERIES 2017 LOAN AGREEMENT IS AN ABSOLUTE AND UNCONDITIONAL OBLIGATION OF THE RESPECTIVE CITY, AND LOAN INSTALLMENTS PAYABLE THEREUNDER ARE SECURED BY A PLEDGE OF SYSTEM REVENUES AND OTHER FUNDS OF THE CITY LAWFULLY AVAILABLE THEREFOR, AND DOES NOT CONSTITUTE A GENERAL OBLIGATION OF THE CITY OR AN OBLIGATION OF THE OTHER CITY. THE OBLIGATION OF THE CITIES TO MAKE LOAN INSTALLMENT PAYMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS IS PAYABLE FROM SYSTEM REVENUES AND OTHER SOURCES IDENTIFIED IN THE SERIES 2017 LOAN AGREEMENTS AND THE SERIES 2017 INDENTURE. THE CITIES ARE NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION IN ORDER TO PAY THE LOAN INSTALLMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE SERIES 2017 BONDS NOR THE OBLIGATION OF THE CITIES TO MAKE LOAN INSTALLMENT PAYMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS CONSTITUTES A DEBT OF EITHER CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE AUTHORITY’S OR EITHER CITY’S RESPECTIVE OFFICERS, EMPLOYEES AND AGENTS, NOR ANY PERSONS EXECUTING THE SERIES 2017 LOAN AGREEMENTS OR THE SERIES 2017 BONDS, SHALL BE PERSONALLY LIABLE ON THE SERIES 2017 LOAN AGREEMENTS OR THE SERIES 2017 BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE DELIVERY THEREOF.

The Series 2017 Bonds are special obligations of the Authority and, pursuant to the Series 2017 Indenture, the Series 2017 Bonds are secured by a first lien on and pledge of all of the Revenues (defined below) and a pledge of all of the moneys in the Interest Account and the Principal Account, including all amounts derived from the investment of such moneys.

Revenues of the Authority. “Revenues” means: (a) all amounts payable by the Cities pursuant to the Series 2017 Loan Agreements (taking into account any limitations contained therein with respect to such payment), other than (i) administrative fees and expenses and indemnity against claims payable to the Authority and the Trustee and (ii) taxes and other charges payable to the United States of America pursuant to each Series 2017 Loan Agreement; (b) any proceeds of Series 2017 Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Series 2017 Indenture; and (c) income and gains with respect to the investment of amounts on deposit in such funds and accounts. The Authority has assigned to the Trustee for the benefit of the Owners its right to receive all of the Revenues, and all of the right, title and interest of the Authority in the Series 2017 Loan Agreements.

System Revenues of Cities. Under the Series 2017 Loan Agreements, each City is required to make its Loan Installment payments from certain revenues (“System Revenues”) derived from its respective City System, including services the Authority provides each City System through operation of the Wastewater Enterprise Facilities. System Revenues are comprised of Gross Revenues (defined below) less Operating and Maintenance Expenses (defined below). The Series 2017 Loan Agreements provide that, as long as the Series 2017 Bonds remain outstanding and unpaid, each City is absolutely and unconditionally required to pay its Loan Installments from its System Revenues whether or not any Authority facilities are operating or operable.

Gross Revenues of City Systems. Each Series 2017 Loan Agreement defines “Gross Revenues” as all gross income and revenue received by the City party thereto for the collection and treatment of wastewater generated in its respective City System, including, without limiting the generality of the foregoing: (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of its City System and the Wastewater Enterprise Facilities (defined below); (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys; and (c) transfers to that City’s Enterprise Fund; provided, that the term “Gross Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the applicable City.

Wastewater Enterprise Facilities. For purposes of each Series 2017 Loan Agreement, “Wastewater Enterprise Facilities” means any and all facilities of any kind or purpose of the Authority (excluding the Authority’s Water Reclamation Facilities) used for the treatment and disposal of wastewater, including without limitation sewage treatment plants, certain intercepting and collecting sewers, outfall sewers, certain pumping stations, ejector stations, pipes, valves, machinery, safety and systems for the protection, monitoring, command, control and operation thereof, and all other appurtenances necessary, useful or convenient for the foregoing, and any necessary lands, rights of way and other real or personal property useful in connection therewith.

Operations and Maintenance Expenses. “Operation and Maintenance Expenses” of each City System is defined in the Series 2017 Loan Agreements to be (a) all expenses and costs of management, operation, maintenance and repair of the respective City System and all incidental costs, fees and expenses properly chargeable to the respective City System (but excluding debt service or other similar payments on Parity Debt (as defined below), or other obligations and depreciation and obsolescence charges or reserves therefor and amortization of intangibles and inter-fund transfers or other bookkeeping entries of a similar nature); and (b) all expenses and costs of management, operation, maintenance and repair billed by the Authority to each City for the treatment of wastewater at the Wastewater Enterprise Facilities as well as the cost of maintaining the Wastewater Enterprise Facilities, and all incidental costs, fees and expenses properly chargeable to the Wastewater Enterprise Facilities, which expenses and costs are billed to the respective City. “Operation and Maintenance Expenses” do not include Loan Installments or the expenses and costs of management, operation, maintenance and repair of the Water Reclamation Facilities. See “THE SAN ELIJO CLEAN WATER FACILITIES – The Water Reclamation Facilities.”

Loan Installment Obligations. The obligation of the Cities to pay Loan Installments constitutes an absolute and unconditional special obligation of each respective City, payable from a first and prior lien on its System Revenues, together with other funds of the respective City lawfully available therefor, and certain interest and other income derived from the investment of the funds and accounts held by the Trustee pursuant to the Series 2017 Indenture (other than the Series 2017 Rebate Fund). Neither the Authority, the Cities, the State, nor any of the State’s political subdivisions shall be directly, indirectly, contingently or morally obligated to use any other moneys or assets to pay all or any portion of the principal of, Redemption Price (if any) of, or interest on the Series 2017 Bonds, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Series 2017 Bonds are not a pledge of the faith and credit of the Authority, the Cities, the State, nor any of the State’s political subdivisions and do not constitute indebtedness within the meaning of any constitutional or statutory debt limitation. The Authority has no taxing power.

Delinquencies and Remedies. If either City fails to pay any Loan Installment when due, the delinquent Loan Installment shall continue as an obligation of that City, and that City shall pay the same with interest thereon, to the extent permitted by law, from the date thereof at the net effective interest rate then borne by the Outstanding Series 2017 Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the order of priority prescribed in the respective Series 2017 Loan Agreement. Should either City default under its respective Series 2017 Loan Agreement, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Outstanding Series 2017 Bonds the Trustee shall: (a) declare the principal of the Series 2017 Loan, together with the accrued interest on all unpaid installments thereof, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Series 2017 Loan Agreement to the contrary notwithstanding, and (b) exercise any other remedies available to the Trustee in law or at equity. Each City’s liability to pay its Loan Installments is limited to System Revenues and other funds of such City lawfully available therefor.

Separate City Obligations; No Cross-Default. Each Series 2017 Loan Agreement is an obligation only of the respective City, and does not constitute an obligation of the other City. As a result, a default in the payment of a Loan Installment under either Series 2017 Loan Agreement would constitute an event of default under such Series 2017 Loan Agreement and may result in acceleration of the related Loan Installments. Such a default under one Series 2017 Loan Agreement would not constitute an event of default under the other Series 2017 Loan Agreement, but may result in a payment default on the Series 2017 Bonds.

No Third-Party Revenues or Obligations. While Encinitas is also served by its Encinitas Sanitary Division and the Leucadia County Water District, no revenues from either of those enterprises will be aggregated with the revenues of Encinitas's City System or pledged or assigned to the payment of debt service on the Series 2017 Bonds. **THE REVENUES OF THESE TWO ENTERPRISES ARE SEPARATE FROM THE REVENUES OF THE CARDIFF SANITARY DIVISION AND ARE NOT PLEDGED TO THE PAYMENT OF DEBT SERVICE ON THE SERIES 2017 BONDS. NO CITY OR LOCAL GOVERNMENT ENTITY OTHER THAN ENCINITAS AND SOLANA BEACH (THE CITIES) HAS ANY OBLIGATION WITH RESPECT TO THE LOAN INSTALLMENTS REQUIRED FOR THE SERIES 2017 BONDS, WHETHER OR NOT SUCH CITY OR OTHER ENTITY IS A CUSTOMER OF THE AUTHORITY'S WASTEWATER OR RECYCLED WATER SERVICES.**

Shares of Capacity of Wastewater Enterprise Facilities

The Wastewater Enterprise Facilities have a rated capacity of 5.25 MGD. Each of the Cities owns 50% of the Wastewater Enterprise Facilities. The total amount of each payment of principal and interest with respect to the Series 2017 Bonds is comprised of Loan Installments to be made by each respective City, approximately 50% (with respect to Encinitas) and 50% (with respect to Solana Beach) of debt service on the Series 2017 Bonds.

The foregoing percentages may differ slightly from the 50% ownership share of the Cities due to the refunding of prior indebtedness as well as different equity contributions by each of the Cities. Under the Basic Agreement, the Cities are entitled to purchase and use the capacity of the Wastewater Enterprise Facilities from each other based on pro-rata responsibility for ongoing capital costs as well as operation and maintenance expenses with the result that the responsibility of either City for debt service on the Series 2017 Bonds can change under certain circumstances from that shown above. See **"APPENDIX B – CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE SERIES 2017 INDENTURE – Funds and Accounts – Flow of Funds."**

Rate Covenants of the Cities

Each City has covenanted and agreed to prescribe, revise and collect such charges from the services and facilities of its City System and Wastewater Enterprise Facilities which, after allowances for contingencies and error in the estimates, shall produce Gross Revenues sufficient in each Fiscal Year to provide System Revenues equal to at least 1.30 times the sum of (a) its Loan Installments coming due and payable during such Fiscal Year and (b) all payments required with respect to Parity Debt (as defined herein) coming due and payable during such Fiscal Year. Aggregate Loan Installment payments by the Cities are intended to be sufficient, in both time and amount, to pay, when due, the annual principal of and interest on the Series 2017 Bonds.

Outstanding and Additional Parity Debt

Series 2011 Refunding Revenue Bonds. The Loan Installments are also pledged and secured, on a parity basis with the Series 2017 Bonds, to the payment of debt service on \$3,015,000 outstanding aggregate principal amount of the Authority's 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility) (the "2011 Bonds"). The 2011 Bonds are not subject to redemption prior to their maturities, which are March 1 annually as follows: 2018 redemption of \$1,365,000 principal; 2019 redemption of \$1,415,000 principal; 2020 redemption of \$115,000 principal; and 2021 redemption of \$120,000 principal.

Additional Parity Debt. Each City has the right to issue or incur Parity Debt ("Parity Debt"), on a parity with its respective Series 2017 Loan Agreement, provided:

(a) The City is not in default under the terms of its respective Series 2017 Loan Agreement; and

(b) System Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest fiscal year, currently July 1 through June 30 in the succeeding year (the "Fiscal Year"), or any more

recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued or incurred, as shown by the books of the City, plus at the option of the City, either or both of the items below designated (1) and (2), shall have amounted to at least 1.30 times the sum of the maximum Loan Installments of the City coming due and payable in any future Fiscal Year and the maximum annual debt service on all Parity Debt outstanding immediately subsequent to the incurring of such additional obligations.

Either or both of the following items may be added to such System Revenues of the City for the purpose of determining whether the condition described in paragraph (b) above is met:

- (1) An allowance for revenues from any additions to or improvements or extensions of the City System and the Wastewater Enterprise Facilities to be made with the proceeds of such additional obligations, and also for net revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 75% of the estimated additional average annual revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent engineer employed by either of the Cities or the Authority, and
- (2) An allowance for earnings arising from any increase in the charges made for service from the City System and the Wastewater Enterprise Facilities which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of the amount by which revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer employed by the City or the Authority.

Insurance

The Authority covenants to procure and maintain or cause to be procured and maintained casualty insurance on the Wastewater Enterprise Facilities with responsible insurers, or to provide self-insurance (which may be provided in the form of risk-sharing pools), in such amounts and against such risks (including accident to or destruction of the Wastewater Enterprise Facilities) as are usually covered in connection with similar facilities. See “**BOND OWNER RISKS – Insurance and Risk Management.**”

THE CLEAN WATER PROJECTS

The Authority expects to use proceeds of the sale of the Series 2017 Bonds deposited in the Series 2017 Project Fund toward the completion of wastewater and recycled water infrastructure projects (the “Clean Water Projects”), including additions to and enhancement of the Wastewater Enterprise Facilities and the Water Reclamation Facilities. The estimated cost distribution to be funded from the Series 2017 Project Fund is 75% for wastewater system infrastructure (including portions of the Wastewater Enterprise Facilities) and 25% recycled water system infrastructure (the Water Reclamation Facilities). The projects are anticipated to be completed in three phases over a four-year period.

Phase I Clean Water Projects

Phase I projects are ready for construction. The design of these projects has been completed, and all permits have been obtained. The current Clean Water Projects schedule anticipates construction to commence in mid-2017 with completion in late 2018. The current cost estimate for Phase I Clean Water Projects is \$13.7 million, of which approximately \$6.2 million is expected to be funded from the Series 2017 Project Fund. The Authority expects to fund the balance of the cost of Phase I Clean Water Projects from the proceeds of grants and capital contributions and other available Authority funds. Phase I includes the following Clean Water Projects:

- *Land Outfall Replacement.* Replacement of the San Elijo Land Outfall pipeline due to age (“Land Outfall Replacement”). This project will replace approximately 2,500 linear feet of 30-inch diameter asbestos-concrete pipeline originally installed in 1965. The Authority regards the Land Outfall Replacement as critical wastewater infrastructure because (a) there are no redundant facilities or systems, (b) the Land

Outfall Replacement is in use 24 hours per day, every day of the year, and (c) the Land Outfall Replacement is essential for meeting disposal permit compliance. See “**THE SAN ELIJO CLEAN WATER FACILITIES –Water Discharge Requirements.**”

- *Preliminary Wastewater Treatment Upgrades.* Preliminary Wastewater Treatment Upgrades will increase peak flow wastewater treatment by more than 50% to approximately 13.6 MGD from the current flow of 9 MGD. This Clean Water Project includes construction of new concrete treatment structures, installation of new screening and dewatering equipment, rehabilitation of existing concrete channels and structures and replacement of aging chemical storage tanks.
- *Odor and Gas Control Systems.* The replacement of aging mechanical, electrical and other components of the Wastewater Enterprise Facilities associated with treatment odor control systems is necessary to sustain the capture and removal of odors and corrosive gases.

Phase II Clean Water Projects

Phase II projects are currently in design. California Environmental Quality Act (“CEQA”) documentation has been completed and filed on all Phase II projects. The current schedule anticipates design completion by mid-2018, commencement of construction immediately thereafter and completion in December 2019. The current cost estimate for Phase II Clean Water Projects is \$13.5 million, expected to be funded in whole or in part from the Series 2017 Project Fund. Phase II currently includes the following Clean Water Projects (however, the Authority reserves the right in its discretion to reorder or substitute Clean Water Projects among the three phases):

- *Operations, Administration and Clean Water Visitors Center.* This project will replace the obsolete operations and administration buildings due to age, safety concerns, code compliance issues, and accessibility and workspace requirements with new, modern facilities located at the Authority Facilities campus entrance. The project includes a new laboratory, operations control room and work area, secure SCADA room, class room/training room, offices, and a public meeting and educational area.
- *Site Security, Cybersecurity and Systems Resilience.* This Clean Water Project will improve site security with the installation of taller and more secure perimeter fencing, expansion and modernization of video surveillance, enhancements for building access security and upgrading the SCADA system to improve data collection, storage and cybersecurity.
- *Site Utilities.* The Authority Facilities require the replacement of aging and obsolete electrical and mechanical piping infrastructure and process control components as well as expansion of fiber optic interconnectivity throughout the campus, with the construction of a more secure and advanced operations control center.
- *Carbon Emissions Reduction.* This element will add solar energy systems to new and existing buildings and carport structures in order to reduce and offset the carbon-emissions use of the electricity grid.
- *Recycled Water Distribution.* The Authority expects to continue the expansion of its recycled water distribution system with additional pipelines and conveyance infrastructure. Identified projects in Encinitas and Solana Beach are anticipated to convert 16 million gallons per year of potable water irrigation to recycled water.

Phase III Clean Water Projects

Phase III projects are in early design. CEQA documentation has been completed and filed on all Phase III projects. The current schedule anticipates design completion by mid-2019, with completion of construction by late 2020. The current cost estimate for Phase III Clean Water Projects is \$7.8 million, expected to be funded from the Series 2017 Project Fund. Phase III currently includes the following Clean Water Projects (however, the Authority reserves the right in its discretion to reorder or substitute Clean Water Projects among the three phases):

- *Pre-Digestion Treatment.* The Authority expects to maintain and improve pre-digestion treatment in a group of Clean Water Projects that include upgrades to mechanical elements of the dissolved air thickening units and primary sludge thickening improvements.

- *Digester Performance.* The Authority expects to sustain the performance and asset lives of its digester systems with replacement of aging pumps, upgrades to heat exchange systems, repairs of surface and structural damage to concrete digesters and refurbishment of Digesters Nos. 1 and 2 at the Wastewater Enterprise Facilities.
- *Solids Handling, Dewatering, Corrosion Repair and Odor Control.* This group of Clean Water Projects involves replacement of aging solids handling and dewatering equipment, repair of corrosion damage at the solids handling building and further improvements in odor control.
- *Secondary Treatment and Safety.* The Authority expects to upgrade secondary treatment systems and processes with replacement of corroded troughs and baffles, repairs of concrete channels and effluent boxes, the implementation of trough automation and installation of a fall-arrest system to enhance workplace safety.

SAN ELIJO JOINT POWERS AUTHORITY

History and Legal Status

The Authority is a joint exercise of powers authority organized and existing under and by virtue of California Government Code section 6500 et seq. (Title 1, Division 7, Chapter 5, Article 1). In 1963, the Cardiff Sanitation District and the Solana Beach Sanitation District originally approved a joint powers agreement, as amended, under which a wastewater conveyance, treatment and disposal facility was constructed. The joint powers agreement set forth the criteria for joint ownership of conveyance, treatment and disposal facilities, and originally authorized the County of San Diego to maintain and operate the facilities. The joint powers agreement contemplates the possible inclusion of adjacent communities as users of the facilities. Under the original joint powers agreement, 56% of the capacity of the facilities and related ocean outfall was acquired by the Cardiff Sanitation District and 44% was acquired by the Solana Beach Sanitation District. Subsequently, it was determined that it would be in the mutual best interests of Cardiff Sanitation District and the Solana Beach Sanitation District to rescind the joint powers agreement and to create a new joint powers authority.

Establishment

In 1987, the Authority was established by the terms of the Basic Agreement as a separate entity with the power to own, operate, maintain and upgrade the facilities. In 1990, Solana Beach succeeded to the powers and responsibilities of the Solana Beach Sanitation District and assumed the obligations and benefits of the Solana Beach Sanitation District with respect to the Authority. In 2001, Encinitas succeeded to the powers and responsibilities of the Cardiff Sanitation District and assumed the obligations and benefits of the Cardiff Sanitation District with respect to the Authority on behalf of Encinitas's Cardiff Sanitary Division. In 2008, Encinitas and Solana Beach amended and restated the Basic Agreement by entering into the Restatement of Agreement.

Governance

The Authority is governed by a four-member Board of Directors ("Board"), with two members representing each of the two Cities. The Authority has hired its own staff to operate and maintain the San Elijo Clean Water Facilities (the "Authority Facilities", comprised of the Wastewater Enterprise Facilities and the Water Reclamation Facilities) as well as manage the business of the Authority. By means of the Restatement of Agreement, the Cities have conveyed their ownership interests in the Authority Facilities to the Authority. In general, the Restatement of Agreement establishes the Authority's right to finance expansion of the Authority Facilities as well as to determine, by agreement of the Cities, capacity rights resulting from any upgrade of the Authority Facilities. Each City maintains its respective City System collection facilities located within its respective service territory. However, the Authority maintains the pump stations and force mains for each City System service area.

The Restatement of Agreement

Under the Restatement of Agreement, each City owns a specified percentage, or capacity rights, of the sewage treatment capacity provided by the Wastewater Enterprise Facilities. Each City may lease, sell or purchase capacity without the consent of any other party. Any such transaction, however, will not relieve the City of any of its obligations under the Restatement of Agreement. The Restatement of Agreement may be rescinded and the Authority terminated upon the written consent of the Cities; however, under the Restatement of Agreement, prior to

termination, all expenses of any City terminating its participation in the Authority would become due and payable in full. Each City has covenanted in its respective Series 2017 Loan Agreement not to terminate the Restatement of Agreement until its obligations under its Series 2017 Loan Agreement have been satisfied.

Under the Restatement of Agreement, two Authority directors are to be members of the City Council of the City of Encinitas and two Authority directors are to be members of the City Council of the City of Solana Beach. The Board of Directors meets regularly, and an affirmative vote of at least three members of the Authority's Board of Directors is required for any actions of the Authority. Whenever, after consideration of a matter for two meetings, the Authority Board of Directors is unable to decide a matter because of a tie vote, the issue shall be referred to the City Council of the City of Encinitas and the City Council of the City of Solana Beach for resolution.

The Restatement of Agreement also provides for the appointment of a manager responsible for the administrative operation of the Authority under the direction and control of the Authority's Board of Directors. Pursuant to the Restatement of Agreement, the manager has been given the following powers, among others, in addition to the powers necessary and proper to the effective administration of the Authority: (a) participating in the design of and supervision of the construction of any improvement, or expansion of the Authority Facilities; (b) making and entering into contracts in connection with capital costs, costs of special services, equipment, materials, supplies, maintenance or repair that involve an expenditure of less than \$35,000; (c) employing agents and employees to maintain and operate the Authority Facilities; (d) in an emergency, making and entering into contracts where required to keep the Authority Facilities in operation or to restore the Authority Facilities to operating conditions that involve an expenditure of less than \$75,000; (e) preparing and submitting annual budgets; (f) applying for all permits, licenses or approvals necessary for operation of the Authority Facilities from any local, state or federal government or agency with jurisdiction over the Authority Facilities and filing all reports required by any local, state or federal government or agency with jurisdiction over the Authority Facilities; and (g) supervising the acquisition, construction, management, maintenance and operation of the Authority Facilities.

Wastewater Enterprise Facilities

The Authority acts as the wholesale provider of wastewater treatment services for each of the Cities. The Cities have agreed to contribute from their respective wastewater enterprise funds the actual cost of the administration, operation and maintenance of the Wastewater Enterprise Facilities as divided between the Cities pursuant to the Restatement of Agreement. Such costs shall include the actual costs of (a) all materials and supplies used or purchased for the operation and maintenance of the Wastewater Enterprise Facilities, (b) all contracts let by Authority for the performance of any work incidental to providing such service and (c) the salaries and wages of all Authority employees providing such services. Each City independently sets its own rates for the provision of the wastewater collection, treatment and disposal services for its City System. See **"THE SAN ELIJO CLEAN WATER FACILITIES – Wastewater Service Area."**

Water Reclamation Facilities

The Authority has additional sources of operating income, primarily from its water recycling and reuse operations. The Authority Facilities were upgraded in 1998 for water reuse through \$4 million in capital contributions from the Cities, a \$12.6 million loan from the State of California Water Resources Department and a \$4 million loan from the United States Bureau of Reclamation. Currently, the Authority serves approximately 19 square miles with a population of approximately 40,000. The Authority operates a recycled water delivery system, including 20 miles of recycled water distribution pipelines, two pumping stations and three recycled water reservoirs (one underground and two aboveground, with storage capacities ranging from 750,000 to 1,000,000 gallons), to communities extending northward and southward along the I-5 corridor (including the CalTrans I-5 right-of-way). Various cities and local agencies in the area are wholesale customers of recycled water delivered by the Authority, serving areas of Encinitas, Solana Beach, Del Mar, Rancho Santa Fe and La Costa. Tertiary treatment facilities produce approximately 1,400 to 1,600 acre-feet of recycled water annually for local use by parks, schools, churches, golf courses, freeway and street landscaping, landscape irrigation for businesses and homeowners' associations, and industrial cooling towers. Tertiary treatment capacities by technology include 2.5 MGD of sand filtration, 1.4 MGD of micro filtration and 0.5 MGD of reverse osmosis.

Key Management

Michael T. Thornton, P.E., who serves at the pleasure of the Authority's Board of Directors, acts as the General Manager for the Authority, and in that capacity he is responsible for the day-to-day operation and management of the Authority Facilities. In addition to the manager, the Authority's Board of Directors also selects the Treasurer/Auditor. The General Manager selects and hires all other administrative staff of the Authority. The backgrounds of the current General Manager, Director of Finance/Administration, and Director of Operations of the Facility are as follows:

- **MICHAEL T. THORNTON, P.E., *General Manager*.** Michael Thornton is the General Manager of the San Elijo Joint Powers Authority and has been with the Authority since 2000. His duties include responsibility for the planning, engineering, financing, and management of the Wastewater Enterprise Facilities and the Water Reclamation Facilities that comprise the San Elijo Clean Water Facilities. Mr. Thornton is a graduate of San Diego State University, earning a B.S. in Civil Engineering, and is a licensed civil engineer in the State of California. Mr. Thornton currently serves on the Board of Trustees for WaterReuse California, the Board of Directors for the Southern California Alliance of Publicly Owned Treatment Works, and the Industry Advisory Board for the Environmental Engineering Program at San Diego State University. Mr. Thornton's professional affiliations include the Water Environment Foundation, California Association of Sanitation Agencies, and American Society of Civil Engineers.
- **PAUL F. KINKEL, *Director of Finance and Administration*.** Paul Kinkel is the Director of Finance and Administration of the San Elijo Joint Powers Authority and has been with the Authority since 2013. His duties include supporting the General Manager in carrying out the directives of the Board, developing and administering programs related to the Authority's provision of services, general accounting activities including payroll, accounts payable, purchasing, expenditure control, budget and year-end audit, contract administration, human resources including recruitment, classification and compensation, benefits and supporting labor relations, management information systems, document control including record keeping and Board policies and administrative procedures. Mr. Kinkel has 29 years of accounting, financial and management experience. He is a graduate of San Diego State University.
- **CHRISTOPHER A. TREES, P.E., *Director of Operations*.** Christopher Trees is the Director of Operations of the San Elijo Joint Powers Authority and has been with the Authority since 2009. His duties include supporting the General Manager in carrying out directives of the Board and overseeing operations of the Authority's Wastewater Enterprise Facilities and Water Reclamation Facilities. Mr. Trees is also responsible for planning and implementation of capital projects associated with Authority Facilities. With 29 years of engineering and management experience, Mr. Trees is a licensed mechanical engineer in the State of California. He is a graduate of Purdue University, earning a B.S. in Mechanical Engineering.

Retirement Plan

Generally, the Authority recovers its operating expenses, including but not limited to its employment and related retirement benefit costs, through its service charges to the Cities for the Wastewater Enterprise Facilities. For more detailed information about the Authority's pension and other retirement benefit payments and liabilities, see the audited financial statements of the Authority included in "**APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH.**" The following description is only a brief summary:

- ***OPEB*.** The Authority provides medical insurance benefits to eligible retirees in accordance with various labor agreements, subject to the Authority's vesting schedule. Typically, these benefits are available at age 55, and only to retirees participating in the California Public Employees Retirement System ("CalPERS"). CalPERS currently sets the Authority's maximum monthly contributions at \$125 per retiree. For all retiree benefits other than pension benefits (Other Post-Employment Benefits, or "OPEB"), as of June 30, 2016, the Authority's net share of OPEB liability was approximately \$155,000, together with an unfunded actuarial accrued liability of approximately \$292,000.
- ***Pension*.** The Authority contracts with CalPERS for service retirement and disability benefits with annual cost-of-living adjustments and death benefits to public employees and their beneficiaries. For employees hired before July 1, 2012, the CalPERS pool is 2.5% at 55; for employees hired thereafter, the pool is

2% at 62. For the year ended June 30, 2016, the Authority's aggregate contributions were approximately \$161,000 for 46 covered employees. CalPERS has announced that it anticipates substantial increases in required employer and employee contribution rates; however, the Authority cannot yet estimate the impact of such increases. As of June 30, 2016, the Authority reported its proportionate share of net pension liability as \$2,463,484.

THE SAN ELIJO CLEAN WATER FACILITIES

The San Elijo Clean Water Facilities to be augmented and improved with the Clean Water Projects consist of its Wastewater Enterprise Facilities and its Water Reclamation Facilities, located approximately 23 miles north of the City of San Diego in a small valley on the northern side of the San Elijo Lagoon and west of the I-5. With the exception of certain pump stations operated and maintained by the Authority but owned by the Cities, the Ocean Outfall and the recycled water delivery system, the Wastewater Enterprise Facilities and the Water Reclamation Facilities are located at the Authority's 27-acre headquarters site. The Wastewater Enterprise Facilities serve as a regional sewage treatment and disposal facility for a service area encompassing approximately 19 square miles, with a population of approximately 40,000. Wastewater effluent is discharged directly to the Pacific Ocean from the Ocean Outfall, which the Authority owns jointly with the City of Escondido ("Escondido"). Escondido owns a 79% share of the Ocean Outfall, and the Authority owns the other 21% share. See **"THE CLEAN WATER PROJECTS."**

Wastewater Service Area

The joint service area served by the Wastewater Enterprise Facilities is located 23 miles north of the City of San Diego and encompasses approximately 8,640 gross acres in the northern portion of San Diego County. The sewage agencies served by the Wastewater Enterprise Facilities include Cardiff Sanitary Division (of Encinitas), Solana Beach, Del Mar, Rancho Santa Fe and the 22nd District Agricultural Association (the local government agency that manages and operates the Del Mar Fairgrounds and equestrian park), and a portion of the City of San Diego. The water agencies within the joint service area are the Olivenhain Water District, the Santa Fe Irrigation District and the San Dieguito Water District. No city, district or local agency other than the Authority and the Cities has any financial obligation with respect to the Series 2017 Bonds or the Series 2017 Loan Agreements.

The joint service area is situated on a coastal plain, bordered by the Cardiff community in Encinitas to the north and Solana Beach and Del Mar to the south. Major hydrological features in the area consist of surface water (creeks, lagoons) and groundwater basins. The principal water features are the Escondido Creek, the San Dieguito River and the San Elijo Lagoon.

City Collection Systems. Each City owns its City System to collect and transport wastewater to the Wastewater Enterprise Facilities. Each City is responsible for the maintenance, operation, expansion and installation of its City System except for certain pump stations and force mains that are operated and maintained by the Authority but owned by the respective City. While either City may delegate responsibilities to the Authority for certain aspects of City System operations, the delegating City remains liable for any costs associated with any delegation. In general, the City Systems have similar but distinct service areas and operations, all as described in **"THE CITIES OF ENCINITAS AND SOLANA BEACH."** The combined City Systems serve approximately 8,640 gross acres.

As of June 30, 2016: (a) the Cardiff Sanitary Division (of Encinitas) served 8,344 Equivalent Dwelling Units ("EDUs") including 7,157 residential EDUs and 1,187 commercial or industrial EDUs, all across approximately 5,250 gross acres (approximately 38% of the city limits of Encinitas) along the Pacific coast and extending inland; and (b) Solana Beach's service area served 5,142 EDUs, including 2,736 residential EDUs and 2,406 commercial/industrial EDUs, all across approximately 2,176 gross acres (the entire city limits of Solana Beach), also along the Pacific coast.

Sewer Service Rates and Revenues

Both Cities recover the cost of wastewater treatment system operation, maintenance, renewal and replacement and capital expansion through a user fee system consisting of four major components and federal and State Clean Water Grants. Each City establishes user fees adequate to provide for its prorata responsibility for the Authority's costs as well as the City's costs. Among other fee components, the Cities impose two primary components of user

fees: sewer service charges, based on EDUs; and sewer connection fees, to recover the depreciated original cost of the capacity required by new sewer connections and to recognize the equitable interests of existing sewer users who financed current treatment capacity.

The City Council of each City sets its sewer rates, which are not subject to review by any State or local government agency. Most rate changes are enacted based upon staff recommendations. **TABLE 2** (Encinitas) and **TABLE 3** (Solana Beach) show the respective sewer rates and charges for each City System. See “**THE CITIES OF ENCINITAS AND SOLANA BEACH**” and “**LIMITATIONS ON TAXES AND REVENUES.**”

TABLE 2: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
SEWER RATES AND CHARGES (actual for Fiscal Years ended June 30, 2012 through 2016)
RATE SCHEDULES (as of June 30, 2016)

	FISCAL YEAR	SEWER SERVICE CHARGE (Average, Residential)	CONNECTION FEE (per EDU)		
	2012	\$675.86	\$3,417		
	2013	\$651.63	\$3,417		
	2014	\$621.78	\$3,417		
	2015	\$609.98	\$3,417		
	2016	\$633.52	\$3,417		
	<i>Source: City of Encinitas</i>				
	City of Encinitas, Cardiff Sanitary Division				
	Rate Schedule for Annual Sewer Service Charges				
	As of June 30, 2016				
Users/Class	Category	Charge	HCF Rate	HCF	Median Charge
				New Connections (no prior water consumption history)	
Group Residential					
Single Family	SF	\$44.00	\$5.14	94.9	\$531.79
Multi Family	MF	See below	\$5.14		\$355.73/unit
Trailer Park	TP	See below	\$5.14		\$355.73/unit
				New Connections (no prior water consumption history)	
Non-Residential					
Commercial Group II	See below	See below	\$5.40	See below	See below
Commercial Group III	See below	See below	\$7.03	See below	See below
Commercial Group IV	See below	See below	\$10.56	See below	See below
	Multi-Family* and Non-Residential Fixed Meter Charge				
	Meter Size	Annual Charge	Meter Size	Annual Charge	
	5/8"	\$44.00	1-1/2"	\$220.00	
	3/4"	\$66.00	2"	\$352.00	
	1"	\$110.00	3"	\$660.00	
	*Multi-Family = Fixed Meter Charge x 2				
Water Consumption Periods to be Used					
<u>Residential</u> = 2 Lowest Periods of Water Consumption for Meter Readings Occurring Between Dec. - May (most recent available 5-year period)					
<u>Non-Residential (Commercial)</u> = Water Consumption for Meter Readings Occurring Between July - June of Preceding Year					

<u>Users/Class</u>	<u>Sub Category</u>		<u>Unit Cost (perHCF)</u>	<u>HCF (New Connections)</u>	<u>Charge (New Connections)</u>
Group II Commercial					
Softwater Service	SW		\$5.40	-----	
Car Wash	CW		\$5.40	1,520	\$8,208.00
Office Building	OF		\$5.40	200	\$1,080.00
Fire Station	FS		\$5.40	110	\$594.00
Professional Building (Doctor)	PB		\$5.40	160	\$864.00
Veterinary Clinic	VC		\$5.40	-----	
Athletic Gymnasium	G		\$5.40	1,340	\$7,236.00
Laundromat	L		\$5.40	990	\$5,346.00
Department and Retail Store	DRS		\$5.40	120	\$648.00
Warehouse	W		\$5.40	1,050	\$5,670.00
Hospital, Convalescent Home	HCH		\$5.40	3,240	\$17,496.00
Parks	PB		\$5.40	510	\$2,754.00
Church-Membership Organization	C		\$5.40	440	\$2,376.00
Membership Organization (Non-Church)	MO		\$5.40	240	\$1,296.00
Social Services	SS		\$5.40	160	\$864.00
Group III Commercial					
Hotels-Motels (without restaurant)	HM		\$7.03	890	\$6,256.70
Repair and Service Station	RSS		\$7.03	70	\$492.10
Shopping Center	SC		\$7.03	1,030	\$7,240.90
Kennel	K		\$7.03	900	\$6,327.00
Coffee Shop	CS		\$7.03	-----	
Amusement Park	AP		\$7.03	-----	
Nightclub/Bar	NC		\$7.03	320	\$2,249.60
Commercial Laundry	CL		\$7.03	-----	
Manufacturing	M		\$7.03	180	\$1,265.40
Lumber Yard	LY		\$7.03	-----	
Group IV Commercial					
Hotels-Motel (with restaurant)	HM		\$10.56	3,130	\$33,052.80
Bakery (wholesale)/Food Processor	BW		\$10.56	-----	
Supermarket	SM		\$10.56	1,030	\$10,876.80
Mortuary	MT		\$10.56	300	\$3,168.00
Restaurant	R		\$10.56	600	\$6,336.00
(1) Sewer rates are based on water consumption (fixed charged based on meter size and consumption component).					
The consumption is based on HCF (hundred cubic feet - 748 gallons).					
<i>Source: City of Encinitas</i>					

TABLE 3: CITY OF SOLANA BEACH, SANITATION ENTERPRISE FUND
SEWER RATES AND CHARGES (Fiscal Years ended June 30)

	SEWER SERVICE CHARGE / EDU	CONNECTION FEE
2012	\$560.00	\$4,500.00
2013	574.00	\$4,500.00
2014	588.35	\$4,500.00
2015	603.06	\$4,500.00
2016	618.14	\$4,500.00

Source: City of Solana Beach, Ordinances 402, 438, 441, 452, 458, 462, SD-7.

Setting Rates and Charges. Each City is required by its respective Series 2017 Loan Agreement to establish rates and charges for the use of its wastewater collection system to produce Gross Revenues sufficient to provide System Revenues equal to at least 1.30 times (a) its Loan Installments coming due and payable during each Fiscal Year and (b) all payments required with respect to its Parity Debt. Sewer service charges, sewer connection fees and

other miscellaneous fees and charges are established by ordinance adopted by a super-majority (4/5) vote of the City Council of Encinitas and the City Council of Solana Beach, respectively, and become effective after a 30-day posting period.

City sewer service charges are designed to comply with the Revenue Program guidelines of the State Water Resources Control Board (the “State Board”). California recipients of State and federal grants for sewage facilities are required to adopt rates in conformity with grant guidelines, which require all customers to pay for sewer service in proportion to their demand on the wastewater treatment system from which they receive sewer service. Utility rates and charges may be reviewed as part of each City’s budget process. After results of operations for each City’s wastewater collection systems are known, the need for any rate adjustments is determined. Based on fees a City collects, sewer rates and connection fees are reviewed and adjusted as needed.

Authority Budgets. The Authority develops annual budgets for operations as well as maintenance and capital improvement programs. The operations and maintenance budget, which includes treatment plant and pump station operations and maintenance, is based in part on salary and expenditure trends, anticipated inflationary and cost change impacts and a planned maintenance program. The capital improvement program budget identifies current year planned expenses and revenues. The recommended budget is provided to the Authority’s Board for review in April and revised as necessary for final adoption at the May Board meeting. Recommended budget information is also provided to the Cities in order to allow opportunity for comment and inclusion in the Cities’ annual budget process.

Billing and Collection. Sewer service charges and connection charges are billed as follows:

Sewer Service Charges. With few exceptions for a limited number of customers, billing and collection services for sewer service charges of each City are provided by the County of San Diego (the “County”). Sewer service charges are included with the County’s property tax billing. The County remits collected sewer service charges to each City, less delinquencies, in 13 installments throughout the Fiscal Year with a majority of the money remitted in January and May, after property tax payments are processed. Delinquencies are budgeted by each City based upon County delinquency estimates. The Cities are ultimately at risk for any reduction in revenues due to delinquencies; however, shortfalls in collections are typically offset by collections of prior period delinquencies. In addition, each City maintains reserves against various contingencies, including revenue variations. Public schools, churches and other public entities are billed by the respective public agencies within each City’s boundaries.

Connection Fees. Each City collects connection charges from new customers as a precondition to issuance of a wastewater discharge permit for connection to the wastewater collection system of the respective City, generally when a certificate of occupancy is issued.

Tax Levies and Delinquencies. Property taxes are due in two installments (November 1 and February 1) of each Fiscal Year, and unpaid installments become delinquent as of December 10 and April 10, respectively. A 10% penalty attaches immediately to all delinquent payments. Property with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for five years or more, the property is subject to sale by the County Treasurer/Tax Collector. ***The County does not remit wastewater fees and charges in lieu of payment delinquencies by property owners.***

Population and Allowable Growth. The population of the Encinitas and Solana Beach areas served by the Wastewater Enterprise Facilities is approximately 26,800 for Encinitas and 13,200 for Solana Beach. These areas are near full build-out, with only slight growth in recent years. Estimates of build-out populations in these areas are based on a “population” equivalent which includes allowances for commercial and industrial discharge. At full build-out, the Encinitas service areas are expected to have about 9,000 dwelling units, 10 acres of commercial use and no industrial use; and the Solana Beach service areas are expected to have about 6,660 dwelling units, 115 acres of commercial use and 10 acres of industrial use.

Water Discharge Requirements

The wastewater treatment, collection and disposal systems of the Authority and the Cities are subject to waste discharge requirements established by the San Diego Regional Water Quality Control Board (the “Regional Board”) as well as the State Water Resources Control Board of California (the “State Board”). The requirements are established in Regional Board orders permitting the discharge of secondary-treated wastewater from the San Elijo

Water Pollution Control Facility to the Pacific Ocean through the Ocean Outfall (collectively, “Wastewater Discharge”). The Authority’s permits are issued jointly by the California Environmental Protection Agency and the Regional Board, and the Authority holds current permits for all operations of the Wastewater Enterprise Facilities, including without limitation permits from the San Diego Air Pollution Control District and Hazardous Materials storage permits.

Secondary Wastewater Treatment Systems and Processes.

Influent. First, sewage flows to the influent structure through force mains and gravity sewers. The influent structure contains bar screens that remove large solids to protect downstream equipment. Auxiliary facilities add chemicals, polymer and ferric chloride to the aerated grit chamber to aid in the settling of solids of the primary sedimentation tank.

Primary Treatment. Next, wastewater flows from the grit chamber to covered primary sedimentation tanks. Sludge from the primary sedimentation tanks is pumped through a grinder to the anaerobic digesters. Effluent flow from the primary sedimentation tanks is flow-equalized in one of two 700,000-gallon flow equalization basins prior to secondary treatment.

Secondary Treatment. Secondary treatment involves flow of primary-treated wastewater to one of four aeration basins where organic materials are oxidized through a bacterial process. Flow from the aeration basins goes to secondary sedimentation basins where additional solids settle, and then treated water from the secondary sedimentation tanks is discharged to the ocean or pumped through the tertiary treatment system for reclamation and recycling. Waste solids from the bottom of the secondary clarifiers are pumped through dissolved air flotation (“DAF”) units to further concentrate solids and then to anaerobic digesters for further biological treatment prior to dewatering by belt filter press and disposal.

Removal of Sludge. Dewatered sludge is hauled away and disposed of pursuant to an agreement with a private-sector hauler. See “**BOND OWNER RISKS – Sludge Disposal.**”

Transport and Discharge. The final secondary-treated effluent flows by gravity or is pumped through the Ocean Outfall, which was commissioned in 1965 to discharge treated effluent from the Wastewater Enterprise Facilities. The Ocean Outfall was upgraded and expanded in 1974 to include discharge capacity for Escondido’s Hale Avenue Resource Recovery Facility. The Ocean Outfall is about 8,000 feet long and has an end depth approximately 150 feet below mean sea level. The diffuser section of pipe comprises 1,176 feet of 48-inch pipe with 200 individual 2-inch-diameter diffuser ports. Discharge from the Wastewater Enterprise Facilities to the Pacific Ocean is subject to environmental regulations that stipulate dilution requirements, offshore distance and water depth. The Authority conducts annual inspections to ensure that the Ocean Outfall is in sound operating condition and that environmental regulations are being met.

Laboratory

The Authority owns and operates a chemistry laboratory to monitor the effectiveness of wastewater treatment for compliance with its permits. Analytical services include chemical, biological and microbiological testing, assessing organic and inorganic chemicals, bacteria and toxicity of incoming wastewater, discharge from the Wastewater Enterprise Facilities and reclaimed/recycled water from the Water Reclamation Facilities.

Operating Expenses

The Authority’s current budget anticipates Wastewater Enterprise Facilities fund operations and maintenance at approximately \$4.6 million, and Water Reclamation Facilities fund operations and maintenance at approximately \$1.5 million, with sales of reclaimed water projected at approximately 1,500 acre-feet (with an anticipated 9% increase attributed to State grant revenue).

Capital Improvement Program

The Authority’s current Capital Improvement Program encompasses the projects described under “CLEAN WATER PROJECTS.” The Program is an evolving plan and is subject to modifications of any type and at any time. The Authority can provide no assurance that specific projects will be completed as currently planned.

BOND OWNER RISKS

This Official Statement contains summaries of pertinent portions of the Series 2017 Bonds, the Series 2017 Indenture, the Series 2017 Loan Agreements, the Disclosure Agreement and other relevant documents. Such summaries and references are qualified in their entirety by reference to the full text of such documents. The following discussion of certain special considerations and risk factors affecting the payment of and security for the Series 2017 Bonds is not, and is not intended to be, complete or exhaustive, and such risks are not necessarily presented in order of relative importance or degree. Potential investors in the Series 2017 Bonds should consider the following special factors along with all other information in this Official Statement in evaluating the Series 2017 Bonds. There can be no assurance that other considerations will not arise in the future.

For more specific information on State limitations on taxes and revenues, see “LIMITATIONS ON TAXES AND REVENUES.”

Sewer Revenues and Demand for Sewer Service

No assurance can be given that the demand for wastewater collection and treatment services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the Cities’ rate covenants in the Series 2017 Loan Agreements. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Rate Covenants.”

Sewer System Expenses

No assurance can be given that the Cities’ expenses for their respective wastewater collection systems will be consistent with the levels described in this Official Statement. Changes in technology, new regulatory requirements, increases in the cost of energy or other expenses would reduce System Revenues of a City and could require substantial increases in rates or charges in order to comply with the rate covenants in the Series 2017 Loan Agreements. Any rate increases could increase the likelihood of nonpayment and decrease demand for sewer services.

Insurance and Risk Management

The Authority is a member of the California Sanitation Risk Management Authority (“CSRMA”), a risk-pooling self-insurance authority created under provisions of the Act. CSRMA arranges and administers programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Each insured agency pays for its proportionate share of its individually contracted insurance coverage and consulting services. As of June 30, 2016, the Authority participated in these CSRMA programs:

- **General Liability Including Bodily Injury, Property Damage, Public Entity Errors and Omissions, Employment Practices Liability and Automobile Liability.** The CSRMA Pooled Liability (shared risk) program provides \$25.5 million per occurrence and in the aggregate. It is self-insured up to \$15.5 million and has purchased \$10 million of excess insurance. The Authority has a \$100,000 deductible under this program.
- **Property Damage.** As of June 30, 2016, the Authority had \$56,191,022 in scheduled values covered through the Alliant Property Insurance Program, with a \$1 billion shared loss limit per occurrence, subject to a \$5,000 deductible. Coverage includes all-risk property coverage, mobile equipment, auto physical damage and boiler and machinery (with deductibles of \$5,000 to \$350,000 for boiler and machinery, depending on size of the machinery).
- **Faithful Performance/Employee Dishonesty Bond.** The Authority is insured up to \$2 million with a \$2,500 deductible. Coverage includes employee dishonesty, faithful performance, forgery or alteration, computer fraud, money and securities theft, disappearance and destruction.
- **Workers’ Compensation.** The Authority participates in CSRMA’s Workers’ Compensation Program, which self-insures the first \$750,000 of each claim. Participants have no deductible or self-insured retention. Excess insurance provides statutory limits for Workers’ Compensation and \$750,000 for each accident or each employee for disease in limits for Employer’s Liability.

Annual premiums are subject to retroactive adjustment based on claims experience. There can be no estimate of the nature and amount of any adjustments; however, there have been no incidents in the past three years involving any settlement exceeding the Authority's insurance coverage.

Initiative Constitutional Provisions and Statutes Limiting Revenues, Appropriations, Fees and Charges

See "LIMITATIONS ON TAXES AND REVENUES" for a description of the history and current provisions of constitutional provisions and statutes that could limit fees, rates and charges established by the Authority or the Cities. While the outcome of any litigation challenging or seeking to reduce or repeal fees, rates and charges established by the Authority or the Cities cannot be predicted with certainty, each of them adheres to the view that its fees, rates and charges are not limited by such provisions.

Other Changes in Law

In addition to the other limitations described in this Official Statement, the California electorate or State Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the Cities. There can be no assurance that the California electorate or State Legislature will not enact or approve additional limitations that could reduce the revenues and adversely affect the security and sources of payment for the Series 2017 Bonds. See also "LIMITATIONS ON TAXES AND REVENUES."

Limited Recourse on Default

If either City defaults on its obligations to make Loan Installments, the Trustee has the right to accelerate the total unpaid principal amount of the Loan Installments payable under the terms of the defaulting City's Series 2017 Loan Agreement. However, in the event of a default and such acceleration there can be no assurance that the defaulting party will have sufficient funds to pay the accelerated Loan Installments. Such acceleration will not affect the Loan Installments owed by the non-defaulting City, and in such event, a Bond Owner may not receive the entire amount of scheduled principal of or interest on the Series 2017 Bonds.

NEITHER CITY IS RESPONSIBLE FOR THE LOAN INSTALLMENTS OWED BY THE OTHER CITY, AND A DEFAULT UNDER ONE SERIES 2017 LOAN AGREEMENT WILL NOT RESULT IN A DEFAULT UNDER THE OTHER SERIES 2017 LOAN AGREEMENT. CORRESPONDINGLY, ONE CITY IS NOT RESPONSIBLE TO CURE THE DEFICIENCY IN PAYMENTS OF THE OTHER CITY'S SERIES 2017 LOAN AGREEMENT.

Limitations on Available Remedies

The enforceability of the rights and remedies of the Owners and the obligations of the Authority and the Cities may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the United States Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. In any bankruptcy proceedings, the exercise of powers by the federal or State government could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation or modification of their rights.

No Obligation To Tax

The obligation of the Authority to pay the principal of and interest on the Series 2017 Bonds does not constitute an obligation of the Authority for which the Authority is obligated to levy or pledge any form of taxation or for which the Authority has levied or pledged any form of tax. The Authority has no taxing power, and neither City has any obligation to levy or pledge any tax. The obligation of the Authority to pay principal of and interest on the Series 2017 Bonds does not constitute a debt or indebtedness of the Authority, Encinitas, Solana Beach, the State or any of the State's political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

Sludge Disposal

The Authority disposes of all of the sludge produced at the Wastewater Enterprise Facilities pursuant to an agreement with a private-sector contractor. If the Authority were unable to dispose of the sludge it produces, it might be forced to curtail or cease operations. For more information, see “**THE SAN ELIJO CLEAN WATER FACILITIES – Water Discharge Requirements – Secondary Wastewater Treatment Systems and Processes – Removal of Sludge.**”

Loss of Tax Exemption

As discussed under “**TAX MATTERS,**” interest on the Series 2017 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2017 Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Series 2017 Indenture. From time to time, tax reform and similar legislative proposals may be pursued that could affect the treatment of tax-exempt interest for certain taxpayers. Potential Bond Owners should consult with their tax advisors when considering the purchase of the Series 2017 Bonds.

Natural Disasters

The Cities, like all California communities, may be subject to unpredictable seismic activity, fires, flood or other natural disasters. Like most of Southern California, the areas served by the Wastewater Enterprise Facilities are seismically active. Earthquakes, related tsunamis, rising sea levels, unusually heavy rainfall and wildfires could damage the Wastewater Enterprise Facilities and other buildings, roads, bridges and property within the territories of the Cities and impair operations. The Authority and the Cities consider the design and operations of their systems to be configured so as to mitigate some effects of such events; however, no assurance or estimate can be given as to their resilience or the time and cost of recovery, repair and resumption of normal operations. Recent heavy rains in Southern California have led the Authority and similar agencies in the region to implement mutual support measures to restore microbial and other treatment processes that may be impaired by unusual inflows of storm water. Any economic consequences of such disasters might compromise the ability or willingness of property owners and other customers to pay for wastewater services.

Cybersecurity and Other Malicious Acts

The Authority and the Cities depend on reliable sources of electricity in their operations, along with computer systems, sensors and security systems necessary for command-and-control of the Wastewater Enterprise Facilities and their wastewater collection enterprises. Throughout the State and nation, portions of the electric power distribution and generation networks have been subject to cyberattacks, sometimes resulting in significant and extended power outages. Any such event affecting the Authority or the Cities could damage their Facilities and systems significantly, as could any malicious acts directed at them. The Authority and the Cities consider their security facilities and measures generally to conform to industry practices; however, no such facilities or measures can provide any absolute assurance that such events will not occur without significant adverse effects on the Wastewater Enterprise Facilities and their operations.

Secondary Market, Rating Changes and Continuing Disclosure

Secondary Market. Subject to applicable securities laws and prevailing market conditions, the Underwriter intends but is not obligated to make a market for the Series 2017 Bonds. There is no guarantee that a secondary trading market in the Series 2017 Bonds will be sustained indefinitely.

Rating Changes and Outlook. Any Rating Agency assigning its rating to the Series 2017 Bonds will periodically review information provided by the Authority, each City and other available sources, along with its relevant rating criteria, to determine whether such rating should be changed or assigned a positive, negative or stable outlook. Any adverse rating change or negative outlook could materially and adversely affect the price of the Series 2017 Bonds in any secondary trading market or impair such trading.

Failure To Provide Continuing Disclosure. The Authority and each City, with Applied Best Practices, LLC, as the dissemination agent designated by the Authority, will enter into a Disclosure Agreement pursuant to SEC Rule 15c2-12 in connection with the issuance of the Series 2017 Bonds. Failure to comply with a Disclosure

Agreement or SEC Rule 15c2-12 may adversely affect the liquidity of the Series 2017 Bonds and their market price in the secondary market, if any. See “**APPENDIX E – FORM OF DISCLOSURE AGREEMENT.**”

Parity Bonds

Until the 2011 Bonds are fully paid or defeased, they will remain secured by and payable from a parity pledge and assignment of Loan Installments and other System Revenues. The 2011 Bonds are not subject to redemption prior to their maturities, which are March 1 annually as follows: 2018 redemption of \$1,365,000 principal; 2019 redemption of \$1,415,000 principal; 2020 redemption of \$115,000 principal; and 2021 redemption of \$120,000 principal. In addition, the Series 2017 Indenture allows the Authority to issue Additional Bonds on a parity with the Series 2017 Bonds if certain conditions are met. See “**SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Outstanding and Additional Parity Debt**” and “**APPENDIX B – CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.**”

Bond Owner Risks at Maturity or Redemption

The rights of the Bond Owners to receive interest on the Series 2017 Bonds will terminate at maturity or on any date of Bond redemption, notice of which has been given under the Series 2017 Indenture. Such termination will occur whether or not any Bond Owner receives such notice. See “**THE SERIES 2017 BONDS – Redemption**”.

LIMITATIONS ON TAXES AND REVENUES

This section provides a brief background on constitutional and statutory provisions that limit taxes on real property and that limit State and local government expenditures. This overview and the summary of relevant law are provided for the convenience of prospective investors but are not and do not purport to be comprehensive.

Tax Rate Limit, Article XIII A of the California Constitution (Proposition 13)

In 1978, California voters approved Proposition 13, adding Article XIII A to the California Constitution (“Article XIII A”). Article XIII A, as amended, limits the amount of any ad valorem tax on real property to 1% of its full cash value, except that additional ad valorem taxes may be levied to pay debt service on (a) indebtedness approved by California voters before July 1, 1978; (b) as a result of a voter-approved amendment enacted in 1986, bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978, by two-thirds of the voters on such indebtedness; and (c) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are provided. Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value,’ or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, economic conditions or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

Legislation Implementing Article XIII A

Legislation has been enacted and amended from time to time since 1978 to implement Article XIII A. Under current law, local agencies are not permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the County and distributed according to a formula among taxing agencies. (Encinitas and Solana Beach are among the taxing entities in the Authority’s service area, but the Authority is *not* a taxing entity.) The formula apportions the tax roughly in proportion to the relative shares of taxes levied before 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based on their respective “situs” (generally meaning “location”). Any allocation to a local agency continues as part of its allocations in future years.

Beginning in the 1981-82 Fiscal Year, assessors in the State ceased to record property values on tax rolls at the assessed value of 25% of market value (which had been expressed as \$4 per \$100 assessed value). All taxable property is now shown at full market value on the tax rolls. As a result, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless otherwise noted), and all tax rates reflect the \$1 per \$100 taxable value.

Appropriations Limit, Article XIII B of the California Constitution

An initiative to amend the State Constitution, entitled “Limitation of Government Appropriations” and approved in 1979, added Article XIII B to the State Constitution (“Article XIII B”). Under Article XIII B, the State and each local governmental entity has an annual “appropriations limit” and is not permitted to spend certain moneys called “appropriations subject to limitation” (consisting generally of tax revenues, State subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect appropriations of money that are excluded from the definition of “appropriations subject to limitation” including debt service on indebtedness authorized or existing as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. Generally, the appropriations limit is to be based on certain 1978-79 expenditures, subject to annual adjustment to reflect changes in consumer prices, populations and services provided by the relevant government entity. Among other provisions of Article XIII B, if a government entity’s revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the next two years.

“Appropriations subject to limitation” are authorizations to spend “proceeds of taxes”, which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service”, but “proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not “proceeds of taxes”, such as reasonable user charges or fees and certain other non-tax funds.

Excluded from the Article XIII B limit are appropriations for the debt service costs of bonds authorized or existing not later than January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government and appropriations for qualified capital outlay projects. The appropriations limit may also be exceeded in certain cases of emergency.

Each appropriations limit for the Authority and each City, respectively, is based on the prior-year limit, adjusted annually for changes in the cost of living, for population changes and, as applicable, for transfer of financial responsibility of providing services to or from another government unit. At its option, each entity’s measurement of changes in the cost of living is either (a) the percentage change in *per capita* income in the State or (b) the percentage change in the local assessment roll on nonresidential property. Either test is likely to exceed any change in the cost of living index, which had been used before the adoption of Proposition 111 in 1990. Population changes are measured either within each entity’s boundaries or across the entire County.

Proposition 111 added a new measurement period to Article XIII B: the appropriations limit is tested over consecutive two-year periods (each, a “Biennial”). Any excess “proceeds of taxes” a government entity receives in any Biennial is to be returned to taxpayers by reductions in tax rates or fee schedules over the next Biennial. Proposition 111 also changed the basis for calculating appropriations limits by using the Fiscal Year 1986-87 limit as a base point.

Propositions 1A and 22

Proposition 1A restricts State authority to reduce major local tax revenues such as the tax shifts permitted in Fiscal Years 2004-05 and 2005-06 by preventing the State from reducing any local sales tax rate or limiting government authority to levy a sales tax rate or alter allocations of local sales tax revenues, subject to certain exceptions. Generally, the State may not shift shares of property tax revenues allocated to local governments in any Fiscal Year to schools or community colleges. But starting in Fiscal Year 2008-09, the State was allowed to shift up to 8% of local government property tax revenues to schools and community colleges, subject to repayment of shifted funds, with interest, within three years, but only two such shifts were permitted in any 10-year period. The State was allowed to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 22 largely superseded Proposition 1A in 2010, barring the State, even during severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment or local government projects and services. The State could not redirect redevelopment agency property tax increment to any other local government or, even temporarily, shift property taxes from cities, counties and special districts to schools. These restrictions on State control over local property taxes were intended to stabilize local government revenues.

Proposition 22 ensued after the State invoked Proposition 1A to divert nearly \$2 billion in local property tax revenues in Fiscal Year 2010 from cities, counties and special districts to the State in order to offset State general fund spending for education and other programs. Proposition 1A continues to require the State to replenish local government revenues sufficient to offset any reductions caused by the State's reduction of vehicle license fees. Proposition 1A also requires the State to suspend State mandates affecting cities, counties and special districts, except mandates relating to employee rights, schools or community colleges, in any year when the State does not fully reimburse local governments for their costs of compliance with such mandates.

Proposition 218, Right To Vote on Taxes, Articles XIIC and XIID of the California Constitution

In 1996, California voters approved Proposition 218, adding Articles XIIC and XIID to the California Constitution, with additional requirements for the imposition by most local governments of "general taxes," "special taxes," "assessments," "fees" and "charges."

Article XIID imposes substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" that is subject to such requirements. "Fees" and "charges" subject to Article XIID include any levy, other than an *ad valorem* tax, special tax or assessment imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIID prohibits, among other things, the imposition of any proposed fee or charge and, possibly, the increase of any existing fee or charge, if written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of affected parcels. Excluding fees or and charges for water, sewer and refuse collection services, the approval of a majority of property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days after the public hearing on any proposed new or increased fee or charge. The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal.4th 409 (2004) ("Richmond") and *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) ("Bighorn") have clarified some of the uncertainty about the applicability of section 6 of Article XIID to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to its water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIID because a water connection fee is not a property-related fee or charge. The Court's reasoning was based on the property owner's *voluntary decision* to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIID, rejecting, in *Bighorn*, the water agency's argument that consumption-based water charges are not imposed "as an incident of property ownership" but as a result of voluntary customer decisions about water use.

Article XIID also provides that "standby charges" are "assessments" subject to Article XIID assessment procedures, which may include (a) notice requirements (including mailing a ballot to each owner of affected property); (b) substituting the property owner ballot in place of the traditional written protest procedure (so that "majority protest" exists when ballots, weighed by proportional financial obligation, submitted in opposition exceed ballots in favor of the assessments); and (c) requiring the levying entity to "separate the general benefits from the special benefits conferred upon a parcel" of land. Article XIID also precludes standby charges for services not immediately available to affected parcels. (Note: *existing* assessments imposed *before* the voters approved Proposition 218 in 1996 "imposed exclusively to finance the capital costs or maintenance and operations expenses for [among other things] water" are exempted from certain Article XIID assessment provisions.)

Article XIIC extended the voter initiative power to *reduce or repeal* existing local taxes, assessments, fees and charges but is not limited to taxes, assessments, fees and charges imposed after the voters approved Proposition 218 in 1996. Absent authority to the contrary, Article XIIC could result in *retroactive reduction of existing taxes, assessments, fees or charges*. In *Bighorn*, the Court concluded that under Article XIIC local voters by initiative may reduce a public agency's water rates and delivery charges; however, the Court said it did not hold that the voter initiative power is free of all limitations, stating that it was *not* determining whether the voter initiative power is subject to a public agency's statutory obligation to set water service charges at levels that will "pay the operating

expenses of the agency, . . . provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.”

Other Initiative Measures

Articles XIII A, XIII B, XIII C and XIII D were adopted pursuant to the State’s constitutional initiative process. From time to time, other initiative measures could be adopted by California voters, placing additional limitations on the ability of the Authority or the Cities to increase revenues. See “**BOND OWNER RISKS – Changes in Law.**”

THE CITIES OF ENCINITAS AND SOLANA BEACH

Encinitas

The voters approved the formation of the Cardiff Sanitation District (the “District”) in 1953. Until the voters approved the San Dieguito Reorganization in 1986, the Board of Supervisors of the County acted as the District’s Board of Directors. Under the San Dieguito Reorganization, the City Council of Encinitas became the new Board of Directors of the District. The San Dieguito Reorganization also made certain boundary changes, causing transfers of certain fixed assets of the District to Solana Beach Sanitation District and Rancho Santa Fe Community Services District Improvement Areas 2 and 3. In 2001, Encinitas merged with the District, becoming a separate enterprise of Encinitas known as the “Cardiff Sanitary Division”.

The service area of Cardiff Sanitary Division encompasses an area of approximately 4,202 acres, or approximately 38% of Encinitas territory, and provides sewer service to approximately 7,636 connections. The service area of the Cardiff Sanitary Division is located along the I-5 corridor and the Pacific Ocean immediately north of the San Elijo Lagoon.

City Government. In the course of the incorporation of Encinitas in 1986, Cardiff Sanitation District became a subsidiary district to the newly incorporated City. Following the completion of the merger of the Cardiff Sanitation District with Encinitas, the City Council became the governing body for activities of the Cardiff Sanitary Division as a separate enterprise of Encinitas. Encinitas staff is responsible for collection system engineering, budget and accounting and new connections. (Note: Encinitas is also served by the Encinitas Sanitary Division of Encinitas and the Leucadia County Water District; however, the revenues of these two enterprises are *separate* from the revenues of the Cardiff Sanitary Division and are *not* pledged to the payment of debt service on the Series 2017 Bonds.)

The Encinitas System. The service area of the Cardiff Sanitary Division’s wastewater collection system is located approximately 23 miles north of San Diego and extends about 2 miles northwest along the Pacific Coast and about 6 miles inland. The potential service area of approximately 4,202 net acres in the north coastal County includes land in both the San Dieguito River and Escondido Creek watersheds. The service area generally slopes westerly to the Pacific Ocean, allowing most wastewater to be collected and transported by gravity along the coastal plain where the topography is relatively flat; however, pumping stations are required. The sewer system comprises approximately 75 miles of collection and trunk sewer lines. Wastewater is conveyed to a pumping station near the Authority’s Facilities on the north shore of the San Elijo Lagoon. Wastewater is then pumped to the Wastewater Enterprise Facilities through a 1,500-foot long, 10-inch diameter force main.

Connections. Gradual suburban residential-type growth in the service area has occurred in recent years. **TABLE 4** shows the last 5 years’ growth in connections. Encinitas estimates that 83% of sewer service users are residential, with the other users commercial or industrial.

TABLE 4: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
SERVICE CONNECTIONS AND EDU CLASSES (Fiscal Years ended June 30)

	CONNECTIONS (PARCELS BILLED)	RESIDENTIAL	EQUIVALENT DWELLING UNITS COMMERCIAL / INDUSTRIAL	ALL
2012	6,334	7,067	1,154	8,221
2013	6,365	7,083	1,174	8,257
2014	6,375	7,126	1,176	8,302
2015	6,394	7,132	1,187	8,319
2016	6,416	7,157	1,187	8,344

Source: City of Encinitas.

Secured Sewer Service Charges and Delinquencies. The assessed valuation of the Cardiff Sanitary Division is established by the County Assessor, except for utility property assessed by the State Board of Equalization. However, no annual breakdown of assessed values within the Cardiff Sanitation Division is prepared by the County or provided to Encinitas. Taxes on non-exempt property within the Cardiff Sanitary Division are levied against the assessed valuation of land and improvements. **TABLE 5** shows secured service charges and rates of delinquencies for the past 5 years within the Cardiff Sanitation Division.

TABLE 5: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
ASSESSED VALUES, SECURED SERVICE CHARGES AND DELINQUENCIES
(Fiscal Years ended June 30)

	ASSESSED VALUES (LAND / IMPROVEMENTS)	SECURED TAX CHARGES / DELINQUENCIES CHARGES ^(a)	DELINQUENT (JUNE 30)	% (JUNE 30)
2012	\$3,840,880,188	\$4,702,160.14	\$52,740.86	1.12%
2013	\$3,962,265,063	\$4,578,623.96	\$45,288.98	0.99%
2014	\$4,172,476,834	\$4,379,046.32	\$31,893.48	0.73%
2015	\$4,522,605,644	\$4,332,166.68	\$34,186.59	0.79%
2016	\$4,773,525,116	\$4,482,085.26	\$29,734.95	0.66%

(a) Sewer service charge.

Source: California Municipal Statistics, Inc.

Ten Largest Ratepayers. **TABLE 6** below shows the top ten wastewater collection customers of the Cardiff Sanitary Division for the 12 months ended June 30, 2016, as reported by Encinitas. Collectively, these customers represent less than 10% of the Cardiff Sanitary Division's total revenues for that period.

TABLE 6: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
LARGEST WASTEWATER CUSTOMERS (Fiscal Year ended June 30, 2016)

PROPERTY OWNER	PARCELS	SEWER SERVICE CHARGES	% OF CHARGES
Scripps Health	1	\$92,755	2.01%
Collwood Pines Apartments LP	4	74,877	1.62%
State of California Parks & Recreation	2	55,352	1.20%
San Dieguito Union High School District	2	44,485	0.96%
Newport Taft Inc.	1	30,682	0.66%
944 Regal Road LLC	1	29,344	0.64%
Cardiff Town Center LLC	1	26,365	0.57%
George's Restaurant Inc.	1	22,844	0.49%
West Village Inc.	1	22,373	0.48%
Deluca Trust	1	19,741	0.43%
TOTALS (all customers \$4,618,432)	15	\$418,818	9.07%

Source: City of Encinitas.

TABLE 7 shows a five-year summary of revenues (excluding reclaimed water revenues), expenses and net income of the Cardiff Sanitary Division, as derived from amounts included in Encinitas' annual combined financial statements for the Fiscal Years ended June 30, 2012 through 2016. See "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH."

TABLE 7: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
SUMMARY OF REVENUES AND EXPENSES *(Fiscal Years ended June 30)*

	2012	2013	2014	2015	2016
Operating Revenue:					
Service charges ^(a)	\$ 4,923,299	\$ 4,755,573	\$ 4,605,867	\$ 4,528,511	\$ 4,761,486
Other revenues	47,363	-	-	40	7,165
Total operating revenues	\$ 4,970,662	\$ 4,755,573	\$ 4,605,867	\$ 4,528,551	\$ 4,768,651
Operating Expenses:					
General operations and maintenance	1,042,356	1,107,347	985,008	974,187	1,013,875
Facility operations and maintenance	1,204,250	1,148,118	1,395,857	1,384,221	1,250,059
General and administrative	239,574	239,736	241,404	246,450	228,039
Depreciation of capital assets	189,640	193,727	200,459	274,114	387,320
Amortization of other assets	215,000	367,126		1,281,841	915,952
Other	171,565	174,752	99,718	101,752	62,286
Total operating expenses	\$ 3,062,385	\$ 3,230,806	\$ 2,922,446	\$ 4,262,565	\$ 3,857,531
Operating Income (Loss)	1,908,277	1,524,767	1,683,421	265,986	911,120
Non-operating Revenues (Expenses):					
Use of money and property	79,347	39,015	757,211	56,900	85,383
Gain (loss) on sale of capital assets	-	-	(140,485)	-	-
Capital Grants	-	-	395,962	-	-
Accretion of bond premium	-	-	63,768	63,768	63,768
Interest expense	(248,400)	(142,898)	(126,337)	(109,282)	(91,757)
Other non-operating expenses	(74,654)	-	-	-	-
Total non-operating revenues (expenses)	\$ (243,707)	\$ (103,883)	\$ 950,119	\$ 11,386	\$ 57,394
Income (Loss) Before Capital Contributions and Transfers	\$ 1,664,570	\$ 1,420,884	\$ 2,633,540	\$ 277,372	\$ 968,514
Capital Contributions:	\$ 116,520	\$ 120,278	\$ 152,739	\$ 86,849	\$ 93,623
Transfers in (out):	\$ -	\$ (1,358,589)	\$ -	\$ (10,000)	\$ -
Change in Net Position	\$ 1,781,090	\$ 182,573	\$ 2,786,279	\$ 354,221	\$ 1,062,137
Beginning Balance	38,407,222	40,188,312	40,370,885	43,157,164	43,511,385
Ending Balance	\$ 40,188,312	\$ 40,370,885	\$ 43,157,164	\$ 43,511,385	\$ 44,573,522

Source: summaries derived from City of Encinitas annual reports.

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Historical Debt Service Coverage. TABLE 8 shows a five-year history of debt service coverage of Cardiff Sanitary Division. See “APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH.”

TABLE 8: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
HISTORIC DEBT SERVICE COVERAGE (*Fiscal Years ended June 30*)

	2012	2013	2014	2015	2016
Revenues					
Operating revenues - including connection fees	\$ 5,087,182	\$ 4,875,851 ^(b)	\$ 4,758,606 ^(b)	\$ 4,615,399 ^(b)	\$ 4,862,274 ^(b)
Non-operating revenues	79,347	39,015	1,216,941	120,668	149,151
Gross Revenues ^(a)	\$ 5,166,529	\$ 4,914,866	\$ 5,975,547	\$ 4,736,067	\$ 5,011,425
Total Operating and Non-Operating Expenses	\$ 3,385,439	\$ 3,373,704	\$ 3,189,268	\$ 4,371,847	\$ 3,949,288
Net Income ^(a)	\$ 1,781,090	\$ 1,541,162	\$ 2,786,279	\$ 364,220	\$ 1,062,137
Add back:					
Interest expense	\$ 248,400	\$ 142,898	\$ 266,822 ^(c)	\$ 109,282	\$ 91,757
Deprecation and amortization expense	404,641	560,853	200,459	1,555,955	1,303,272
Net Revenues Available for Debt Service ^(a)	\$ 2,434,131	\$ 2,244,913	\$ 3,253,560	\$ 2,029,457	\$ 2,457,166
2011 Loan Agreement Debt Service	\$ 799,946	\$ 694,904 ^(d)	\$ 695,004	\$ 694,442	\$ 691,225 ^(d)
Coverage by Net Revenues Available for Debt Service	304%	323%	468%	292%	355%

Source: City of Encinitas.

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Balance Sheet History. **TABLE 9** shows a five-year summary of assets, liabilities and retained earnings of the Cardiff Sanitary Division's wastewater treatment system as of June 30, 2012 through 2016 as derived from Encinitas' combined financial statements. For corresponding audited information, see "**APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH.**"

TABLE 9: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
SUMMARY BALANCE SHEET INFORMATION (*Fiscal Years ended June 30*)

ASSETS:		2012	2013	2014	2015	2016
Current assets:						
Cash and investments		\$14,723,359	\$11,729,177	\$12,338,211	\$12,597,018	\$13,449,441
Cash with fiscal agent		-	-	-	-	-
Accounts and taxes receivable		\$259,826	\$139,021	\$106,651	\$84,922	\$88,244
Interest receivable		\$25,854	-	-	-	-
Inventory and prepaid items		-	-	-	-	-
Total Current Assets		\$15,009,039	\$11,868,198	\$12,444,862	\$12,681,940	\$13,537,685
NONCURRENT ASSETS:						
Restricted cash and investments with fiscal agent		-	-	-	-	-
Other assets		\$18,213,275	\$18,100,000	-	-	-
Investment in joint ventures		-	-	\$19,687,756	\$18,857,817	\$18,446,627
Capital assets:						
Land easements		\$1,358,591	-	-	-	-
Public works facility right-of-use		-	-	-	-	-
Construction in progress		\$7,349,479	\$11,184,840	\$7,279,754	\$1,146,036	\$1,495,624
Capacity rights, net of accumulated amortization		-	-	-	-	-
Utility, plant, vehicles, and equipment, net of accumulated depreciation		\$3,946,072	\$3,752,345	\$7,450,801	\$13,886,320	\$13,499,000
Total capital assets, net of accumulated depreciation		\$12,654,142	\$14,937,185	\$14,730,555	\$15,032,356	\$14,994,624
Total noncurrent assets		\$30,867,417	\$33,037,185	\$34,418,311	\$33,890,173	\$33,441,251
Total assets		\$45,876,456	\$44,905,383	\$46,863,173	\$46,572,113	\$46,978,936
CURRENT LIABILITIES:						
Accounts payable and accrued liabilities		\$747,915	\$209,793	\$13,740	\$17,137	\$24,806
Due to other funds		-	-	-	-	-
Accrued interest payable		\$49,455	\$43,989	\$38,359	\$32,565	\$26,630
Unearned revenue		-	-	-	-	-
Deposits		\$500	\$750	\$750	\$1,000	\$1,250
Current portion of long-term debt		\$546,540	\$563,037	\$579,366	\$593,530	\$612,192
Total current liabilities		\$1,344,410	\$817,569	\$632,215	\$644,232	\$664,878
NONCURRENT LIABILITIES:						
Capital leases payable		-	-	-	-	-
Revenue bonds payable, due in more than one year		-	-	-	-	-
Notes and mortgages payable, due in more than one year		\$4,343,734	\$3,481,992	\$2,868,224	\$2,240,293	\$1,593,700
Aggregate net pension liability		-	-	-	-	-
Total noncurrent liabilities		\$4,343,734	\$3,481,992	\$2,868,224	\$2,240,293	\$1,593,700
Total liabilities		\$5,688,144	\$4,299,561	\$3,500,439	\$2,884,525	\$2,258,578
DEFERRED INFLOWS OF RESOURCES:						
Deferred amount on refunding		-	\$234,937	\$205,570	\$176,203	\$146,836
Deferred pension related items (Note 14)		-	-	-	-	-
Total deferred inflows of resources			\$234,937	\$205,570	\$176,203	\$146,836
NET POSITION:						
Net investment in capital assets		\$7,763,868	\$10,892,156	\$11,282,965	\$12,198,533	\$12,641,896
Restricted		-	-	-	-	-
Unrestricted		-	\$29,478,729	\$31,874,199	\$31,312,852	\$31,931,626
TOTAL NET POSITION:		\$40,188,312	\$40,370,885	\$43,157,164	\$43,511,385	\$44,573,522

Source: summaries derived from City of Encinitas annual reports.

Solana Beach

The Solana Beach Sanitation District was formed following an election in 1946. The Board of Supervisors of the County acted as the Solana Beach Sanitation District Board of Directors until 1986, when the voters approved the reorganization (as approved by the Board of Supervisors of the County) under which Solana Beach Sanitation District became a subsidiary district of Solana Beach (the "Subsidiary District"), and the City Council of Solana Beach became the new Board of Directors of the Subsidiary District. The reorganization also made certain boundary changes, causing transfers of certain fixed assets of the original District to the Subsidiary District. City staff is responsible for collection system engineering, budget and accounting, and new connections. The operating functions of line maintenance are provided under contract with Encinitas.

In 1990, the Subsidiary District was merged into Solana Beach as a department of the City, with the establishment of a City Sanitation Wastewater Enterprise Facilities Fund (the “Sanitation Wastewater Enterprise Facilities Fund”). The City Council serves as the governing board of the City Sanitation Department. The reorganization in no way affects the rights and obligations of the Subsidiary District under the Basic Agreement. The validity of the Original Series 2017 Loan Agreement entered into between the Subsidiary District and the Authority was not affected.

City Government. In 1986, the City was incorporated as a general law city in an election approving a reorganization consisting primarily of: (a) the incorporation of Solana Beach; (b) the detachment of territory from Encinitas and annexation of the same territory to the newly established Subsidiary District. Solana Beach operates under a council-manager form of government, with a five-member City Council elected at large and serving staggered four-year terms. The City Council selects the Mayor, who serves a one year term. The City Council also appoints the City Manager as the chief administrator of the City. All other city employees are appointed by and responsible to the City Manager (except the City Attorney, who is appointed by the City Council).

The Solana Beach System. The service area of Solana Beach wastewater collection system generally slopes westerly to the Pacific Ocean, allowing most of the wastewater to be collected and transported by gravity along the coastal plain, where the topography is relatively flat; however, pumping stations are required. The system comprises approximately 196,470 linear feet of collection and trunk sewer lines. Wastewater collected by the system is conveyed to Solana Beach’s pumping station on the south shore of the San Elijo Lagoon. The wastewater is then pumped to the Authority’s Facilities through a 5,500-foot-long, 12-inch diameter force main. The remaining wastewater is conveyed to Encinitas’ Olivenhain Pump Station (which the Authority operates), and then pumped to The San Elijo Water Reclamation Facilities.

Connections. Gradual suburban residential-type growth in the service area has occurred in recent years. **TABLE 10** shows the last 5 years’ growth in connections. Solana Beach estimates that 62% of sewer service users are residential, with the other users commercial or industrial.

TABLE 10: CITY OF SOLANA BEACH
SERVICE CONNECTIONS AND EDU CLASSES (*Fiscal Years ended June 30*)

	EQUIVALENT DWELLING UNITS ^(a)		
	SINGLE FAMILY RESIDENTIAL	COMMERCIAL / INDUSTRIAL	ALL
2012	2,734	2,304	5,038
2013	2,709	2,304	5,013
2014	2,707	2,306	5,013
2015	2,723	2,394	5,117
2016	2,736	2,406	5,142

(a) Includes 300 EDUs billed to the City of San Diego for services outside Solana Beach.

Source: *City of Solana Beach.*

Secured Sewer Service Charges and Delinquencies. The assessed valuation of Solana Beach is established by the County Assessor, except for utility property assessed by the State Board of Equalization. Taxes on non-exempt property in Solana Beach are levied against the assessed valuation of land and improvements. **TABLE 11** shows assessed values in Solana Beach, secured service charges and rates of delinquencies for the past five years within Solana Beach.

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TABLE 11: CITY OF SOLANA BEACH
ASSESSED VALUES, SECURED SERVICE CHARGES AND DELINQUENCIES
(Fiscal Years ended June 30)

	ASSESSED VALUES	SECURED TAX CHARGES / DELINQUENCIES		
	(LAND / IMPROVEMENTS)	CHARGES ^(a)	DELINQUENT (JUNE 30)	% (JUNE 30)
2012	\$3,669,445,588	\$5,133,863.58	\$83,073.86	1.62%
2013	\$3,761,931,714	\$5,438,039.91	\$65,015.08	1.20%
2014	\$3,980,087,328	\$5,586,521.30	\$54,408.58	0.97%
2015	\$4,202,395,135	\$5,909,334.49	\$53,042.44	0.90%
2016	\$4,429,757,720	\$6,254,795.91	\$47,369.97	0.76%

(a) Sewer service charge.

Source: California Municipal Statistics, Inc.

Ten Largest Ratepayers. **TABLE 12** shows the top ten wastewater collection customers of the Solana Beach Sanitation Enterprise Fund for the 12-month billing period ended June 30, 2016. Collectively, these customers represent approximately 11% of the Sanitation Enterprise Fund's total revenues for that period.

TABLE 12: CITY OF SOLANA BEACH
LARGEST WASTEWATER CUSTOMERS *(Fiscal Year 2015-2016)*

PROPERTY OWNER	SEWER SERVICE CHARGES	% OF CHARGES
Fenton Solana Highlands LLC	\$83,319	1.69%
Pacifica Solana Beach Holdings LP	65,261	1.32%
Muller-Beachwalk LLC	63,724	1.29%
ERP Operating LTD Partnership	61,718	1.25%
Uschel Holdings LP	48,757	0.99%
SB Corporate Centre III-IV LLC	44,499	0.90%
SBC Holdings LLC	41,968	0.85%
50% SBTC Holdings LLC	41,271	0.84%
SBTC Holdings LLC	41,209	0.83%
Solana Partners	32,711	0.66%
TOTALS (all customers \$4,939,084)	\$524,437	10.62%

Source: City of Solana Beach.

TABLE 13 shows a five-year summary of revenues (excluding reclaimed water revenues), expenses and net income of the Solana Beach Sanitation Enterprise Fund, as derived from amounts included in Solana Beach's annual combined financial statements for the Fiscal Years ended June 30, 2012 through 2016. See "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH."

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TABLE 13: CITY OF SOLANA BEACH, SANITATION ENTERPRISE FUND
SUMMARY OF REVENUES AND EXPENSES (Fiscal Years ended June 30)

	2012	2013	2014	2015	2016
Operating Revenue:					
Charges for Services	\$ 4,517,005	\$ 4,708,765	\$ 4,775,489	\$ 4,949,069	\$ 5,151,671
Other revenues	13,802	46,470	36,300	28,939	49,090
Total operating revenues	\$ 4,530,807	\$ 4,755,235	\$ 4,811,789	\$ 4,978,008	\$ 5,200,761
Operating Expenses:					
Costs of sales and services	2,587,591	2,016,630	1,943,279	2,038,919	1,973,000
Administration	348,568	349,459	348,907	348,826	428,031
Depreciation	344,362	345,500	352,633	352,645	352,650
Total operating expenses	\$ 3,280,521	\$ 2,711,589	\$ 2,644,819	\$ 2,740,390	\$ 2,753,681
Operating Income (Loss)	1,250,286	2,043,646	2,166,970	2,237,618	2,447,080
Non-operating Revenues (Expenses):					
Interest income	152,477	78,615	71,541	71,973	115,321
Interest expense	(666,620)	(536,423)	(510,648)	(483,257)	(454,872)
Amortization of bond issuance costs	(91,263)	(70,986)	(7,651)	(49,923)	(42,853)
Amortization of investment premium	-	(21,890)	(10,945)	(10,945)	(10,945)
Share in joint venture net gain (loss)/capital contribution	255,556	(115,567)	318,695	(1,281,842)	(306,550)
Total non-operating revenues (expenses)	\$ (349,850)	\$ (666,251)	\$ (139,008)	\$ (1,753,994)	\$ (699,899)
Change in Net Position	\$ 900,436	\$ 1,377,395	\$ 2,027,962	\$ 483,624	\$ 1,747,181
Beginning Balance	29,364,154	30,074,994	31,452,389	33,480,351	33,558,363
Restatement				(405,612)	
Ending Balance	\$ 30,264,590	\$ 31,452,389	\$ 33,480,351	\$ 33,558,363	\$ 35,305,544

Source: summaries derived from City of Solana Beach annual reports.

Historical Debt Service Coverage. **TABLE 14** shows a five-year history of debt service coverage of the Solana Beach Sanitation Enterprise Fund. See “**APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH.**”

TABLE 14: CITY OF SOLANA BEACH, SANITATION ENTERPRISE FUND
HISTORICAL DEBT SERVICE COVERAGE (Fiscal Years ended June 30)

	2012	2013	2014	2015	2016
Revenues					
Operating revenues - including connection fees	\$ 4,530,807	\$ 4,755,235	\$ 4,811,789	\$ 4,978,008	\$ 5,200,761
Non-operating revenues	408,033	78,615	390,236	71,973	115,321
Gross Revenues	\$ 4,938,840	\$ 4,833,850	\$ 5,202,025	\$ 5,049,981	\$ 5,316,082
Total Operating and Non-Operating Expenses	\$ 4,038,404	\$ 3,456,455	\$ 3,174,063	\$ 4,566,357	\$ 3,568,901
Restatement of Operating Expenses	\$ -	\$ -	\$ -	\$ 405,612	\$ -
Net Income	\$ 900,436	\$ 1,377,395	\$ 2,027,962	\$ 78,012	\$ 1,747,181
Add back:					
Interest expense	\$ 666,620	\$ 536,423	\$ 510,648	\$ 483,257	\$ 454,872
Depreciation and amortization expense	435,625	438,376	371,229	413,513	406,448
Change in investment in other agencies	(255,556)	115,567	(318,695)	1,281,842	306,550
Net Revenues Available for Debt Service	\$ 1,747,125	\$ 2,467,761	\$ 2,591,144	\$ 2,256,624	\$ 2,915,051
2011 Loan Agreement Debt Service	\$ 851,600	\$ 785,914	\$ 785,863	\$ 785,426	\$ 781,593
Coverage by Net Revenues Available for Debt Service	205%	314%	330%	287%	373%

Source: summaries derived from City of Solana Beach annual reports.

Other Obligations of Solana Beach City System. In 2007, the Solana Beach Public Financing Authority issued its \$9,825,000 Subordinate Wastewater Revenue Bonds, Series 2006 (the “2006 Bonds”) to finance certain capital improvements to the Solana Beach wastewater system. The 2006 Bonds are secured by installment payments to be made by Solana Beach Sanitation from its Sanitation Enterprise Fund on a basis *subordinate* to the payment of the

Balance Sheet History. **TABLE 15** shows a five-year summary of assets, liabilities and retained earnings of the Solana Beach Sanitation Enterprise Fund as of June 30, 2012 through 2016 as derived from Solana Beach’s combined financial statements. For corresponding audited information, see “**APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH.**”

						2012	2013	2014	2015	2016
Assets:										
Current:										
	Cash and investments					\$8,101,942	\$8,785,338	\$9,170,978	\$10,281,652	\$11,786,031
	Receivables:									
	Accounts					\$75,887	\$7,605	\$18,008	\$24,245	\$268,320
	Taxes					-	-	-	-	\$2
	Interest					\$5,115	\$2,553	\$48,387	\$5,901	\$14,754
	Prepaid costs					<u>\$41,059</u>	<u>\$38,844</u>	<u>\$36,628</u>	<u>\$34,413</u>	<u>\$32,197</u>
	Total Current Assets					\$8,224,003	\$8,834,340	\$9,274,001	\$10,346,211	\$12,101,304
Noncurrent:										
	Cash and investments with fiscal agent					\$2,585,169	\$2,580,447	\$2,580,485	\$2,580,536	\$594,936
	Advances to other funds					\$2,780,338	\$2,405,857	\$2,008,165	\$1,586,247	\$1,139,045
	Deferred charges					\$189,596	-	-	-	-
	Investment in joint venture					\$18,773,724	\$19,066,147	\$19,850,088	\$19,009,204	\$19,190,619
	Capital Assets:									
	Non-depreciable					\$270,596	\$281,883	\$693,099	\$1,342,123	\$2,108,289
	Depreciable, net					<u>\$11,208,959</u>	<u>\$11,077,621</u>	<u>\$11,132,990</u>	<u>\$10,780,345</u>	<u>\$10,768,131</u>
	Total Noncurrent Assets					\$35,808,382	\$35,411,955	\$36,264,827	\$35,298,455	\$33,801,020
	Total Assets					\$44,032,385	\$44,246,295	\$45,538,828	\$45,644,666	\$45,902,324
Deferred Outflows of Resources:										
	Deferred pension related items					-	-	-	\$42,302	\$88,513
	Deferred charge on refunding					<u>\$617,824</u>	<u>\$549,176</u>	<u>\$480,529</u>	<u>\$411,882</u>	<u>\$343,235</u>
	Total Deferred Outflows of Resources					\$617,824	\$549,176	\$480,529	\$454,184	\$431,748
	Total Assets and Deferred Outflows					\$44,650,209	\$44,795,471	\$46,019,357	\$46,098,850	\$46,334,072
Liabilities, Deferred Inflows, and Net Position:										
Liabilities:										
Current:										
	Accounts payable					\$241,169	\$32,708	\$156,839	\$633,260	\$15,496
	Accrued liabilities					\$12,928	\$12,634	\$13,196	\$12,294	\$16,710
	Interest payable					\$182,568	\$173,219	\$164,210	\$154,841	\$145,189
	Compensated absences, due within one year					\$17,649	\$14,977	\$13,648	\$19,410	\$17,707
	Long-term debt, due within one year					<u>\$828,460</u>	<u>\$856,963</u>	<u>\$880,634</u>	<u>\$906,470</u>	<u>\$937,808</u>
	Total Current Liabilities					\$1,282,774	\$1,090,501	\$1,228,527	\$1,726,275	\$1,132,910
Noncurrent:										
	Compensated absences, due in more than one year					\$7,338	\$13,914	\$15,657	\$5,607	\$11,608
	Long-term debt, due in more than one year					\$13,095,507	\$12,238,668	\$11,294,822	\$10,367,413	\$9,401,597
	Net Pension Liability					<u>-</u>	<u>-</u>	<u>-</u>	<u>\$329,413</u>	<u>\$429,227</u>
	Total Noncurrent Liabilities					\$13,102,845	\$12,252,581	\$11,310,479	\$10,702,433	\$9,842,432
	Total Liabilities					\$14,385,619	\$13,343,082	\$12,539,006	\$12,428,708	\$10,975,342
Deferred Inflows of Resources:										
	Deferred pension related items					<u>-</u>	<u>-</u>	<u>-</u>	<u>\$111,779</u>	<u>\$53,186</u>
	Total Deferred Inflows of Resources					-	-	-	\$111,779	\$53,186
Net Position:										
	Net investment in capital assets					\$5,470,469	\$5,682,518	\$6,324,862	\$6,798,584	\$5,594,350
	Unrestricted					<u>\$24,794,121</u>	<u>\$25,769,871</u>	<u>\$27,155,489</u>	<u>\$26,759,779</u>	<u>29,711,194</u>
	Total Net Position					\$30,264,590	\$31,542,389	\$33,480,351	\$33,558,363	\$35,305,544
	Total Liabilities, Deferred Inflows, and Net Position					\$44,650,209	\$44,795,471	\$46,019,357	\$46,098,850	\$46,334,072

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TAX MATTERS

Tax Exemption of Interest on the Series 2017 Bonds

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the execution and delivery of the Series 2017 Bonds for interest paid on the Series 2017 Bonds to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause such amounts to be included in gross income for federal income tax purposes retroactive to the date of first delivery of the Series 2017 Bonds. The Authority and the Cities have covenanted to maintain the exclusion of interest paid on the Series 2017 Bonds from the gross income of the owners thereof for federal income tax purposes.

Upon the execution and delivery of the Series 2017 Bonds, Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, Bond Counsel, will deliver its legal opinion that under existing law, and assuming compliance with the covenants referred to in this section of the Official Statement, interest paid on the Series 2017 Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Further, on that same day Bond Counsel will render its legal opinion, based solely on the foregoing, and upon existing provisions of the laws of the State of California (the “State”), that interest on the Series 2017 Bonds is exempt from personal income taxes of the State. Bond Counsel will render its further opinion that, under existing statutes, regulations, rulings and court decisions, the Series 2017 Bonds will not constitute a “specified private activity bond” within the meaning of section 57(a)(5) of the Code and, therefore, that interest on the Series 2017 Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt of interest on any Series 2017 Bonds owned by a corporation may affect the computation of the alternative maximum taxable income of that corporation. A corporation’s alternative minimum taxable income is the basis upon which the alternative minimum tax imposed by section 55 of the Code is computed.

Pursuant to the Series 2017 Indenture, each Series 2017 Loan Agreement and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under sections 103 and 141 through 150, inclusive, of the Internal Revenue Code of 1986*, dated the date of this Official Statement (the “Tax Certificate”), executed and delivered by the Authority, Encinitas and Solana Beach (severally and collectively, the “Certifying Entities”) in connection with the execution and delivery of the Series 2017 Bonds, each of the Certifying Entities will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest paid on the Series 2017 Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its legal opinions described above, Bond Counsel will assume the accuracy of each such representation and the present and future compliance by each of the Certifying Entities with each of its respective covenants.

Except as stated above in this section of the Official Statement, Bond Counsel will express no opinion as to any federal or state tax consequence of the receipt or accrual of interest on the Series 2017 Bonds, or of the ownership or disposition of any Series 2017 Bond. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequences with respect to the Series 2017 Bonds or interest paid or received on the Series 2017 Bonds if any action is taken with respect to the Series 2017 Indenture, either Series 2017 Loan Agreement, the Tax Certificate, the Series 2017 Bonds or the use or investment of proceeds of the Series 2017 Bonds predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any events may affect the tax status of interest on the Series 2017 Bonds or the tax consequences of the ownership or disposition of any Series 2017 Bond.

Bond Counsel’s legal opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of each of the Certifying Entities described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the legal opinion of Bond Counsel, and Bond Counsel’s legal opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations, including obligations like the Series 2017 Bonds. If an audit of the Series 2017 Bonds is commenced, under current procedures the Service is likely to treat each of the Certifying Entities as a “taxpayer,” and the owners of the Series 2017 Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of interest on the Series 2017 Bonds, any or all of the Certifying Entities may have interests that differ or conflict with interests of the owners of the Series 2017

Bonds. Public awareness of any future audit of the Series 2017 Bonds could adversely affect the value and liquidity of the Series 2017 Bonds during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to owners of the Series 2017 Bonds of the exclusion of interest paid on the Series 2017 Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Series 2017 Bonds. Prospective purchasers of the Series 2017 Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

A copy of the proposed form of legal opinion of Bond Counsel relating to the Series 2017 Bonds is included in **“APPENDIX D – FORM OF BOND COUNSEL OPINION.”**

Tax Accounting Treatment of Bond Premium and Original Issue Discount

For purposes of the following discussion, each Series 2017 Bond should be treated as a separate debt instrument.

To the extent that a purchaser of a debt instrument acquires that debt instrument at a price that exceeds the aggregate amount of scheduled interest payments (other than payments of “qualified stated interest” as defined in section 1.1273-1 of the United States Treasury Regulations (the “Treasury Regulations”)) to be made on that debt instrument (determined, in the case of a prepayable debt instrument, under the assumption described below) (the “stated redemption price at maturity” of the instrument), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. In the case of a purchase of a Bond that is subject to redemption (in whole or in part), the determination whether there is amortizable bond premium, and the computation of the accrual of that premium, must be made under the assumption that the redemption price will be paid on the permitted date that would minimize the yield on the Bond (or that the Bond will not be prepaid prior to its stated maturity date if that would maximize the purchaser’s yield). The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a Bond owned by that owner is sold or disposed of for an amount equal to, or in some circumstances even less, than the original cost of the Bond to that owner. Any person considering purchasing a Bond at a price that includes bond premium should consult such person’s own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the Bond.

The excess, if any, of the stated redemption price at maturity of a Bond of a stated maturity over the initial offering price to the public of the Series 2017 Bonds of that stated maturity set forth on the inside front cover page of this Official Statement is “original issue discount”. Original issue discount accruing in respect of a Bond is treated for federal income tax and State (California) personal income tax purposes as additional interest in respect of that Bond and is excluded from the gross income of the owner of that Bond for federal income tax purposes and exempt from State personal income tax to the same extent as would be stated interest on that Bond. Original issue discount accruing in respect of any Bond purchased at its initial public offering price and pursuant to such initial offering will accrue on a semiannual basis over the term to stated maturity date of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount in respect of such a Bond accruing during each period is added to the adjusted basis of the Bond to determine taxable gain upon disposition (including upon sale, redemption or payment at maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of a purchaser of a Bond who purchases that Bond other than at the initial offering price and pursuant to the initial offering of that Bond.

Any person considering purchasing a Bond of a maturity in respect of which there is original issue discount should consult such person’s own tax advisors with respect to the tax consequences of ownership of such Bond, including the treatment of a purchaser who does not purchase in the original offering and at the original offering price of that Bond, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount in respect of such Bond under federal individual and corporate alternative minimum taxes.

Certain Other Tax Consequences

Although interest paid on any Bond and received by the owner thereof may be excluded from the gross income of such owner for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of any Bond. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Series 2017 Bonds should be aware that (a) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2017 Bonds, and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations such as the Series 2017 Bonds; (b) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Series 2017 Bonds; (c) the payments of interest on any Series 2017 Bonds owned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code; (d) passive investment income, including interest accrued and paid on the Series 2017 Bonds, may be subject to federal income taxation under section 1375 of the Code for a Subchapter S corporation that has Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; (e) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, interest accrued and paid on any Series 2017 Bonds owned by such recipients for federal income tax purposes; and (f) under section 32(i) of the Code, receipt of investment income, including interest accrued and paid on the Series 2017 Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

CERTAIN LEGAL MATTERS

General

All legal matters incident to the authorization, issuance, sale and delivery of the Series 2017 Bonds by the Authority are subject to the approving legal opinion of Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, Bond Counsel, whose approving legal opinion will be delivered with the initial delivery of the Series 2017 Bonds, and the proposed form of which is set forth in "**APPENDIX D – FORM OF BOND COUNSEL OPINION.**" The legal opinion delivered may vary from such form as and if necessary to reflect facts and law on the date of initial delivery of the Series 2017 Bonds. Certain legal matters will be passed upon for the Authority by Procopio, Cory, Hargreaves & Savitch LLP, as Disclosure Counsel and general counsel to the Authority, for the Cities by their respective City Attorneys (or other counsel) and for the Underwriter by Nixon Peabody LLP.

All legal opinions to be delivered concurrently with the initial delivery of the Series 2017 Bonds will speak only as of such date and will be qualified in certain customary respects, including as to the enforceability of the various legal instruments by limitations imposed by State and federal law affecting remedies and by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, the application of equitable principles and the exercise of judicial discretion in appropriate cases. The legal opinions express the professional judgment of counsel rendering them, respectively, but are not binding on any court or other governmental agency and are not guarantees of any particular result. Certain fees paid to Bond Counsel, Disclosure Counsel, the Underwriter, the Trustee and the Municipal Advisor for services rendered are contingent upon the issuance and delivery of the Series 2017 Bonds.

Absence of Litigation

No Proceedings Against Either City. In connection with the issuance of the Series 2017 Bonds, each City will deliver certificates which will state that, as of the date of issuance of the Series 2017 Bonds, to the best of their knowledge, there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body pending or threatened against or affecting such City, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Series 2017 Indenture, the Series 2017 Loan Agreements, the Bond Purchase Contract (as hereinafter defined), the Disclosure Agreement, the Tax Certificate or this Official Statement (collectively, the "Bond Documents"), the validity and enforceability of any of the Bond Documents or the Series 2017 Bonds or the operations, financial or otherwise, of such City.

No Proceedings Against the Authority. To the knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending against the Authority seeking to restrain or enjoin the sale or issuance of the Series 2017 Bonds, or in any way contesting or affecting any proceedings of the Authority taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Series 2017 Bonds, the validity or enforceability of the Bond Documents executed by the Authority in connection with the Series 2017 Bonds or the existence or powers of the Authority relating to the sale of the Series 2017 Bonds or the Authority's ownership and operation of the Wastewater Enterprise Facilities.

MISCELLANEOUS

Rating

The Series 2017 Bonds have been assigned the "AA+" rating by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). Such rating reflects only the views of S&P and do not constitute a recommendation to buy, sell or hold the Series 2017 Bonds. Explanation of the significance of such rating may be obtained only from S&P at S&P Global Ratings, 55 Water Street, New York, New York 10041. There is no assurance that such rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2017 Bonds.

Underwriting

The Series 2017 Bonds are being purchased for reoffering by the Underwriter. The Underwriter has agreed to purchase the Series 2017 Bonds at a purchase price of \$24,093,452.20 inclusive of original issuance premium and exclusive of the Underwriter's discount of \$128,267. The obligation to make such purchase is subject to the terms and conditions of the Bond Purchase Contract by and among the Authority, each City and the Underwriter. The Underwriter may offer and sell the Series 2017 Bonds to certain dealers and others at prices lower than the public offering price stated on the inside front cover page of this Official Statement. The Underwriter may change the offering price of the Series 2017 Bonds from time to time.

Continuing Disclosure

The Authority has covenanted for the benefit of the Owners and Beneficial Owners of the Series 2017 Bonds to provide certain financial information and operating data relating to the Series 2017 Bonds not later than 8 months following the end (currently June 30 of each year) of the Authority's Fiscal Year (that is, not later than March 1 of the following Fiscal Year), or as adjusted correspondingly for any change in the Authority's Fiscal Year (the "Annual Report"), commencing with the report for the Fiscal Year ending June 30, 2017, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed on behalf of the Authority and Encinitas by Applied Best Practices, LLC (their "Dissemination Agent"), and on behalf of Solana Beach by Urban Futures, Inc, with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with any then existing State Repository for the State (collectively, the "Repositories"). The notices of material events will be filed by the applicable Dissemination Agent with the Repositories. The specific nature of the information to be contained in the Annual Report or the notices of material events is described in "**APPENDIX E – FORM OF DISCLOSURE AGREEMENT.**" These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5).

The Authority became obligated to file notice of certain material events with the NRMSIR with the 2011 Bonds. All material event information has since been filed on EMMA, including notices of late filing with respect to a change in the rating of Assured Guaranty, Inc., as of March 18, 2014. The Authority has engaged a consultant and implemented additional procedures to ensure timely filing of all future material events filings.

During the last five years, Encinitas, the Encinitas Public Financing Authority, the San Dieguito Water District ("San Dieguito"), the Encinitas Ranch Golf Authority, the R.E. Badger Water Facilities Financing Authority (the "R.E. Badger Authority"), Solana Beach, the Solana Beach Redevelopment Agency, the Solana Beach Public Financing Authority and the Authority failed to comply in certain respects with continuing disclosure obligations related to outstanding bonded indebtedness. The failures to comply primarily include, but are not limited to (a) failure to provide significant event notices with respect to changes in the ratings of outstanding indebtedness,

primarily related to changes in the ratings of various bond insurers insuring the indebtedness; and (b) incomplete, missing or late filing of annual reports with respect to certain bond issues.

The Authority filed past the filing deadline the Authority's consolidated audited financial report for the Fiscal Year ended June 30, 2014. The Authority has engaged a consultant and implemented additional procedures to ensure timely filing of all future annual financial reports.

For the City of Encinitas Refunding Certificates of Participation, Series A (Civic Center Project), Encinitas filed past the filing deadline its annual report and its audited financial statements for the Fiscal Year ended June 30, 2013, and ratings event notices.

Ratings event notices were not filed timely for the following (listed in chronological order): Encinitas Public Financing Authority 2001 Lease Revenue Bonds, Series A (Acquisition Project), the San Elijo Joint Powers Authority (San Diego County, California) 2003 Refunding Revenue Bonds (San Elijo Wastewater Treatment Facilities), the San Dieguito Water District (San Diego County, California) Water Revenue Refunding Bonds, Series 2004, the City of Encinitas Community Facilities District No. 1 2004 Bonds, the Encinitas Public Financing Authority 2010 Lease Revenue Bonds, Series A (Park Project) and the San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility).

For the R.E. Badger Water Facilities Financing Authority 2007 Water Revenue Refunding Bonds, the R.E. Badger Authority (a) filed past the filing deadline the annual reports of San Dieguito for Fiscal Years ended June 30, 2011, 2012 and 2013; (b) filed past the filing deadline the audited financial statements of San Dieguito for Fiscal Years ended June 30, 2012 and 2013; and (c) filed past the filing deadline ratings event notices.

For the San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility), Encinitas filed past the filing deadline its annual report for the Fiscal Year ended June 30, 2012.

In addition to the listed incomplete filings of annual disclosure reports, Encinitas has outstanding Assessment District No. 93-1 (Requeza Street/Bracero Road) Limited Obligation Improvement Bonds, Series A and Subordinate Series B. Encinitas has timely filed the annual reports for the Assessment District Bonds; however, Encinitas has not included its Audited Financial Statements with the annual reports.

In order to ensure ongoing compliance by Encinitas, on behalf of itself and its related agencies, with the continuing disclosure undertakings: (a) Encinitas has instituted new procedures to ensure future compliance and coordination by the City and its related agencies as part of its financial reporting policies; and (b) Encinitas has contracted with a consultant to assist it in filing accurate, complete and timely disclosure reports on behalf of the City and its related agencies.

Encinitas was advised by Southwest Securities, Inc. ("SSI") that Encinitas was reported by SSI under the Municipalities Continuing Disclosure Cooperation ("MCDC") initiative of the SEC. The reporting relates to the Encinitas Public Financing Authority 2010 Lease Revenue Bonds, Series A (the "2010 Encinitas PFA Bonds") and the statement in the official statement for the 2010 Encinitas PFA Bonds that Encinitas was in compliance with all continuing disclosure requirements. MCDC was a program allowing issuers and underwriters of municipal securities to report voluntarily any non-compliance with disclosure obligations and any misleading disclosure with respect to such non-compliance. The SEC has concluded its MCDC review for such period, and Encinitas was not contacted in connection with such review.

The Solana Beach Redevelopment Agency filed past the filing deadline its reports for Fiscal Years ended June 30, 2013, and June 30, 2014. With respect to its Subordinate Wastewater Revenue Bonds, Series 2006, the Solana Beach Public Financing Authority filed past the filing deadline its annual reports for the Fiscal Years ended June 30, 2013, and June 30, 2014. With respect to its Special Assessment Bonds, the Solana Beach Public Financing Authority filed past the filing deadline its annual reports for the Fiscal Years ended June 30, 2012, and June 30, 2013.

In order to ensure ongoing compliance by Solana Beach, on behalf of itself and its related agencies, with the continuing disclosure undertakings, Solana Beach has contracted with a consultant to assist it in filing accurate, complete and timely disclosure reports on behalf of the City and its related agencies.

Municipal Advisor

The Authority has retained Fieldman, Rolapp & Associates as an independent registered municipal advisor (the “Municipal Advisor”) in connection with the execution and delivery of the Series 2017 Bonds. The Municipal Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to the Authority or either City with respect to the accuracy or completeness of disclosure of such information. The Municipal Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information

Financial Statements

The Fiscal Year 2015-16 financial statements included in this Official Statement as “**APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH,**” with audit reports accompanying the financial statements, such reports being prepared as follows: (a) for the Authority by The Pun Group, LLP, (“TPG”); (b) for Encinitas by TPG; (c) and for Solana Beach by Lance, Soll & Lunghard, LLP, to the extent and for the periods indicated in their respective reports. Such financial statements have been included in reliance upon the respective reports of each Auditor, and each Auditor has consented to the reproduction of its respective reports in this Official Statement. Neither the Authority, Encinitas nor Solana Beach is aware of any facts that would make its respective financial statements misleading in any material respect.

Additional Information

The summaries of or references to constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Official Statement do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the actual provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge as described in “**INTRODUCTION – Additional Information.**”

Official Statement Certification

The preparation of this Official Statement and its distribution have been authorized by the Authority, Encinitas and Solana Beach. This Official Statement is not to be construed as an agreement or contract between the Authority, Encinitas or Solana Beach and any purchaser, holder or Owner of any Bond.

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APPENDIX A

CERTAIN BACKGROUND INFORMATION ABOUT ENCINITAS AND SOLANA BEACH

The following information regarding Encinitas, Solana Beach and the surrounding area is presented as general background data. The information herein is subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the Series 2017 Bonds shall under any circumstances imply that there has not been any change in the affairs of Encinitas or Solana Beach or any other information contained herein since the date of this Official Statement. The Series 2017 Bonds are payable solely from the sources described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS.” The taxing power of Encinitas, Solana Beach, the State of California or any political subdivision thereof is not pledged to the payment of the Series 2017 Bonds. See “THE SERIES 2017 BONDS.”

ENCINITAS

Encinitas was incorporated in October 1986. Encinitas’ incorporation involved a reorganization consisting primarily of (a) the incorporation of the City of Encinitas; (b) the detachment of territory from the Cardiff Sanitation District and annexation of the detached territory to the Solana Beach Sanitation District; and (c) the establishment of the Encinitas Fire Protection District, the San Dieguito Water District (the “Water District”) and the Encinitas Sanitation District as subsidiary districts of Encinitas. All subsidiary districts other than the Water District have been absorbed by Encinitas as separate accounting divisions of Encinitas.

Encinitas lies in the coastal area of northern San Diego County overlooking the Pacific Ocean. Its territory covers approximately 21.4 square miles, about 25 miles north of San Diego and immediately north of Solana Beach. Topography of the surrounding area varies from broad coastal plains to inland valleys, with mountains to the east.

Encinitas maintains a website at www.encinitasca.gov. ***No website information is part of this Official Statement or incorporated in it by reference. Website information should not be relied upon in making an investment decision with respect to the Series 2017 Bonds.***

City Government

Encinitas is a general law city and operates under a council-manager form of government. The City Council consists of four members elected at large, who also serve as the Board of Directors of the three subsidiary districts of Encinitas. Council members serve four-year terms, with elections every two years for either two or three seats. The Mayor is elected city-wide for a two-year term. The Mayor sits as a member of the subsidiary districts of Encinitas. The City Manager is appointed by the City Council and serves as the City Council’s administrative head of Encinitas. All other city employees are appointed by and responsible to the City Manager, except the City Attorney and the City Clerk, who are appointed by the City Council.

Encinitas supplies portions of its residents with water and sewer service through its subsidiary districts. The northern area of Encinitas is provided with sewer service by the independent Leucadia County Wastewater District. The eastern half of Encinitas receives potable water from the Olivenhain Municipal Water District. Encinitas operates and maintains its community services departments and parks, but it contracts with the County for police service.

Economic Data

The following tables show assessed valuations, taxable retail transactions and building activity in Encinitas.

CITY OF ENCINITAS, SCHEDULE OF ASSESSED PROPERTY *(as of June 30)*

	SECURED	UNSECURED	TOTAL
2013	\$11,581,761,879	\$143,523,614	\$11,725,285,493
2014	\$11,997,858,077	\$151,308,388	\$12,149,166,465
2015	\$12,715,936,309	\$155,935,794	\$12,871,872,103
2016	\$13,553,813,809	\$150,782,981	\$13,704,596,790
2017	\$14,326,676,416	\$147,287,886	\$14,473,964,302

Source: California Municipal Statistics, Inc. and San Diego County Auditor-Controller.

CITY OF ENCINITAS, TAXABLE RETAIL SALES *(Fiscal Years ended June 30)*

	2011	2012	2013	2014	2015	2016
Autos and Transportation	\$1,330,270	\$1,427,132	\$1,446,737	\$1,519,008	\$1,638,839	\$1,684,618
Building and Construction	774,109	868,790	820,467	887,182	944,334	980,140
Business and Industry	537,840	518,699	560,723	573,032	556,835	738,490
Food and Drugs	945,542	995,511	1,003,491	1,001,942	1,028,085	1,005,870
Fuel and Service Stations	1,351,288	1,569,265	1,577,783	1,559,342	1,500,416	1,382,946
General Consumer Goods	2,818,809	3,117,547	3,165,746	3,355,540	3,476,481	3,535,734
Restaurant and Hotels	1,442,976	1,624,007	1,699,705	1,825,971	1,978,072	2,113,116
TOTALS	\$9,200,834	\$10,120,951	\$10,274,652	\$10,722,015	\$11,123,062	\$11,440,916

Source: City of Encinitas Audited Financial Statements.

CITY OF ENCINITAS, SINGLE-FAMILY RESIDENTIAL BUILDING PERMITS *(as of June 30)*

YEAR ISSUED	TOTAL PERMITS
2012	121
2013	63
2014	161
2015	135
2016	117

Source: City of Encinitas.

SOLANA BEACH

Solana Beach lies in the coastal area of northern San Diego County. Its territory covers approximately 3.4 square miles, about 23 miles north of San Diego, between the San Elijo Lagoon to the north and Del Mar to the south, with the Pacific Ocean to the west and the City of San Diego and unincorporated areas of San Diego County to the east. Topography of the surrounding area varies from broad coastal plains to inland valleys, with mountains to the east.

Solana Beach was incorporated in 1986 as a general law city with a council-manager form of government. The Solana Beach City Council consists of five members elected at large. Council members serve a four-year term. The Mayor and Deputy Mayor are selected by the Council from among its members to serve one-year terms. The Council acts as the legislative and policy-making body of Solana Beach, enacting laws and directing actions providing for the general welfare of the community.

Council members appoint the City Manager, who serves as the Chief Executive Officer and is responsible to the Council for the administration of all City affairs and for the implementation of policies established by the Council. The City Attorney is the only other position appointed by the Council. All other department heads and employees are appointed by and responsible to the City Manager.

Solana Beach maintains a website at www.ci.solana-beach.ca.us. ***No website information is part of this Official Statement or incorporated in it by reference. Website information should not be relied upon in making an investment decision with respect to the Series 2017 Bonds.***

Economic Data

The following tables show assessed valuations, taxable retail transactions and building activity in Solana Beach.

CITY OF SOLANA BEACH, SCHEDULE OF ASSESSED PROPERTY *(as of June 30)*

	SECURED	UNSECURED	TOTAL
2013	\$3,630,362,561	\$39,083,027	\$3,669,445,588
2014	\$3,721,739,936	\$40,191,778	\$3,761,931,714
2015	\$3,938,386,162	\$41,701,166	\$3,980,087,328
2016	\$4,159,719,518	\$42,675,617	\$4,202,395,135
2017	\$4,384,043,696	\$45,714,024	\$4,429,757,720

Source: California Municipal Statistics, Inc. and San Diego County Auditor-Controller.

CITY OF SOLANA BEACH, TAXABLE RETAIL SALES *(dollars in thousands)*

	2011	2012	2013	2014	2015 ^(a)
Retail and Food Services	\$203,420	\$214,518	\$212,097	\$211,477	\$228,380
All Outlets	255,481	252,494	242,756	242,193	259,114

(a) Taxable transactions of motor vehicle and parts dealers, gasoline stations and general merchandise stores omitted because their publication would result in the disclosure of confidential information.

Source: *State of California, Board of Equalization.*

CITY OF SOLANA BEACH, PLAN CHECKS *(Fiscal Years ended June 30)*

	<u>TOTAL PLAN CHECKS</u>
2012	211
2013	63
2014	161
2015	135
2016	117

Source: *City of Solana Beach.*

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AREA EMPLOYMENT INFORMATION

Encinitas and Solana Beach are part of the Metropolitan Statistical Area (MSA) comprised of San Diego County-Carlsbad. The two tables on the next page show information by annual average regarding employment by industry groups and the labor force in general in the County of San Diego-Carlsbad MSA.

COUNTY OF SAN DIEGO-CARLSBAD MSA, EMPLOYMENT BY INDUSTRY GROUP

MAJOR INDUSTRY GROUP	2012	2013	2014	2015	2016
Total All Industries ^(a)	1,294,400	1,327,500	1,355,900	1,395,900	1,431,600
Total Farm	9,800	9,800	9,400	9,100	9,000
Mining and Logging	400	300	400	300	300
Construction	57,000	61,000	63,900	69,900	76,100
Manufacturing	98,200	99,400	102,200	106,200	107,800
Wholesale Trade	43,500	43,900	43,700	44,000	44,800
Retail Trade	137,200	141,300	144,300	146,800	147,400
Transportation, Warehousing and Utilities	27,300	27,200	27,000	28,400	29,400
Publishing (except Internet)	7,600	7,300	7,000	6,800	6,400
Broadcasting (except Internet)	3,500	3,500	3,400	3,000	3,100
Finance and Insurance	43,700	43,900	42,100	43,500	44,900
Real Estate	21,200	21,800	22,000	21,800	22,100
Professional and Business Services	213,400	221,100	224,300	230,200	234,000
Educational Services	29,000	29,500	29,700	29,400	30,000
Health Care & Social Assistance	145,500	151,500	156,400	163,300	168,600
Leisure and Hospitality	161,700	168,600	177,000	183,900	190,700
Other Services	49,200	49,300	52,000	53,200	54,900
Federal Government	46,800	46,500	45,800	46,000	46,500
State and Local Government	181,100	183,000	186,200	190,200	195,600

(a) Figures may not add to total due to independent rounding; estimated and published as of the March 2016 Benchmark.

Source: State of California Employment Development Department, Labor Market Information Division.

Industry employment data above is organized by standard industrial classification codes; however, employment in certain technology sectors may extend across multiple sectors.

COUNTY OF SAN DIEGO EMPLOYMENT TRENDS-(annual averages)

	2012	2013	2014	2015	2016
Labor Force	1,540,400	1,543,200	1,543,700	1,563,000	1,570,400
Employment	1,399,900	1,442,500	1,444,500	1,481,900	1,497,000
Unemployment Rate	9.1%	4.5%	6.4%	5.2%	4.7%

Source: California Employment Development Department.

APPENDIX B

CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

This Appendix B presents only summary information about certain definitions and legal documents relevant to this offering; however, it is qualified in its entirety by the entire provisions of such documents and the documents referenced therein. Investors may obtain copies of documents described or summarized in this Official Statement from public sources as well as upon request and the payment of a reasonable copying, mailing and handling charge from the administrative office of the Authority at 2695 Manchester Avenue, Cardiff, California 92007, Attention: General Manager, or from the Underwriter at Hilltop Securities Inc., 2533 South Coast Hwy 101, Suite 250, Cardiff, California 92007, telephone 760.632.6824, or such other contact information as either of them may provide from time to time.

This Appendix B is comprised of three Parts, as follows:

PART ONE: CERTAIN DEFINITIONS

PART TWO: THE SERIES 2017 INDENTURE

PART THREE: THE SERIES 2017 LOAN AGREEMENTS

* * *

PART ONE: CERTAIN DEFINITIONS

The definitions appearing below are presented in alphanumeric order and are extracted or paraphrased, as appropriate, for convenience of reference only, from the documents to which they apply. Certain definitions may not be applicable to every document. The definitions should be referenced in reading the summaries of certain documents in this Appendix B as well as the rest of this Official Statement.

“*Act*” means Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State, as in existence on the Closing Date or as thereafter amended from time to time.

“*Additional Bonds*” means all revenue bonds of the Authority, other than the Series 2017 Bonds initially executed, authenticated, issued and delivered under the Series 2017 Indenture, authorized by and at any time Outstanding under the Series 2017 Indenture.

“*Authority*” means the San Elijo Joint Powers Authority, a joint powers authority duly organized and existing under the Basic Agreement and the laws of the State.

“*Basic Agreement*” means that certain Joint Exercise of Powers Agreement, dated June 17, 1987, entered into under the Act by and between the Cardiff Sanitation District and the Solana Beach Sanitation District, together with any amendments and restatements thereof and supplements thereto.

“*Beneficial Owner*” means any Person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2017 Bonds or Additional Bonds, as applicable (including Persons holding such Series 2017 Bonds or Additional Bonds through nominees, depositories or other intermediaries).

“*Beneficial Ownership Interest*” means the beneficial right to receive payments and notices with respect to the Series 2017 Bonds (or any Additional Bonds, as applicable) which are held by the Depository under a Book-Entry System.

“*Board*” means the Board of the Authority.

“*Bond Counsel*” means any firm of nationally recognized municipal bond attorneys, selected by the Authority, experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for federal income tax purposes.

“Bond Purchase Contract” means (a) the Series 2017 Bond Purchase Contract, dated June 21, 2017, by and among the Authority, the Cities and the Underwriter; and (b) as to one or more series of Additional Bonds, the similar agreement with respect to such series of Additional Bonds.

“Bond Resolution” means (a) the resolution of the Board providing for the issuance of the Series 2017 Bonds and approving the Series 2017 Loan Agreements, the Series 2017 Indenture, the Tax Certificate and the Bond Purchase Contract and related matters; and (b) as to one or more series of Additional Bonds, the resolution of the Board providing for the issuance of such series of Additional Bonds and approving any amendment or supplement to the Series 2017 Loan Agreements, any Supplemental Indenture and related agreements and matters.

“Bond Year” means: (a) as to the Series 2017 Bonds, each twelve-month period extending from March 2 in one calendar year to March 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall extend from the Closing Date to March 1, 2018, both dates inclusive; and (b) as to one or more series of Additional Bonds, each twelve-month period ending March 1 in any year in which such series of Additional Bonds are Outstanding, except that the first Bond Year shall commence the date such series of Additional Bonds are issued and end March 1 of the year specified in the Supplemental Indenture authorizing the issuance of such series of Additional Bonds.

“Bonds” means, collectively, the Series 2017 Bonds and all series of Additional Bonds, if any.

“Book-Entry System” means, with respect to the Series 2017 Bonds or one or more series of Additional Bonds, a form or system, as applicable, under which (a) the Beneficial Ownership Interests may be transferred only through a book-entry-only system; and (b) physical certificates of Series 2017 Bonds or Additional Bonds (as applicable) in fully registered form are registered only in the name of a Depository or its nominee as Owner, with the physical certificates of Series 2017 Bonds or Additional Bonds (as applicable) duly “immobilized” in the custody of the Trustee on behalf of the Depository.

“Business Day” means any day which is not any of the following: (a) Saturday, Sunday or legal holiday as set forth by the Federal Reserve Bank of San Francisco; (b) any other day on which banks in Los Angeles, California, New York, New York or any city where the Trust Office is located are authorized or required to be closed by the appropriate regulatory authorities; or (c) a day on which the New York Stock Exchange is authorized or required to be closed.

“City” or *“Cities”* means, severally and collectively, the City of Encinitas, as successor in interest to Cardiff Sanitation District, and the City of Solana Beach, as successor in interest to Solana Beach Sanitation District.

“Clean Water Projects” means the projects of the Authority to be financed in whole or in part with the proceeds of the Series 2017 Bonds.

“Code” means the Internal Revenue Code of 1986, as in effect on the date of issuance of the Series 2017 Bonds or (except as otherwise referenced in the Series 2017 Indenture) as it may be amended to apply to obligations issued on the date of issuance of the Series 2017 Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, thereunder or any successor federal tax code thereto. Reference to any particular Code section shall, in the event of such successor federal tax code, be deemed to be reference to the successor to such Code section, as applicable.

“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Series 2017 Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority and the Trustee, compensation of any financial consultants or advisors, compensation of any underwriters, other legal fees and expenses, filing and recording fees and costs, costs of preparation, reproduction and printing of documents, initial fees and charges of the Trustee and its counsel, Rating Agency fees, other fees and charges for preparation, execution, transportation and safekeeping of Series 2017 Bonds, and any other cost, charge or fee in connection with the original issuance of the Series 2017 Bonds.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee under the Series 2017 Indenture.

“*Debt Service*” means, as of any date of calculation and with respect to any period, the amount obtained as of such date or for such period by totaling the following amounts:

(a) the principal amount of all Outstanding Serial Series 2017 Bonds coming due and payable by their terms on such date or during such period; and

(b) the interest which would be due on such date or during such period on the aggregate principal amount of Series 2017 Bonds which would be Outstanding in such period if the Series 2017 Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the principal amount of Series 2017 Bonds no longer Outstanding.

“*Depository*” means: (a) with respect to the Series 2017 Bonds, The Depository Trust Company and its successors and assigns, or any other depository selected pursuant to the Series 2017 Indenture; and (b) with respect to one or more series of Additional Bonds, the provisions of the Supplemental Indenture authorizing such series of Additional Bonds, with respect to which such Depository agrees to follow the procedures required to be followed by such depository in connection with such series of Additional Bonds.

“*Direct Participant*” means a Participant as defined in the Letter of Representations.

“*Disclosure Agreement*” and “*Dissemination Agent*” mean (a) the Continuing Disclosure Agreement executed and delivered by the Authority, Encinitas and Solana Beach, with (b) Applied Best Practices, LLC, in the capacity of Dissemination Agent, with respect to the Disclosure Requirements and the Rule.

“*Disclosure Requirements*” and “*Rule*” mean (a) the continuing disclosure and related requirements provided in paragraph (b)(5)(i) of (b) SEC Rule 15c2-12 promulgated by the SEC under the 1934 Act (17 CFR Part 240 Section 240.15c2-12), as it may be amended from time to time.

“*Electronic Means*” means telecopy, facsimile transmissions, e-mail transmissions or other similar electronic means of communication providing evidence of transmission.

“*EMMA*” means the Electronic Municipal Market Access of the Municipal Securities Rulemaking Board.

“*Encinitas*” means the City of Encinitas, a general law city under State law, as successor to the Cardiff Sanitation District.

“*Event of Default*” means any of the events specified in Section 7.01 of the Series 2017 Indenture.

“*Federal Securities*” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or other noncallable obligations of any government-sponsored agency the timely payment of principal of and interest on which are directly or indirectly fully and unconditionally guaranteed by the United States of America.

“*Favorable Opinion of Bond Counsel*” means, with respect to any action the occurrence or non-occurrence of which requires such an opinion, an opinion of Bond Counsel to the effect that such action is permitted under the Series 2017 Indenture and will not, in and of itself, cause interest on the Series 2017 Bonds to be included in gross income for purposes of federal income taxation.

“*Fiscal Year*” means the period beginning July 1 of each year and ending the next succeeding June 30 or any other 12-month period selected and designated as the official Fiscal Year period of the Authority.

“*Interest Payment Date*” means each March 1 and September 1, commencing September 1, 2017, and continuing thereafter so long as any Series 2017 Bonds remain Outstanding.

“*Letter of Representations*” means, collectively, the Blanket Issuer Letter of Representations filed by the Authority with the Depository and the Operational Arrangements Letter of Representations filed with the Depository.

“*Loan Default Event*” means any Event of Default under the provisions of Section 5.01 of either or both Series 2017 Loan Agreements.

“Net Proceeds”, when used with reference to any insurance or eminent domain award or sale of property, means, the respective gross proceeds from the sale of property or insurance or eminent domain award remaining after payment of all expenses (including attorneys’ fees and any extraordinary expenses of the Trustee) incurred in the collection of such gross proceeds.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority.

“Outstanding” means, when used as of any particular time with reference to the Series 2017 Bonds or one or more series of Additional Bonds, all Series 2017 Bonds and Additional Bonds theretofore, or thereupon being, executed, authenticated and delivered under the Series 2017 Indenture except:

- (a) Series 2017 Bonds and Additional Bonds canceled by or surrendered to the Trustee for cancellation;
- (b) Series 2017 Bonds and Additional Bonds fully discharged under the Series 2017 Indenture;
- (c) Series 2017 Bonds and Additional Bonds in lieu of or in substitution for which other Series 2017 Bonds and Additional Bonds, as applicable, have been executed, authenticated and delivered; and
- (d) with respect to any voting or consents of rights, Series 2017 Bonds and Additional Bonds held by the Authority.

“Owner” of any Series 2017 Bond or Additional Bond, means the Person in whose name such bond is registered in the Registration Books.

“Participating Underwriter” means any broker, dealer or municipal securities dealer acting as an underwriter in a primary offering of municipal securities subject to SEC Rule 15c2-12 under the 1934 Act.

“Permitted Investments” means the following, but only to the extent that the same are acquired at fair market value, which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

- (a) Federal Securities;
- (b) interest-bearing demand or time deposits (including certificates of deposit) in federal or State chartered savings and loan associations or in federal or State banks (including without limitation the Trustee), fully secured as to the payment of principal and interest by Federal Securities;
- (c) money market funds the policy of which is to invest solely in Federal Securities or in obligations which are fully defeased or collateralized by Federal Securities, including funds for which the Trustee or an affiliate of the Trustee provides banking or trust services;
- (d) obligations the interest on which is excludable from gross income pursuant to section 103 of the Code and which are fully secured as to the payment of principal and interest by Federal Securities; and
- (e) the Local Agency Investment Fund – Bond Proceeds Pool established and maintained by the Treasurer of the State of California.

“Person” means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including any governmental entity or any agency or political subdivision thereof.

“Rating Agency” means S&P.

“Rating Category” means one of the general rating categories of any Rating Agency, without regard to any refinement or gradation of such rating category by a numerical or symbolic modifier or otherwise.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

“Redemption Price” means, with respect to any Series 2017 Bond (or portion thereof), the principal amount of such Series 2017 Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Series 2017 Bond and the Series 2017 Indenture.

“Refunding Bonds” means all revenue bonds of the Authority authorized by and at any time Outstanding under the Series 2017 Indenture, proceeds of which are used to refund all or any portion of Outstanding Series 2017 Bonds or Outstanding Additional Bonds, as applicable.

“Registration Books” means the records maintained by the Trustee for the registration and transfer of ownership of the Series 2017 Bonds.

“Revenues” means (a) all amounts payable by the Cities pursuant to the Series 2017 Loan Agreements (taking into account any limitations contained therein with respect to such payment), other than (i) administrative fees and expenses and indemnity against claims payable to the Authority and the Trustee and (ii) amounts payable to the United States of America pursuant to the rebate payment requirements of each Series 2017 Loan Agreement; (b) any proceeds of Series 2017 Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Series 2017 Indenture; and (c) income and gains with respect to the investment of amounts on deposit in the funds and accounts established under the Series 2017 Indenture.

“S&P” means S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“SEC” means the United States Securities and Exchange Commission and any successor thereto.

“Serial Series 2017 Bonds” means all Series 2017 Bonds that are not Term Series 2017 Bonds.

“Series 2017 Bonds” means the Series 2017 Bonds authorized by and at any time Outstanding under the Series 2017 Indenture.

“Series 2017 Indenture” mean the Series 2017 Indenture of Trust, dated as of June 1, 2017, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“Series 2017 Interest Account” means the account by that name established and held by the Trustee under the Series 2017 Indenture.

“Series 2017 Loan Agreements” means, severally and collectively, (a) the Series 2017 Loan Agreement, dated as of June 1, 2017, by and between the Authority and Encinitas, relating to the Series 2017 Loan to Encinitas in the amount of \$11,057,500; and (b) the Series 2017 Loan Agreement, dated as of June 1, 2017, by and between the Authority and Solana Beach, relating to the Series 2017 Loan to Solana Beach in the amount of \$11,057,500.

“Series 2017 Loans” mean: (a) as to the Series 2017 Bonds, the loans by the Authority to Encinitas and Solana Beach, respectively, of the proceeds received from the sale of the Series 2017 Bonds; and (b) each additional loan made by the Authority to the Cities of the proceeds received from the sale of one or more series of Additional Bonds.

“Series 2017 Principal Account” means the account by that name established and held by the Trustee under the Series 2017 Indenture.

“Series 2017 Proceeds Fund” means the temporary trust account by that name established and held by the Trustee under the Series 2017 Indenture.

“Series 2017 Project Costs” means all costs paid or incurred by or on behalf of the Authority at any time prior to or after the issuance of the Series 2017 Bonds for or in connection with the planning, design, acquisition, construction, renovation, improvement, equipping, furnishing and/or installation of the Clean Water Projects, and shall include, but not be limited to, any sums required to reimburse the Authority for advances and payments made by or on behalf of the Authority at any time prior to or after the issuance of the Series 2017 Bonds for capital

expenditures related to the Clean Water Projects, or for any other cost incurred or work done by or with the approval of the Authority which is properly allocable to the Clean Water Projects.

“*Series 2017 Project Fund*” means the fund by that name established and held in trust by the Trustee under the Series 2017 Indenture.

“*Series 2017 Rebate Fund*” means the fund by that name established and held by the Trustee under the Series 2017 Indenture.

“*Series 2017 Revenue Fund*” means the fund by that name established and held by the Trustee under the Series 2017 Indenture.

“*Solana Beach*” means the City of Solana Beach, a general law city under State law, as successor to the Solana Beach Sanitation District.

“*State*” means the State of California.

“*Subordinate Debt*” means (a) Additional Bonds issued and so designated and secured by and payable from Revenues on a basis that is subordinate and junior to the pledge of Revenues for the Series 2017 Bonds; and (b) any loan or other form of indebtedness (including without limitation notes, other debt instruments or financing leases) that are secured by and payable from Revenues on a basis that is subordinate and junior to the pledge of Revenues for the Series 2017 Bonds.

“*Supplemental Indenture*” means any indenture specifically authorized under the Series 2017 Indenture.

“*Tax Certificate*” means the Tax Certificate Pertaining to Arbitrage and Other Matters under sections 103 and 141 through 150, inclusive, of the Internal Revenue Code of 1986 executed and delivered by the Authority with respect to the Series 2017 Bonds.

“*Term Series 2017 Bonds*” means the Series 2017 Bonds maturing March 1, 2039, and March 1, 2047.

“*Treasury Regulations*” has the meaning ascribed to such term in the Tax Certificate.

“*Trust Office*” means the corporate trust office of the Trustee at 445 South Figueroa Street, Suite 401, Los Angeles, California 90071 (Attention: Corporate Trust Services), fax: 213.972.5694, email: AccountAdministration-CorporateTrust@unionbank.com and CashControlGroup-LosAngeles@unionbank.com, or such other address or addresses as the Trustee may designate in writing to the Authority from time to time.

“*Trustee*” means MUFG Union Bank, N.A., a national banking association organized and existing under the laws of the United States of America, and its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as Trustee under the Series 2017 Indenture.

“*Underwriter*” means Hilltop Securities, Inc., as initial purchaser of the Series 2017 Bonds.

“*Wastewater Enterprise Facilities*” means any and all facilities of any kind or purpose of or used by the Authority (excluding the Authority’s Water Reclamation Facilities) used for the treatment and disposal of wastewater, including without limitation sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery, safety and systems for the protection, monitoring, command, control and operation thereof, and all other appurtenances necessary, useful or convenient for the foregoing, and any necessary lands, rights of way and other real or personal property useful in connection therewith.

“*Water Reclamation Facilities*” means the Authority’s recycled water production and distribution facilities to the extent such facilities are used or useful in the Authority’s tertiary treatment, sale and delivery of recycled water.

PART TWO: THE SERIES 2017 INDENTURE

Certificates and Opinions

Every certificate or opinion with respect to compliance with any provision of the Series 2017 Indenture must include all of the following: (a) a statement that the Person making or giving such certificate or opinion has read the

provision the related definitions; (b) a brief statement about the nature and scope of the examination or investigation upon which the certificate or opinion is based; (c) a statement that, in the opinion of such Person, such Person has made or caused to be made such examination or investigation as is necessary to enable such Person to express an informed opinion with respect to the subject matter; (d) a statement of the assumptions upon which such Certificate or opinion is based, and that such assumptions in the opinion of such Person are reasonable; and (e) a statement as to whether or not, in the opinion of such Person, such provision has been satisfied.

Equal Security

The Series 2017 Indenture is a contract between the Authority and the Owners from time to time of all Series 2017 Bonds and Additional Bonds authorized, executed, issued and delivered thereunder or under any Supplemental Indenture, as applicable, and then Outstanding to secure the full and final payment of the principal or Redemption Price of and interest on all Series 2017 Bonds and Additional Bonds, as applicable, which may from time to time be authorized, executed, issued and delivered thereunder or under any Supplemental Indenture, as applicable, subject to the agreements, conditions, covenants and provisions contained therein; and all agreements and covenants set forth therein to be performed by or on behalf of the Authority shall be for the equal and proportionate benefit, protection and security of all Owners of the Series 2017 Bonds and Additional Bonds without distinction, preference or priority as to security or otherwise of any Series 2017 Bonds or Additional Bonds over any other Series 2017 Bonds or Additional Bonds by reason of the number or date thereof or the time of authorization, sale, execution, issuance or delivery thereof, except as expressly provided therein.

The Series 2017 Bonds

The Authority is duly authorized by law to issue the Series 2017 Bonds and to enter into the Series 2017 Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Series 2017 Indenture in the manner and to the extent provided in the Series 2017 Indenture. The Authority has duly authorized the execution, sale and delivery of the Series 2017 Bonds and the Series 2017 Indenture under the terms and provisions of the Act and a resolution adopted by its Board and further represents, covenants and warrants that all requirements have been met and procedures have occurred in order to ensure the enforceability against the Authority of the Series 2017 Bonds and the Series 2017 Indenture. The Authority has taken all necessary action and has complied with all provisions of the Act required to make the Series 2017 Bonds and the Series 2017 Indenture the valid, legal and binding special obligations of the Authority.

Limited Obligations. None of the Authority, the Cities or any Person executing the Series 2017 Bonds is liable personally on the Series 2017 Bonds or subject to any personal liability or accountability by reason of their issuance. The Series 2017 Bonds are special obligations of the Authority, payable solely from and secured by the pledge of Revenues under the Series 2017 Indenture. Neither the Authority, the Cities, the State, nor any political subdivision of the State shall be directly, indirectly, contingently, morally or otherwise obligated to use any other moneys or assets to pay all or any portion of the Debt Service due on the Series 2017 Bonds, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Series 2017 Bonds are not a pledge of the faith and credit of the Authority, either of the Cities, the State or any political subdivision of the State, nor do they constitute indebtedness within the meaning of any constitutional or statutory debt limitation. The Authority has no taxing power. The Authority shall not be liable for payment of the principal of, Redemption Price or interest on the Series 2017 Bonds or any other costs, expenses, losses, damages, claims or actions under or by reason of or in connection with the Series 2017 Indenture, the Series 2017 Bonds or any other documents, except only to the extent Revenues are received for the payment thereof under the Series 2017 Loan Agreements.

Additional Bonds; Refunding Bonds. The Authority may (but is not required to) issue Additional Bonds from time to time for any purpose permitted by the Act, if the Additional Bonds are secured and payable on a parity with or subordinate to the Series 2017 Bonds and any Additional Bonds theretofore or thereafter issued and Outstanding as to the assignment to the Trustee of the Authority's right, title and interest in the Revenues and Series 2017 Loan Agreements and any undisbursed Series 2017 Bond proceeds on deposit in the Series 2017 Project Fund and any account therein to provide for payment of Debt Service on the Series 2017 Bonds; provided, that nothing in the Series 2017 Indenture will prevent payment of Debt Service on any series of Additional Bonds from (a) being otherwise secured and payable from sources or by property or instruments not applicable to the Series 2017 Bonds or any one or more series of Additional Bonds, or (b) not being secured or payable from sources or by property or instruments applicable to the Series 2017 Bonds or one or more series of Additional Bonds. Likewise, the Authority

may (but is not required to) issue Refunding Bonds if the refunded bonds are defeased and discharged as described below under “Discharge and Defeasance” in this Part II.

Bond Procedures. The Series 2017 Bonds are subject to the Series 2017 Indenture’s procedures regarding payment, form, execution, authentication, exchange, transfer, replacement, disposition, registration and the Book-Entry System (the latter described in “**APPENDIX F – BOOK-ENTRY ONLY.**”

Payment of all Series 2017 Bonds will be made only in United States Dollars. Interest will be paid on each Interest Payment Date to the Owner in whose name the applicable Series 2017 Bond is registered as of the Record Date for such Interest Payment Date, except as described below. Interest not punctually paid or provided will not be payable to the Owner on such Record Date and must be paid to the Owner in whose name the Series 2017 Bond is registered at the close of business on a Special Record Date for the payment of defaulted interest set by the Trustee, with notice of the Special Record Date being mailed at least 15 days before the Special Record Date. Interest payments may be made by check mailed on the due date to the Owners of Series 2017 Bonds at the close of business on the applicable Record Date at the registered addresses of Owners appearing on the Registration Books, but before the Record Date, any Owner of more than \$1,000,000 principal of Series 2017 Bonds, may give the Trustee written wire transfer instructions to a bank account within in the United States of America in order to receive interest by wire transfer. While the Series 2017 Bonds are under the Book-Entry System, the Trustee will wire all payments of principal, Redemption Price, if any, and interest on the Series 2017 Bonds to DTC without any presentation or surrender of Series 2017 Bonds. However, without notice to or consent of any Owner, the Trustee, the Authority and DTC may arrange for the Trustee make any payment by other means.

Interest Accrual will be calculated for 360-day years, each comprising twelve 30-day months, beginning to accrue on the dated date of the Series 2017 Bonds.

The *form and handling* of Series 2017 Bonds (generally referred to as “bonds”) will follow these requirements: (a) only fully registered bonds without coupons will be delivered; (b) each Series 2017 Bond will be lettered and numbered “R-n” (with n as a series of consecutive numbers), beginning with “R 1”; (c) each bond will be dated the date of delivery shown on the front cover page of the final Official Statement; (d) each bond will bear a manual or facsimile signature of any authorized signatory of the Authority; (e) the Trustee will then authenticate each bond manually, and any unauthenticated bond will neither be valid nor binding; (f) each authenticated bond may be exchanged or transferred at the registered Owner’s expense, but the Trustee may suspend such activity (i) from any Record Date until the next Interest Payment Date, (ii) for any bond called for redemption or (iii) during the 15-day period before the Trustee gives a redemption notice affecting the bond. The Authority and the Trustee may recover any tax, fee or governmental charge and any other cost incurred with any exchange or transfer from the Owner. Mutilated paper bonds will be replaced at the Owner’s expense if they are delivered to the Trustee, but any bonds that are destroyed, stolen or lost will not be replaced unless the Owner provides the Trustee with sufficient evidence, indemnity and payment of related expenses. Temporary bonds, if delivered, may be replaced with definitive bonds at no cost to the Owner.

The *validity* of the Series 2017 Bonds does not depend and will not be affected by any proceedings taken by the Authority or the Trustee with respect to the Series 2017 Indenture. The Series 2017 Bonds recite that any and all acts, conditions and things required to exist, to have happened and to have been performed precedent to and in their issuance exist, have happened and have been performed in due time, form and manner as required by the Constitution and laws of the State, and that the amount of the Series 2017 Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Constitution and laws of the State and is not in excess of the amount of Series 2017 Bonds permitted to be issued under the Series 2017 Indenture.

Optional Redemption. The redemption of Series 2017 Bonds before their maturity will conform to the description presented in this Official Statement under “**THE SERIES 2017 BONDS –Redemption.**” For optional redemption, the Authority must give written notice to the Trustee at least 45 days before redemption, stating the redemption date, series and principal amounts of each maturity of Series 2017 Bonds to be redeemed. If the Authority does not specify the series, maturities and principal amounts, then the Trustee will select the series, maturities and principal amounts in inverse order of maturity, by lot. The Trustee must give notice of any redemption of Series 2017 Bonds at least 30 days but not more than 60 days before the redemption date, stating any

conditions to redemption and the Authority's right to rescind the redemption notice before the redemption date. Redemption will be canceled if the Trustee does not hold or will not hold on the redemption date funds sufficient to pay the principal or Redemption Price and accrued interest to the redemption date. Neither the Authority nor the Trustee will have any liability to Owners of Series 2017 Bonds related to or arising from any rescission of redemption. The Trustee will give notices of redemption and any rescission of redemption will be given by Electronic Means and to EMMA or by first class mail, postage prepaid, to Owners of affected Series 2017 Bonds at their last known addresses on the Trustee's Registration Books. Nevertheless, any failure of an Owner to receive notice or a defect in the notice will not affect the validity of the redemption. All redemption notices will be valid even if CUSIP numbers are in error, because the numbers are assigned by an independent service only for reference; therefore, the Authority and the Trustee are not responsible for CUSIP number errors. Series 2017 Bonds redeemed in part will be exchanged for the unredeemed part at no cost to the Owner.

Funds and Accounts

Revenue Fund. The Series 2017 Indenture provides for funds and accounts that the Trustee will establish and administer. Chief among them is the Series 2017 Revenue Fund, which will hold Revenues and other moneys the Trustee receives to secure and pay the Series 2017 Bonds. All Revenues and other moneys in the Series 2017 Revenue Fund are pledged to pay the Series 2017 Bonds, but they will not include moneys for the Series 2017 Rebate Fund. Subject to the foregoing exclusion, all funds in or derived from the Series 2017 Revenue Fund and any and all other property, rights and interests from time to time granted, conveyed, pledged, transferred, assigned or delivered as additional security under the Series 2017 Indenture, are pledged and constitute a first lien on and security interest in such funds and other assets.

Accordingly, the Series 2017 Indenture provides that the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners of the Series 2017 Bonds, all of the Revenues and other assets included in the pledge described in the preceding paragraph and all of the right, title and interest of the Authority in each Series 2017 Loan Agreement. The Trustee is entitled to collect and receive all Revenues, and any Revenues collected or received by the Authority will be held and considered as collected or received by the Authority as the Trustee's agent and paid by the Authority to the Trustee. The Trustee will also act as reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of each City under the Series 2017 Loan Agreements.

The Trustee will also deposit in the Series 2017 Revenue Fund all Loan Installments it receives under the Series 2017 Loan Agreements and, except as described in Flow of Funds below, all funds received under the Series 2017 Loan Agreements will be deposited promptly by the Trustee in the Series 2017 Revenue Fund and held in trust, disbursed, allocated and applied by the Trustee only as provided in the Series 2017 Indenture.

If the Trustee has not received the amounts required to make the transfers and deposits required under the Series 2017 Indenture on or before the fourth Business Day before the next Interest Payment Date, and unless any deficiency has been cured prior to such notification, the Trustee shall notify the Authority and each City by Electronic Means of such deficiency at least one Business Day before the next Interest Payment Date.

In all events, the Authority has no obligation, and instead the Trustee may take steps, actions and proceedings to enforce Authority rights under the Series 2017 Indenture or the Series 2017 Loan Agreements, including, without limitation, the enforcement of remedies for an Event of Default and each City's obligations under the Series 2017 Loan Agreements.

Flow of Funds. On or before each Interest Payment Date the Trustee will transfer from the Series 2017 Revenue Fund and deposit into funds, accounts and subaccounts (each of which the Trustee shall establish and maintain within the Series 2017 Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account, subaccount or fund (including the making up of any deficiencies in any such account, subaccount or fund resulting from lack of Revenues or other payments sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account, subaccount or fund subsequent in priority:

FIRST: on or before each Interest Payment Date, the Trustee will deposit in the Series 2017 Interest Account an amount required to cause the aggregate amount on deposit in the Series 2017 Interest Account to equal the amount of interest coming due and payable on such Interest Payment Date on all Outstanding

Series 2017 Bonds. No deposit need be made into the Series 2017 Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Series 2017 Bonds on the next succeeding Interest Payment Date. All amounts on deposit in the Series 2017 Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series 2017 Bonds as it becomes due and payable (including accrued interest on any Series 2017 Bonds redeemed prior to maturity). All amounts on deposit in the Series 2017 Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having come due and payable on the Outstanding Series 2017 Bonds, will be retained in or withdrawn from the Series 2017 Interest Account by the Trustee and: (a) in the absence of any written request as described in clause (b) of this paragraph: (i) such amounts will be retained in the Series 2017 Interest Account and credited toward the payment of interest on the Series 2017 Bonds on the next Interest Payment Date, or (ii) to the extent such amounts exceed the amount of interest payable on the Series 2017 Bonds on the next succeeding Interest Payment Date, such amounts will be transferred to the Series 2017 Principal Account and credited toward the payment of principal of the Series 2017 Bonds coming due the next March 1; and (b) at the written request of the Authority, transferred to the Authority, or to each of the Cities if so stated in the request. Any transfer to the Cities as described in clause (b) shall be in proportion to the Revenues (determined with reference solely to Revenues described in clause (a) of the definition of Revenues) received from each City; in each case to be used for any lawful purposes of the Authority or the Cities, as applicable;

SECOND: on or before each Interest Payment Date (or redemption date if not an Interest Payment Date) on which the principal of the Series 2017 Bonds is payable, the Trustee will deposit in the Series 2017 Principal Account an amount required to cause the aggregate amount on deposit in the Series 2017 Principal Account to equal the amount of principal coming due and payable on such Interest Payment Date or redemption date on all Outstanding Series 2017 Bonds, or the Redemption Price of the Series 2017 Bonds required to be redeemed on such Interest Payment Date or redemption date. All moneys in the Series 2017 Principal Account shall be used and withdrawn by the Trustee solely for the purposes of paying (a) the principal of the Series 2017 Bonds at the maturity thereof or (b) paying the Redemption Price on any Outstanding Series 2017 Bonds upon redemption. All amounts on deposit in the Series 2017 Principal Account on the first day of any Bond Year, to the extent not required to pay any principal of the Outstanding Series 2017 Bonds then having come due and payable, will be retained in or withdrawn from the Series 2017 Principal Account by the Trustee and: (i) in the absence of any written request as described in clause (ii) of this paragraph, such amounts shall be retained in the Series 2017 Principal Account and credited toward the payment of principal of the Series 2017 Bonds on the next succeeding March 1 (or redemption date, if earlier); and (ii) at the written request of the Authority, transferred to the Authority, or to each of the Cities if so stated in the request. Any transfer to the Cities as described in clause (ii) shall be in proportion to the Revenues (determined with reference solely to Revenues described in clause (a) of the definition of Revenues) received from each City; in each case to be used for any lawful purposes of the Authority or the Cities, as applicable; and

THIRD: to the Series 2017 Rebate Fund all amounts required by the Tax Certificate to be deposited therein.

Series 2017 Rebate Fund. Compliance by the Authority and each City with each rebate requirement under the Tax Certificate and the Series 2017 Loan Agreements will be funded and administered by the Trustee, solely under the instructions of the Authority, through the Series 2017 Rebate Fund. The Trustee has no liability or duty to enforce compliance by the Authority or either City with the Tax Certificate or any tax covenants, nor is the Trustee responsible for calculating rebate amounts or the sufficiency of any rebate report or calculation. The Trustee has no independent duty to review rebate calculations or the applicability of the Code; its sole obligation is to act under the Authority's instructions. Compliance with each Series 2017 Rebate Requirement will survive defeasance or full payment of the Series 2017 Bonds.

Series 2017 Project Fund. Except as described below, all moneys in the Series 2017 Project Fund will be. The Trustee will disburse funds to pay Series 2017 Project Costs only by requisition of the Authority. Upon completion of the Project (when the Authority delivers Certificate of Completion to the Trustee), the Trustee will transfer any remaining funds to the Series 2017 Interest Account.

Costs of Issuance Fund. The Trustee will pay certain Costs of Issuance from the Costs of Issuance Fund pursuant to Authority requisitions. At the Authority's request or 180 days after delivery of the Series 2017 Bonds, the Trustee will transfer any remaining balance in the Fund to the Series 2017 Project Fund.

Investment of Funds and Accounts

In general, moneys in any Indenture fund or account will be invested by the Trustee in Permitted Investments as directed by the Authority. The Trustee is not required to verify that any investment is an "Permitted Investment" as described above in "**PART ONE: CERTAIN DEFINITIONS.**" Unless the Authority directs otherwise, the Trustee will invest solely in money market mutual funds invested solely in Government Obligations or categories (b), (c) or (d) as described above. Eligible money market mutual funds will include any funds for which the Trustee or any of its affiliates serves as an investment provider or otherwise. All Permitted Investments are subject to limitations set forth in the Series 2017 Indenture, limitations as to maturities and other limitations or requirements consistent with the foregoing that the Authority may direct. The Trustee may trade with itself or with any of its affiliates in the purchase and sale of Permitted Investments.

Moneys in all Indenture funds and accounts (other than the Reserve Account) will be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Series 2017 Indenture. Moneys in the Reserve Account will be invested in Permitted Investments with a maturity of or ability to withdraw in full not more than five years after the date of investment. Permitted Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Permitted Investments for repurchase under such agreement. Permitted Investments that are registrable securities will be registered in the name of the Trustee or its nominee.

All interest, profits and other income received from the investment of moneys in the Series 2017 Rebate Fund will be deposited when received in said Fund. All interest, profits and other income received from the investment of moneys in any other Indenture fund or account will be deposited when received: (a) before the Trustee receives the Authority's Certificate of Completion of the Project, in the Series 2017 Project Fund; and (b) thereafter, in the Series 2017 Revenue Fund. Interest received that was accrued and paid in the purchase price of an Investment Security will be credited to corresponding Indenture fund or account.

Permitted Investments acquired as an investment of moneys in any Indenture fund or account will be credited to that fund or account. The balance held in any Indenture fund or account (other than the Reserve Account) will be calculated according to the value of the Permitted Investments credited to such fund or account, as the lower of cost (excluding accrued interest after the first payment of interest following acquisition) or market value (plus, prior to the first payment of interest following acquisition, the amount of interest paid as part of the purchase price).

The Authority acknowledges that regulations of the Comptroller of the Currency grant the Authority the right to receive broker confirmations of security transactions as they occur. The Authority waives such notification to the extent permitted by law and acknowledge that the Authority will receive periodic cash transaction statements detailing all investment transactions. Unless contrary to any investment instructions, account statements constitute written confirmation by the Authority that the investment transactions confirmed in the statements conform to their instructions, absent their notice to the Trustee to the contrary within 30 days after the statement date.

Covenants of the Authority

Punctuality. The Authority shall punctually pay or cause to be paid the principal of, Redemption Price, and interest to become due in respect of all the Series 2017 Bonds, in strict conformity with the terms of the Series 2017 Bonds and the Series 2017 Indenture, but only out of Revenues and other assets pledged for such payment as provided in the Series 2017 Indenture.

No Extensions. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Series 2017 Bonds or the time of payment of any claims for interest by the purchase or funding of such Series 2017 Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Series 2017 Bonds or the time of payment of any such claims for interest shall be extended, such Series 2017 Bonds or claims for interest shall not be entitled, in case of any default under the Series 2017 Indenture, to the benefits of the Series 2017 Indenture, except subject to the prior payment in full of the principal of all of the Series 2017 Bonds then Outstanding and of all claims for interest thereon which are not extended. Nonetheless, the issuance of Refunding Bonds by the Authority is not an extension of maturity of Series 2017 Bonds.

Against Encumbrances. Except as expressly permitted under the Series 2017 Indenture, or in connection with the issuance of any Subordinate Debt, the Authority shall not create any pledge, lien, charge or other encumbrance on the Revenues and other assets pledged or assigned under the Series 2017 Indenture while any of the Series 2017 Bonds are Outstanding, except the pledge and assignment created by the Series 2017 Indenture, and the Authority will assist the Trustee in contesting any such pledge, lien, charge or other encumbrance.

Maintenance and Operation of Wastewater Enterprise Facilities. The Authority covenants to maintain and operate the Wastewater Enterprise Facilities in an efficient and economical manner, and to operate, maintain, preserve and secure the Wastewater Enterprise Facilities in good repair and working order.

No Sale or Eminent Domain as to Wastewater Enterprise Facilities. The Authority will not sell, lease or otherwise dispose of the Wastewater Enterprise Facilities or any part thereof essential to the proper operation of the Wastewater Enterprise Facilities or the maintenance of Revenues, except as expressly permitted in the Series 2017 Indenture. The Authority will not enter into any lease or agreement which impairs the operation of the Wastewater Enterprise Facilities or any part thereof necessary to realize adequate Revenues for the payment of Debt Service on the Series 2017 Bonds or which would otherwise impair the rights of Owners of Series 2017 Bonds with respect to Revenues or the operation of the Wastewater Enterprise Facilities. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Wastewater Enterprise Facilities, or any material or equipment which has worn out or otherwise is no longer useful for such purposes, may be sold if such sale in and of itself will not reduce Revenues. Any amounts received as awards as a result of the taking of all or any part of the Wastewater Enterprise Facilities by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the Authority, shall either (a) be used for the acquisition or construction of improvements or extensions of the Wastewater Enterprise Facilities or (b) be deposited in the Series 2017 Revenue Fund.

Insurance. The Authority covenants to maintain insurance on the Wastewater Enterprise Facilities as customarily maintained similar facilities against accident, loss or damage. The Authority may maintain insurance provided by the California Sanitation Risk Management Authority (“CSRMA”) a joint powers authority organized under the Act and provisions of the California Government Code about insurance and self-insurance coverage for local public entities like the Authority. If any useful part of the Water Enterprise Facilities is damaged or destroyed, it must be restored to use. The Net Proceeds of insurance must be used for repair, reconstruction, restoration or replacement of the damaged or destroyed portions of the Water Enterprise Facilities. Insurance must be provided by insurers in good standing in the State, and CSRMA is permitted to pool the self-insurance claims of two or more local public entities. On that basis, claims or losses payable to the Authority or may be in the form of self-insurance maintained by or on behalf of the Authority (as is the case with CSRMA).

The Series 2017 Loan Agreements. The Trustee, as assignee of the Authority’s rights under the Series 2017 Loan Agreements, shall promptly collect all amounts due from the Cities under the Series 2017 Loan Agreements, exercise all assigned rights and enforce those rights as well as all obligations of the Cities. Excepting amendments or restatements for the issuance of Additional Bonds, the Series 2017 Loan Agreements may not be amended or terminated, and none of the Authority, the Trustee or the Cities may consent to any such amendment without the written consent of the Owners of a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding; however, an amendment, modification or termination may be made without the consent of any of the Owners of the Series 2017 Bonds if is for any of the following purposes:

- to add to the covenants and agreements of, or to limit or surrender any rights or power reserved to or conferred upon, either or both of the Cities in the applicable Series 2017 Loan Agreements; or
- to cure any ambiguity or defective provision, or for other purposes either or both of the Cities may deem necessary or desirable, no such provision will become effective if it materially and adversely affects the interests of the Owners of the Series 2017 Bonds; or
- to amend any provision relating to the Code, but only if and to the extent the amendment will not adversely affect the exclusion from gross income of interest on any Series 2017 Bonds under the Code, as confirmed with a Favorable Opinion of Bond Counsel.

Additional Obligations Payable from Revenues. Unless permitted under the Series 2017 Indenture, the Authority shall not issue or incur additional bonds, notes or other indebtedness payable, in whole or in part, from the Revenues.

Waivers of Laws. The Authority may not claim or take advantage of any stay or extension of law affecting its covenants and agreements in the Series 2017 Indenture or in the Series 2017 Bonds, and to the extent permitted by law, the Authority waives benefit or advantage of any such law.

Further Assurances. At the request of the Trustee or any Owner of any Series 2017 Bond, the Authority will make, execute and deliver further indentures, instruments and assurances and promptly do or cause to be done anything reasonably necessary or proper to carry out the intent or to facilitate its performance of the Series 2017 Indenture as assurance and confirmation of the rights and benefits of Owners of the Series 2017 Bonds under the Series 2017 Indenture and more fully vest in the Trustee and the Owners of the Series 2017 Bonds all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred on them in the Series 2017 Indenture and the Series 2017 Loan Agreements.

Events of Default

Any of these events is an “Event of Default”: (a) default in the due and punctual payment of the principal or Redemption Price of any Series 2017 Bond when and as due and payable, whether at maturity, by redemption, by declaration or otherwise; (b) default in the due and punctual payment of interest on any Series 2017 Bond when and as due and payable; (c) default by the Authority regarding its covenants, agreements or conditions in the Series 2017 Indenture or the Series 2017 Bonds if the default continues for 60 days after the Trustee provides notice of the default to the Authority and requires the Authority to remedy it (or the Owners of 25% or more aggregate principal amount of Series 2017 Bonds then Outstanding provide such notice to the Authority); or (d) a Loan Default Event described below under “**PART THREE: THE SERIES 2017 LOAN AGREEMENTS – Events of Default.**”

Acceleration of Maturities

If an Event of Default occurs and persists, and the Trustee gives written notice to the Authority, the Trustee may (but is not required to) declare the principal of and interest on the Series 2017 Bonds immediately due and payable, without regard to any scheduled maturity or Interest Payment Date. If the Trustee accelerates the maturities of the Series 2017 Bonds in that manner, the Authority must pay immediately all principal of and accrued interest on the Series 2017 Bonds. Nonetheless, the Trustee will rescind and annul its declaration and its consequences and waive any default if, before any judgment or decree is obtained or entered for the payment of all money due, the Authority deposits with the Trustee enough money to pay all overdue principal or Redemption Price of and interest on the Series 2017 Bonds, with interest on the overdue principal at the rates borne by the respective Series 2017 Bonds; along with the reasonable fees, charges and expenses of the Trustee (including the Trustee’s attorneys’ fees and disbursements), and the Authority cures all other defaults known to the Trustee (other than payment of accelerated principal and interest) to the Trustee’s satisfaction, or the Authority makes arrangements to cure that the Trustee deems adequate; but no rescission and annulment will extend to or affect any subsequent default or impair, nor will any rescission or annulment exhaust any right or power related to any subsequent default.

The Authority has no obligation, and instead the Trustee, without further direction from the Authority, may take steps, actions and proceedings to enforce any and all rights of the Authority under the Series 2017 Indenture or the Series 2017 Loan Agreements, including, without limitation, all rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Cities under the Series 2017 Loan Agreements.

Application of Revenues and Other Funds After Default

If an Event of Default occurs and persists, the Trustee will apply all Revenues and other funds then held or later received by the Trustee (subject to the provisions of the Series 2017 Indenture and excluding money required to be deposited in the Series 2017 Rebate Fund) as follows and in the following order:

- (a) to pay any expenses that Trustee considers necessary to protect the interests of the Owners of the Series 2017 Bonds and to pay the reasonable fees and expenses of the Trustee (including the Trustee’s attorneys’ fees and disbursements) incurred in the course of performing the Trustee’s its powers and duties under the Series 2017 Indenture; and next

(b) to pay the principal or Redemption Price of and interest then due on the Series 2017 Bonds (upon presentation of the Series 2017 Bonds to be paid, whether for stamping any partial payment on any Series 2017 Bond not fully paid, for as surrender of any fully paid Series 2017 Bond, subject to the following:

(i) unless the principal of all Series 2017 Bonds has become or been declared due and payable:

FIRST, to pay all installments of interest then due in the order of the maturity of such installments, and if available funds are insufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to all Persons entitled to such payment, without any discrimination or preference; and

SECOND, to pay the unpaid principal (including mandatory sinking fund payments) or Redemption Price of any Series 2017 Bonds then due, whether at maturity or by redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Series 2017 Bonds, and if available funds are insufficient to pay in full all Series 2017 Bonds due on any date, together with interest, then to the payment of Series 2017 ratably, according to the amounts of principal or Redemption Price then due, to all Persons entitled to such payment, without any discrimination or preference; and

(ii) if the principal of all Series 2017 Bonds has become or been declared due and payable, to pay the principal and interest then due and unpaid on the Series 2017 Bonds, with interest on the overdue principal at the rate borne by the respective Series 2017 Bonds, and if available funds are insufficient to pay in full all amounts then due and unpaid, then to the payment of Series 2017 ratably, according to the amounts of principal or Redemption Price then due, to all Persons entitled to such payment, without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, or of any Series 2017 Bond over any other Series 2017 Bond, according to the amounts due respectively for principal and interest, to the Persons entitled to such payments, without any discrimination or preference.

Limitation on Series 2017 Bond Owners' Right To Sue

As attorney-in-fact of the Owners of the Series 2017 Bonds for the purpose of exercising and prosecuting on their behalf any rights and remedies available to such Owners under the Series 2017 Bonds, the Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of law, when an Event of Default occurs and persists, or on any other occasion giving the Trustee the right to represent the Owners of the Series 2017 Bonds, the Trustee in its discretion may, and upon the written request of the Owners of not less than 25% in aggregate principal amount of the Series 2017 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus, or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement in the Series 2017 Indenture, or for the execution of any power granted under the Series 2017 Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the provisions of the Series 2017 Bonds, the Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of any law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Series 2017 Indenture, pending such proceedings. All rights of action under the Series 2017 Indenture or the Series 2017 Bonds or otherwise may be prosecuted and enforced by the Trustee without possession of any Series 2017 Bonds or the production of Series 2017 Bonds in any related proceeding, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all Owners of Series 2017 Bonds, subject to all provisions of the Series 2017 Indenture (including without limitation provisions of the Series 2017 Indenture pertaining to the Trustee).

In any case, the Owners of a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Series 2017 Indenture; provided that: (a) such direction shall not be otherwise than in accordance with law and the provisions of the Series 2017 Indenture; (b) the Trustee shall have the right to decline to follow any such direction if the Trustee considers such to be unjustly prejudicial to any Owners of Series 2017 Bonds not parties to such direction, it being understood that (subject to provisions of the Series 2017

Indenture pertaining to the Trustee) the Trustee shall have no duty to ascertain whether or not such action or forbearance may be unduly prejudicial to Owners of Series 2017 Bonds; and (c) such direction shall not involve the Trustee in personal liability.

No Owner of any Series 2017 Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of any law with respect to such Series 2017 Bond, unless all of the following events and conditions have occurred or been satisfied: (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than 25% in aggregate principal amount of the Series 2017 Bonds then Outstanding shall have made written request to the Trustee to exercise the powers granted to it or to institute such suit, action or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for 60 days after the request and indemnity are made to the Trustee. Such notification, request, tender of indemnity, and refusal or omission will always be conditions precedent to the exercise by any Owner of Series 2017 Bonds of any remedy under the Series 2017 Indenture or under law; it being understood and intended that no one or more Owners of Series 2017 Bonds shall have any right in any manner or by any action to affect, disturb or prejudice the security of the Series 2017 Indenture or the rights of any other Owners of Series 2017 Bonds, or to enforce any right under the Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of any law with respect to the Series 2017 Bonds, except as provided in the Series 2017 Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained as provided in the Series 2017 Indenture and for the benefit and protection of all Owners of the Outstanding Series 2017 Bonds, subject to the provisions of the Series 2017 Indenture (including without limitation provisions of the Series 2017 Indenture pertaining to the Trustee).

Absolute Obligation of the Authority

The Series 2017 Indenture provides that nothing in it or the Series 2017 Bonds will affect or impair the Authority's absolute and unconditional obligation to pay the principal or Redemption Price of and interest on the Series 2017 Bonds to the respective Owners of the Series 2017 Bonds at their respective dates of maturity, or upon redemption, but only out of the Revenues and other assets pledged under the Series 2017 Indenture, and not otherwise, or affect or impair the absolute and unconditional right of Series 2017 Bond Owners to enforce such payment by virtue of the contract embodied in the Series 2017 Bonds.

Termination of Proceedings

Any proceedings taken by the Trustee or any Owner of Series 2017 Bonds regarding any Event of Default that is discontinued or abandoned or determined adversely to the Trustee or Owners of Series 2017 Bonds, then, subject to any determination in such proceedings, the Authority, the Trustee and the Owners of Series 2017 Bonds will be restored to their former positions and rights, and all rights, remedies, powers and duties of the Authority, the Trustee and the Owners of Series 2017 Bonds will continue as though no proceedings had been taken.

Remedies Not Exclusive

No remedy conferred on or reserved to the Trustee or Owners of the Series 2017 Bonds by the Series 2017 Indenture is intended to exclude any other remedy, and each remedy, to the extent permitted by law, is cumulative and in addition to any other remedy under the Series 2017 Indenture, or now or later existing at law or in equity, or otherwise.

No Waiver of Default

No delay or omission of the Trustee or any Owner of the Series 2017 Bonds to exercise any right or power arising upon the occurrence of any default will impair any right or waive or acquiesce in any such default; and every power and remedy given by the Series 2017 Indenture to the Trustee or the Owners of the Series 2017 Bonds may be exercised from time to time, as often as No delay or omission of the Trustee or of any Owner of the Series 2017 Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Series 2017 Indenture to the Trustee or to the Owners of the Series 2017 Bonds may be exercised from time to time and as often as may be deemed expedient.

Duties, Immunities and Liabilities of Trustee

Appointment; Standard of Care. The Authority has appointed MUFG Union Bank, N.A., a national banking association, as the initial Trustee. Prior to any Event of Default, and after the cure of all Events of Default which have occurred, the Trustee will perform only its duties specifically set forth in the Series 2017 Indenture, and, except to the extent required by law, no implied covenants or obligations will be read into the Series 2017 Indenture against the Trustee. While any Event of Default remains uncured, The Trustee shall exercise rights and powers vested in it by the Series 2017 Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

Removal of Trustee. Unless an Event of Default has happened and not been cured, the Authority may remove the Trustee, and the Authority must remove the Trustee at the written request of the Owners of at least a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding (or their attorneys duly authorized in writing) or if the Trustee ceases to be eligible to act as Trustee under the Series 2017 Indenture or becomes incapable of acting, or is adjudged bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or its property or affairs for rehabilitation, conservation or liquidation, in each case by written notice to the Trustee, and then the Authority will appoint a successor Trustee.

Resignation of Trustee. At any time, the Trustee may resign by its written notice of resignation to the Authority and by giving the Series 2017 Bond Owners notice of its resignation by mail at the addresses shown on the Registration Books. Upon its receipt of the Trustee's resignation notice, the Authority will promptly appoint a successor Trustee.

Appointment of Successor Trustees. The Trustee will not be relieved of its duties under the Series 2017 Indenture until its successor Trustee has accepted its appointment and assumed the duties of Trustee under the Series 2017 Indenture. Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee will have been appointed and have accepted appointment within 30 days after giving notice of removal or notice of resignation, the resigning Trustee or any Series 2017 Bond Owner (on behalf of all Series 2017 Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after any notice it may deem proper, appoint a successor Trustee. Any successor Trustee will accept its appointment by executing and delivering to the Authority and the predecessor Trustee its written acceptance, and the successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of the predecessor Trustee, with the same effect as if the successor Trustee had been named the predecessor Trustee in the Series 2017 Indenture. However, at the successor Trustee's request, the predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do any other things as the successor Trustee may reasonably require for more fully and certainly vesting in and confirming to the successor Trustee all the right, title and interest of the predecessor Trustee in and to any property the predecessor held under the Series 2017 Indenture, and the predecessor Trustee will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Series 2017 Indenture. At the successor Trustee's request, the Authority will execute and deliver any and all instruments the successor Trustee may reasonably require for more fully and certainly vesting in and confirming to the successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as described in this paragraph, the Authority will cause the successor Trustee to mail a notice of the succession of such Trustee under the Series 2017 Indenture to the Series 2017 Bond Owners at the addresses shown on the Registration Books.

Eligibility as Successor Trustee. Any successor Trustee must be a trust company or bank with the powers of a trust company having (or, in the case of a trust company or bank included in a bank holding company system, with a bank holding company having) a combined capital and surplus of at least \$100,000,000 and subject to supervision or examination by federal or state authority. If such trust company or bank publishes a report of condition at least annually, pursuant to law or requirements of any supervising or examining authority, then the combined capital and surplus of such trust company or bank will be deemed to be its combined capital and surplus as set forth in its most recently published report of condition. If any Trustee ceases to be eligible as described in this paragraph, the Trustee must resign immediately.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a

party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company is eligible as described in the preceding paragraph, will be the successor to such Trustee.

Liability of Trustee. The Trustee assumes no responsibility for statements by the Authority in the Series 2017 Indenture or the Series 2017 Bonds and makes no representations as to the legality, validity or sufficiency of the Series 2017 Indenture, the Series 2017 Loan Agreements or any other document related thereto, or of the Series 2017 Bonds, and has no responsibility other than its duties or obligations under the Series 2017 Indenture or the Series 2017 Bonds. The Trustee is responsible for its representations contained in its certificate of authentication on the Series 2017 Bonds. The Trustee is not liable in connection with the performance of its duties under the Series 2017 Indenture, except for its own negligence or willful misconduct except as described below. The Trustee may become the Owner of Series 2017 Bonds with the same rights it would have if it were not the Trustee, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Series 2017 Bonds, whether or not the committee represents the Owners of a majority in principal amount of the Series 2017 Bonds then Outstanding. The Trustee is not liable for any error of judgment or action taken or made in good faith and reasonably believed to be authorized or within the discretion, rights or powers conferred on it by the Series 2017 Indenture, unless the Trustee was negligent about the error or action. The Trustee is not liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount (or lesser principal amount as provided in the Series 2017 Indenture) of the Series 2017 Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Series 2017 Indenture. The Trustee has no obligation to exercise any of the rights or powers vested in it by the Series 2017 Indenture at the request, order or direction of any of the Owners of Series 2017 Bonds pursuant to the Series 2017 Indenture unless they have offered the Trustee security or indemnity acceptable to it against the costs, expenses and liabilities which may be incurred.

Trustee Expenditures. The Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Series 2017 Indenture, or in the exercise of any of its rights or powers.

Protections and Limitations on Responsibilities. All provisions in the Series 2017 Indenture, the Series 2017 Loan Agreements or other documents relating to the issuance of the Series 2017 Bonds, relating to the conduct, or affecting the liability of or affording protection to the Trustee are subject to the provisions described in this summary. The Trustee is not required to investigate facts or matters in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document, but the Trustee, in its discretion and at its expense, may make further investigation or inquiry into such facts or matters as it deems fit, and, if the Trustee determines to make further inquiry or investigation, the Authority must assure that the Trustee will be entitled to examine the books, records and premises of the Authority and each of the Cities personally or by agent or attorney. The Trustee is not responsible for any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Series 2017 Bonds. The Trustee is not required to take notice nor deemed to have notice of any Event of Default under the Series 2017 Indenture (other than Events of Default with respect to the payment of Loan Installments or principal (or Redemption Price) of or interest on the Series 2017 Bonds), under the Series 2017 Loan Agreements or any other document related to the Series 2017 Bonds unless an officer in the corporate trust department of the Trustee has actual notice of the Event of Default or the Trustee is specifically notified in writing of such Event of Default by the Authority or the Owners of at least a majority in aggregate principal amount of Series 2017 Bonds then Outstanding. All notices or other instruments required to be delivered to the Trustee, must, in order to be effective, be delivered at the address of the Trustee provided under the Series 2017 Indenture, and, in the absence of such notice so delivered, the Trustee may conclusively assume that there is no Event of Default except as described above.

Reliance. The Trustee is protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document it believes to be genuine and signed or presented by the proper party or parties. Before the Trustee acts or refrains from acting, it may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by the Trustee under the Series 2017 Indenture in good faith and in accordance therewith. With the exception of Persons in whose names Series 2017

Bonds are registered on the Registration Books, the Trustee shall not be bound to recognize any Person as the Owner of a Series 2017 Bond unless and until such Series 2017 Bond is submitted for inspection, if required, and the Owner's title thereto is satisfactorily established, if disputed. If the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Series 2017 Indenture, such matter (unless other pertinent evidence is specifically prescribed in the Series 2017 Indenture) may be deemed to be conclusively proved and established by a Certificate of the Authority, and such Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Series 2017 Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as the Trustee may deem reasonable.

Accounting Records; Financial Statements; Documents and Records. The Trustee will keep, or cause to be kept, proper books of record and account prepared in accordance with industry standards, in which complete and accurate entries will be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the proceeds of the Series 2017 Bonds, the Revenues and all funds and accounts established by the Trustee under the Series 2017 Indenture. Such books of record and account shall be available for inspection by the Authority, either City and any Series 2017 Bond Owner, or any agent or representative duly authorized in writing by any of them, upon reasonable notice at reasonable hours and under reasonable circumstances. All documents received by the Trustee under the Series 2017 Indenture will be retained in the Trustee's possession, subject to its records retention policy, and at all reasonable times be subject to the inspection of the Authority, the Cities, and any Owner of any Series 2017 Bond, and their agents and representatives duly authorized in writing (if such Person provides to the Trustee 30 days' prior written notice and such notice specifies a date upon which such inspection shall occur), during normal business hours and under reasonable conditions.

Performance of Duties. The Trustee may execute any of the trusts or powers and perform the duties required of it provided or required under the Series 2017 Indenture either directly or by or through attorneys or agents, and the Trustee is entitled to advice of counsel concerning all matters of trust and its duties under the Series 2017 Indenture and will be absolutely protected in relying thereon. The Trustee is not responsible for the misconduct of anyone it selects with reasonable care.

Amendments Permitted

The Series 2017 Indenture and the rights and obligations of the Authority, the Trustee and the Owners of the Series 2017 Bonds may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into only with the written consent of the Owners of a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding filed with the Trustee (as described below). No such modification or amendment: (a) will extend the fixed maturity of any Series 2017 Bond, or reduce its principal amount, or extend the time of payment or reduce the amount of any mandatory sinking fund payment, or reduce the rate of interest thereon, or change the method of determining the accrual of interest thereon, or extend the time of payment of interest thereon, or reduce any Redemption Price payable upon the redemption thereof, without the consent of the Owner of each Series 2017 Bond so affected; or (b) reduce the aforesaid percentage of Series 2017 Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Series 2017 Indenture prior to or on a parity with the lien created by the Series 2017 Indenture (except as expressly permitted by the Series 2017 Indenture, as in the issuance of Additional Bonds), or deprive the Owners of the Series 2017 Bonds of the lien created by the Series 2017 Indenture on such Revenues and other assets (except as expressly provided in the Series 2017 Indenture), without the consent of the Owners of all Series 2017 Bonds then Outstanding. It will not be necessary for the consent of the Series 2017 Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if their consent approves its substance. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture as described in this paragraph, the Trustee will mail a notice, setting forth in general terms the substance of the Supplemental Indenture to the Series 2017 Bond Owners at the addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any Supplemental Indenture.

If the Authority requests the Trustee to enter into a Supplemental Indenture, the Trustee will send by first class mail notice of the proposed execution of such Supplemental Indenture to the Owners of the Series 2017 Bonds at their addresses last appearing in the Registration Books. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and state that copies thereof are on file at the designated office of the Trustee for

inspection by all Owners. If, within 60 days after the notice is mailed, the Owners of the requisite principal amount of the Series 2017 Bonds Outstanding at the time of the execution of any such Supplemental Indenture shall have consented to and approved the execution thereof, no Owner of any Series 2017 Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

In any event, the Series 2017 Indenture and the rights and obligations of the Authority, the Trustee and the Owners of the Series 2017 Bonds may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Series 2017 Bond Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority in the Series 2017 Indenture any other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Series 2017 Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority in the Series 2017 Indenture; provided, that no such covenant, agreement, pledge, assignment or surrender will materially adversely affect the interests of the Owners of the Series 2017 Bonds;

(b) to cure or correct any ambiguity, inconsistency, omission or defective provision in the Series 2017 Indenture, or regarding matters or questions arising under the Series 2017 Indenture, as the Authority or the Trustee may deem necessary or desirable and not inconsistent with the Series 2017 Indenture, and which will not materially adversely affect the interests of the Owners of the Series 2017 Bonds;

(c) to modify, amend or supplement the Series 2017 Indenture as required to permit the qualification of the Series 2017 Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute then in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Owners of the Series 2017 Bonds;

(d) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 2017 Bonds, including the amendment of the Tax Certificate;

(e) to provide for the issuance of Additional Bonds; or

(f) to make any other changes which will not materially adversely affect the interests of the Owners of the Series 2017 Bonds.

At its discretion, the Trustee may enter into any authorized Supplemental Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Series 2017 Indenture or otherwise. In executing, or accepting the additional trusts created by such Supplemental Indenture or the modifications thereby of the trusts created by the Series 2017 Indenture, the Trustee will be entitled to receive, and will be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Indenture is authorized by and in compliance with the provisions of the Series 2017 Indenture.

Discharge or Defeasance of Indenture

The Series 2017 Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of these ways: (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Series 2017 Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Series 2017 Indenture) to pay when due or redeem all Series 2017 Bonds then Outstanding; or (c) by delivering to the Trustee for cancellation all Series 2017 Bonds then Outstanding.

Discharge. If the Authority pays Series 2017 Bonds then Outstanding and also pays or causes to be paid all other sums payable by the Authority under the Series 2017 Indenture, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the Authority's intent to discharge all such indebtedness and the Series 2017 Indenture), and notwithstanding that any Series 2017 Bonds have not been surrendered for payment, the Series 2017 Indenture and the pledge of Revenues and other assets made

under the Series 2017 Indenture and all covenants, agreements and other obligations of the Authority under the Series 2017 Indenture (except as otherwise provided in the Series 2017 Indenture) will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee will cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and will execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the Borrower all moneys or securities or other property held by the Trustee pursuant to the provisions of the Series 2017 Indenture which are not required for the payment or redemption of Series 2017 Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund will be subject to the provisions of the Series 2017 Indenture and the Tax Certificate.

Defeasance. In order to defease the Series 2017 Bonds and discharge the Series 2017 Indenture by depositing money or securities in the amount necessary to pay or redeem any Series 2017 Bonds, the money or securities deposited or held may include money or securities held by the Trustee in the funds and accounts established under the Series 2017 Indenture (other than the Series 2017 Rebate Fund) and shall be (a) cash or (b) Federal Securities (not callable by the issuer thereof prior to maturity), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Series 2017 Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Series 2017 Bonds which are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Series 2017 Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice. The sufficiency of the deposits described in this paragraph must be certified by a firm of independent certified public accountants.

Funds Held After Discharge. Money held by the Trustee in trust for the payment of the principal of, or interest on, any Series 2017 Bonds and remaining unclaimed for the period which is one year less than the statutory escheat period after the principal of all of the Series 2017 Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration), if the moneys were so held at such date, or the period which is one year less than the statutory escheat period after the date of deposit of such moneys if deposited after said date when all of the Series 2017 Bonds became due and payable, will be repaid to the Authority free from the trusts created by the Series 2017 Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Trustee indemnifying the Authority and the Trustee with respect to claims of Owners of Series 2017 Bonds which have not yet been paid, and all liability of the Trustee with respect to such money shall thereupon cease; provided, however, that before the repayment of money to the Authority, the Trustee may (at the cost of the Authority) first mail to the Owners of Series 2017 Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in form deemed appropriate by the Trustee, with respect to the Series 2017 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the money held for the payment of the Series 2017 Bonds.

PART THREE: THE SERIES 2017 LOAN AGREEMENTS

This summary of the Series 2017 Loan Agreements excludes certain provisions described in “SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2017 BONDS – Special Obligations.”

Certain Covenants of Each of the Cities

In its respective Series 2017 Loan Agreement, each City covenants as follows:

Punctual Payment of Series 2017 Loan. Each City will punctually pay or cause to be paid the principal of and interest on its respective Series 2017 Loan together with any prepayment premiums thereon, in strict conformity with the terms of its respective Series 2017 Loan Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of its Series 2017 Loan Agreement.

Limitation on Superior Debt. Each City covenants that, so long as its respective Series 2017 Loan remains unpaid, such City shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any loan, advances or indebtedness, which are in any case secured by a lien on all or any part of the System Revenues of such City which is superior to the lien established under its Series 2017 Loan Agreement for the security of its Series 2017 Loan, excepting only Parity Debt issued as described in “SECURITY AND SOURCES OF

PAYMENT OF THE SERIES 2017 BONDS – Outstanding and Additional Parity Debt.” Each City may issue or incur loans, bonds, notes, advances or other indebtedness which are unsecured or which are secured by any lien on the System Revenues of such City that is subordinate to the lien established under its Series 2017 Loan Agreement.

Payment of Claims. Each City will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by such City or upon the System Revenues of such City or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of its Series 2017 Loan. Nonetheless, each City will not be required to pay such claims so long as such City, in good faith, contests their validity.

Books and Records; Annual Review of System Revenues. Each City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of such City and the Authority, in which complete and correct entries shall be made of all transactions relating to the System Revenues of such City. Such books of record and accounts shall at all times during business hours be subject, upon prior written request, to the reasonable inspection of the Authority, the Trustee and the Owners of any Series 2017 Bonds then Outstanding, or their representatives authorized in writing. Each City shall review in each Fiscal Year, and take appropriate action to provide for, the future availability of sufficient System Revenues of such City for the timely payments of debt service on its Series 2017 Loan and any Parity Debt.

Taxes and Other Charges. Each City will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges as they become due and which are lawfully imposed upon such City or the properties it then owns. Nonetheless, each City will not be required to pay such taxes, assessments or charges so long as such City, in good faith, contests their validity. Each City will duly observe and conform with all valid requirements of any governmental authority relative to its respective City System or any part thereof.

Expenses and Indemnification. Upon the occurrence of an Event of Default, the Trustee shall have a first lien on the System Revenues of the respective City to secure the payment to the Trustee of all fees, costs and expenses, including reasonable compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies under such City’s Series 2017 Loan Agreement. Each City further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any losses, expenses and liabilities which the Trustee may incur arising out of or in the exercise and performance of its powers and duties under the Series 2017 Indenture, including the costs and expenses of defending against any claim of liability, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. Each City’s respective indemnification obligations will survive the resignation or removal of the Trustee under the Series 2017 Indenture, this Series 2017 Loan Agreement and payment of the Series 2017 Loan and the discharge of this Series 2017 Loan Agreement.

Limitation on Private Activity. Each City shall assure that the proceeds of its respective Series 2017 Loan are not used so as to cause the Series 2017 Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

No Federal Guarantee. Neither City may take any action or permit or suffer any action to be taken if the result of the action would be to cause any of the Series 2017 Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Events of Default

Each of the following events will constitute and be referred to in the respective Series 2017 Loan Agreement of each City as a “Loan Default Event”:

(a) Failure to pay the principal of or interest on or prepayment premium (if any) on its respective Series 2017 Loan or any Parity Debt as and when due and payable.

(b) Failure to observe and perform any of the covenants, agreements or conditions on the part of the respective City under its Series 2017 Loan Agreement (or, until no 2011 Bonds remain Outstanding under the 2011 Indenture, the 2011 Agreement), other than as referred to in the preceding subsection (a), for a period of 60 days after written notice specifying such failure and requesting that it be remedied has been given to such

City by the Trustee, or to such City and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Outstanding Series 2017 Bonds; provided, however, that if in the reasonable opinion of such City the failure stated in such notice can be corrected, but not within such 60-day period, the Trustee shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by such City within such 60-day period and diligently pursued until such failure is corrected; provided, that in no event shall the cure period specified above exceed 90 days.

(c) The filing by the respective City of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of such City, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of such City or of the whole or any substantial part of its property.

Remedies

If a Loan Default Event has occurred and is continuing of which the Trustee has actual knowledge or is deemed to have knowledge under the Series 2017 Indenture, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Outstanding Series 2017 Bonds the Trustee shall (1) declare the principal of the Series 2017 Loan of the respective City, together with the accrued interest on all unpaid Loan Installments thereof, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, and (2) exercise any other remedies available to the Trustee in law or at equity. Promptly upon obtaining actual knowledge or being deemed to have knowledge under the Series 2017 Indenture of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to such City by telephone or other Electronic Means, promptly confirmed in writing. Nonetheless, if, at any time after the principal of such City's Series 2017 Loan shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, such City shall deposit with the Trustee a sum sufficient to pay all Loan Installments of principal of its Series 2017 Loan matured prior to such declaration and all accrued interest thereon, with interest on such overdue Loan Installments of principal and interest at the net effective rate then borne by the Outstanding Series 2017 Bonds, and the reasonable expenses of the Trustee (including but not limited to attorneys' fees), and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on such City's Series 2017 Loan due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Outstanding Series 2017 Bonds may, by written notice to the Trustee and such City, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Event of Default

All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of either Series 2017 Loan Agreement, or otherwise held by the Trustee upon the occurrence of a Loan Default Event, shall be applied by the Trustee in the following order:

First, to the payment of the costs and expenses of the Trustee in declaring such Event of Default and in carrying out the powers and duties assigned to the Trustee by the Authority under the Series 2017 Indenture, including reasonable compensation to its agents, attorneys and counsel and other amounts owing to the Trustee and secured by the lien granted to the Trustee under the respective Series 2017 Loan Agreement; and

Second, to the payment of the whole amount of interest on and principal of the respective Series 2017 Loan then due and unpaid, with interest on overdue Loan Installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Series 2017 Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(1) first, to the payment of all Loan Installments of interest on such Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full,

(2) second, to the payment of principal of all Loan Installments of such Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full,

(3) third, to the payment of principal of such Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full, and

(4) fourth, to the payment of interest on overdue Loan Installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

No Waiver

Nothing in a City's respective Series 2017 Loan Agreement shall affect or impair the obligation of such City, which is absolute and unconditional, to pay from the System Revenues of such City and other amounts pledged under such Series 2017 Loan Agreement, the principal of and interest and premium (if any) on the respective Series 2017 Loan to the Trustee on the respective Interest Payment Dates, or affect or impair the right of action, which is also absolute and unconditional, of the Trustee to institute suit to enforce such payment by virtue of such Series 2017 Loan Agreement and the Series 2017 Indenture. No waiver with respect to any default under such Series 2017 Loan Agreement shall affect any subsequent default or impair any rights or remedies with respect to any subsequent default. No delay or omission of the Trustee to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Trustee by law, by the respective Series 2017 Loan Agreement or the Series 2017 Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

Effects of Outcome

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority or the Trustee, as assignee of the Authority, Encinitas and the Trustee shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Authority, or to the Trustee as assignee of the Authority, under a City's respective Series 2017 Loan Agreement is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under such Series 2017 Loan Agreement or existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by law or in equity.

Discharge of Series 2017 Loan Agreement

If a respective City shall pay and discharge the entire indebtedness on its Series 2017 Loan in any one or more of the following ways: (a) by paying or causing to be paid the entire principal of and all interest and prepayment premiums (if any) on such Series 2017 Loan, as and when the same become due and payable; (b) by irrevocably depositing with the Trustee, in trust, at or before maturity, cash in an amount which, together with the available amounts then on deposit in any of the funds and accounts established pursuant to the Series 2017 Indenture or the respective Series 2017 Loan Agreement, is fully sufficient to pay all principal of and interest and prepayment premiums (if any) on such Series 2017 Loan; or (c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, Federal Securities in such amount as an independent certified public accountant shall determine in a written report filed with the Trustee (upon which report the Trustee may conclusively rely) will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Series 2017 Indenture or pursuant to such Series 2017 Loan Agreement, be fully sufficient to pay and discharge the indebtedness on such Series 2017 Loan (including all principal, interest and prepayment premiums) at or before maturity; then, at the election of such City, but only if the Series 2017 Bonds relating to such Series 2017 Loan Agreement have been fully paid or defeased, and all other amounts then due and payable under such Series 2017 Loan Agreement shall have been paid or provision for their payment made, the pledge of and lien upon the System Revenues of such City and other funds provided for in such Series 2017 Loan Agreement and all other obligations of such City and the Authority under such Series 2017 Loan Agreement with respect to such Series 2017 Loan shall cease and terminate, except only the obligation of such City to pay or cause to be paid to the Trustee, from the

amounts so deposited with the Trustee or such other fiduciary, all sums due with respect to such Series 2017 Loan and all expenses and costs of the Trustee. The respective City will file notice of such election with the Authority and the Trustee. Any funds thereafter held by the Trustee with respect to such Series 2017 Loan Agreement, which are not required for the purposes of such Series 2017 Loan Agreement, will be paid to the respective City.

No Personal Liability

No member, officer, agent or employee of either City shall be individually or personally liable for the payment of the principal of or interest on such City's Series 2017 Loan; but no provision of such City's respective Series 2017 Loan Agreement shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH

SAN ELIJO JOINT POWERS AUTHORITY

Fiscal Year 2015-2016 Audited Financial Statements, with report of The Pun Group, LLP

CITY OF ENCINITAS

Fiscal Year 2015-2016 Consolidated Audited Financial Report, with report of The Pun Group, LLP

CITY OF SOLANA BEACH

Fiscal Year 2015-2016 Consolidated Audited Financial Report, with report of Lance, Soll & Lunghard, LLP

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San Elijo Joint Powers Authority

Cardiff by the Sea, California

Financial Statements and Independent Auditors' Report

For the Year Ended June 30, 2016



San Elijo Joint Powers Authority
Financial Statements
For the Year Ended June 30, 2016

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the San Elijo Joint Powers Authority
Cardiff by the Sea, California

Report on Financial Statements

We have audited the accompanying financial statements of the San Elijo Joint Powers Authority ("SEJPA"), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Elijo Joint Powers Authority as of June 30, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion, Analysis, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Plan Contributions, and the Schedule of Funding Progress – Other Post-Employment Benefits Plan, as identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the SEJPA. The Combining Schedule of Net Position, the Combining Schedule of Revenues, Expenses and Changes in Net Position, the Combining Schedule of Cash Flows, the Operating Budget Comparison Schedule - Wastewater, and the Operating Budget Comparison Schedule – Reclamation, are presented for purposes of additional analysis and are not a required part of the financial statements.

The Combining Schedule of Net Position, the Combining Schedule of Revenues, Expenses, and Changes in Net Position, and the Combining Statement of Cash Flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses, and Changes in Net Position, and Combining Schedule of Cash Flows are fairly stated, in all material respects, in relation to the financial statements as a whole.

The Operating Budget Comparison Schedule - Wastewater and the Operating Budget Comparison Schedule - Reclamation have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or any assurance on them.

A handwritten signature in black ink that reads "The Pun Group, LLP". The signature is written in a cursive, flowing style.

The Pun Group, LLP
Certified Public Accountants
San Diego, California
October 31, 2016

San Elijo Joint Powers Authority Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016

Our discussion and analysis of the financial performance of the San Elijo Joint Powers Authority's (SEJPA) provides an overview of the SEJPA's financial activities as of and for the year ended June 30, 2016. Please read it in conjunction with the SEJPA's financial statements which begin on page 11.

Financial Statements

This discussion and analysis provides an introduction and a brief description of the SEJPA's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The SEJPA's financial statements include four components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

The statement of net position includes all of the SEJPA's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position may be displayed in three categories:

- Net investment in capital assets
- Restricted net position
- Unrestricted net position

The ***statement of net position*** provides the basis for computing rate of return evaluating the capital structure of the SEJPA and assessing its liquidity and financial flexibility.

The ***statement of revenues, expenses and changes in net position*** presents information which shows how the SEJPA's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the results of the SEJPA's operations over the past year and determines whether the SEJPA has recovered its costs through charges for services and other expenses.

The ***statement of cash flows*** provides information regarding the SEJPA's cash receipts and cash disbursements during the year. This statement may report cash activity in four categories:

- Operations
- Capital and related financing
- Noncapital financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The ***notes to the financial statements*** provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

San Elijo Joint Powers Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2016

Financial Highlights

The SEJPA's net position increased by \$384,720 to \$38,100,354 for the year ended June 30, 2016.

The SEJPA's revenues totaled \$7,889,078 for the year ended June 30, 2016, an increase of \$77,239 resulting principally from an increase in Wastewater revenue and member agency assessments.

The SEJPA's expenses totaled \$7,504,358 for the year ended June 30, 2016. The expense increase was \$292,957 or 4% and included a provision of \$125,000 for reducing the pension obligation. Total expense was lower than budget and met expectation for the year.

Financial Analysis of the SEJPA

Net Position

The following is a summary of the SEJPA's statements of net position at June 30:

	2016	2015	Increase (Decrease)	Percent Increase (Decrease)
Assets:				
Current and other assets	\$ 12,723,888	\$ 13,756,350	\$ (1,032,462)	-7.5%
Capital assets	39,415,397	39,778,414	(363,017)	-0.9%
Total Assets	52,139,285	53,534,764	(1,395,479)	-2.6%
Deferred Outflows of Resources	1,088,315	469,877	618,438	131.6%
Liabilities:				
Current liabilities	2,960,787	2,542,516	418,271	16.5%
Non-current liabilities	11,474,845	13,130,919	(1,656,074)	-12.6%
Total Liabilities	14,435,632	15,673,435	(1,237,803)	-7.9%
Deferred Inflows of Resources	691,614	615,572	76,042	12.4%
Net Position:				
Net investment in capital assets	33,118,058	32,631,542	486,516	1.5%
Restricted	630,000	630,000	-	0.0%
Unrestricted	4,352,296	4,454,092	(101,796)	-2.3%
Total Net Position	\$ 38,100,354	\$ 37,715,634	\$ 384,720	1.0%

Net position increased by \$384,720 from fiscal year 2015 to 2016. Net investment in capital assets increased \$486,516 in fiscal year 2016. This increase is the result of principal paid on the SEJPA's long-term debt and the increase in investment in capital assets, net of depreciation expense.

San Elijo Joint Powers Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2016

Financial Analysis of the SEJPA (Continued)

Net Position (Continued)

Restricted net position is unchanged for the year ended June 30, 2016 as funds restricted for bond reserves remain in place.

Unrestricted net position (those that can be used to finance day-to-day operations) decreased \$101,796.

Revenues, Expenses and Changes in Net Position

The following is a summary of the SEJPA's revenues, expenses and changes in net position for the years ended June 30:

	2016	2015	Increase (Decrease)	Percent Increase (Decrease)
Revenues				
Operating contributions from members	\$ 3,214,224	\$ 3,094,069	\$ 120,155	3.9%
Charges for services to other government agencies	3,362,063	3,430,206	(68,143)	-2.0%
Other nonoperating revenue	254,047	285,019	(30,972)	-10.9%
Member agency assessments	997,819	903,806	94,013	10.4%
State grants	60,925	98,739	(37,814)	-38.3%
Total revenues	7,889,078	7,811,839	77,239	1.0%
Expenses				
Operating expenses	7,169,720	6,815,073	354,647	5.2%
Nonoperating expenses	334,638	396,328	(61,690)	-15.6%
Total expenses	7,504,358	7,211,401	292,957	4.1%
Increase in net position	\$ 384,720	\$ 600,438	\$ (215,718)	-35.9%

Capital Assets

The following is a summary of capital assets at June 30:

	2016	2015	Increase (Decrease)	Percent Increase (Decrease)
Construction in progress	\$ 2,593,101	\$ 1,124,406	\$ 1,468,695	130.6%
Plant equipment	67,950,514	67,832,748	117,766	0.2%
Lab equipment	110,294	110,294	-	0.0%
Office equipment	79,786	79,786	-	0.0%
Vehicles	289,287	289,287	-	0.0%
Subtotal	71,022,982	69,436,521	1,586,461	2.3%
Less accumulated depreciation	(31,607,585)	(29,658,107)	(1,949,478)	6.6%
Total capital assets, net	\$ 39,415,397	\$ 39,778,414	\$ (363,017)	-0.9%

San Elijo Joint Powers Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2016

Financial Analysis of the SEJPA (Continued)

The additions to capital assets for fiscal year 2016 totaled \$1,586,461. Capital asset additions included the Via Cantabria recycled water pipeline, the land portion of the ocean outfall, the headworks replacement as well as several smaller projects.

Long-Term Debt

The following is a summary of long-term debt at June 30:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
2011 Refunding Revenue Bonds	\$ 4,619,428	\$ 5,964,276	\$ (1,344,848)	-22.5%
State loan payable	3,877,758	4,597,496	(719,738)	-15.7%
Private placement loan payable	1,681,260	1,757,268	(76,008)	-4.3%
SFID Reimbursement Agreement payable	445,343	453,493	(8,150)	-1.8%
Total long-term debt	<u>\$ 10,623,789</u>	<u>\$ 12,772,533</u>	<u>\$ (2,148,744)</u>	<u>-16.8%</u>

The total long term debt decreased by \$2,148,744 primarily due to the principal payments made on the 2011 Refunding Revenue Bonds and the State Loan Payable. The Current Portion increased due to the amortization of the debt.

Economic Factors

Consistent with the prior year, SEJPA's fiscal year 2016-17 sanitary fund operations and maintenance budget is \$4,530,866. The water reclamation budget is 1,498,447. Sales of reclaimed water are budgeted to be approximately 1,507 acre feet in the upcoming year. The 9% increase in revenue is due to anticipated State grant revenue.

Contingency funding for each program area has been reviewed and budgeted on the basis of the potential for unforeseen events within each activity area. For all programs, the amount in contingency funding is \$139,200 and is \$9,300 higher than last year's budget levels.

The capital project program will have a budget of \$1,659,000 during the upcoming year. This is primarily for improvements to the wastewater, ocean outfall, and reclamation programs.

Costs of sanitary services are allocated on the basis of percentage of use, as indicated by measured flows, or level of effort, as appropriate. On the basis of connected equivalent dwelling units (EDU's) for wastewater treatment provided to the member agencies, the budgeted cost is approximately \$156 per EDU per year for 2016-17. This represents a 5% decrease from 2015-16 as a result of expected participation from the City of Del Mar. The Encinitas Ranch Golf Course pays a set annual price for interruptible water service. For the remaining water agencies, recycled water sales are based on individual contracts which may include minimum annual purchase volumes and negotiated water rate prices. These revenues are supplemented by incentives from the Metropolitan Water District and the San Diego County Water Authority.

San Elijo Joint Powers Authority
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2016

Economic Factors (Continued)

On October 8, 2012, the Board adopted a resolution to amend the contract between CalPERS and the SEJPA. This resolution amended the contract to include Section 20475 (Different Level of Benefits) for new Miscellaneous Members of the Public Employees' Retirement System, Section 21353 (2% at 60 Full Formula), and Section 20037 (Three-Year Final Compensation) this resolution will be applicable to all SEJPA employees entering membership for the first time in the miscellaneous classification after June 30, 2015. The lower benefit payout will result in a lower contribution rate for the SEJPA in the future as new employees enter the SEJPA workforce. All employees will pay the full employee portion of the CalPERS retirement benefit.

Contacting the Authority's Financial Manager

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the SEJPA's finances and to demonstrate the SEJPA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the SEJPA, at (760) 753-6203, ext. 73.

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FINANCIAL STATEMENTS

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San Elijo Joint Powers Authority
Statement of Net Position
June 30, 2016

ASSETS

Current assets:

Cash and investments	\$ 6,948,416
Due from other governmental agencies	720,563
Accrued interest receivable	66,336
Prepaid items	18,829
Current portion of loans receivable	1,305,579

Total current assets

9,059,723

Non-current assets:

Restricted cash and cash equivalents	630,046
Loans receivable - net of current portion	3,015,000
Other assets	19,119
Capital assets:	
Nondepreciable	2,593,101
Depreciable, net of accumulated depreciation	36,822,296

Total capital assets

39,415,397

Total non-current assets

43,079,562

Total assets

52,139,285

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on refunding	154,823
Deferred outflows of resources related to pensions	933,492

Total deferred outflows of resources

1,088,315

San Elijo Joint Powers Authority
Statement of Net Position (Continued)
June 30, 2016

LIABILITIES

Current liabilities:

Accounts payable	\$ 323,139
Accrued liabilities	75,068
Accrued interest payable	147,262
Retention payable	1,111
Unearned revenue	238,348
Revenue refunding bonds - due within one year	1,305,000
State loan payable - due within one year	737,731
Private placement loan payable - due within one year	79,194
Compensated absences - due within one year	53,934
	<hr/>
Total current liabilities	2,960,787

Non-current liabilities:

Due to member agencies payable from restricted assets	46
Revenue refunding bonds - due in more than one year	3,314,428
State loan payable - due in more than one year	3,140,027
Private placement loan payable - due in more than one year	1,602,066
SFID reimbursement agreement payable	445,343
Net pension liability	2,463,484
Net OPEB obligation	154,951
Compensated absences - due in more than one year	354,500
	<hr/>
Total non-current liabilities	11,474,845
	<hr/>
Total liabilities	14,435,632

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	691,614
	<hr/>
Total deferred inflows of resources	691,614

Net Position:

Net investment in capital assets	33,118,058
Restricted	630,000
Unrestricted	4,352,296
	<hr/>
Total Net Position	\$ 38,100,354

San Elijo Joint Powers Authority
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2016

Operating revenues:

Charges for services to other government agencies	\$ 3,362,063
Contributions from the City of Encinitas	1,792,541
Contributions from the City of Solana Beach	<u>1,421,683</u>
Total operating revenues	<u>6,576,287</u>

Operating expenses:

Personnel costs	2,958,614
Depreciation and amortization	1,955,222
Utilities	810,839
Contracted services	585,157
Supplies	262,117
Disposal services	194,015
Miscellaneous	145,691
Repair parts expense	133,904
Permit/purveyor fees	69,091
Insurance	<u>55,070</u>
Total operating expenses	<u>7,169,720</u>
Operating income (loss)	<u>(593,433)</u>

Non-operating revenues (expenses):

Investment income	225,046
State grants	60,925
Rental income	25,843
Loss on disposal of assets	(2,429)
Interest expense	(332,209)
Other	<u>3,158</u>
Total non-operating revenues (expenses), net	<u>(19,666)</u>
Net (loss) before capital contributions	(613,099)

Capital contributions:

Member agency assessments	<u>997,819</u>
Total capital contributions	<u>997,819</u>
Change in net position	384,720

Net position:

Beginning of year	<u>37,715,634</u>
End of year	<u><u>\$ 38,100,354</u></u>

San Elijo Joint Powers Authority
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Cash receipts from customers	\$ 6,688,679
Cash payments to vendors and suppliers for materials and services	(2,135,244)
Cash payments to employees for services	<u>(2,962,379)</u>
Net cash provided by operating activities	<u>1,591,056</u>
Cash flows from non-capital financing activities:	
Rental and other nonoperating income	<u>29,001</u>
Net cash provided by non-capital financing activities	<u>29,001</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,589,536)
Proceeds from the sale of capital assets	-
Principal paid on long-term debt	(2,148,702)
Interest paid on long-term debt	(319,581)
Proceeds of state grants	60,933
Capital contributions	<u>997,819</u>
Net cash (used in) capital and related financing activities	<u>(2,999,067)</u>
Cash flows from investing activities:	
Proceeds from loans receivable	1,265,000
Proceeds from retrofit loans receivable	52,065
Investment earnings	<u>233,620</u>
Net cash provided by investing activities	<u>1,550,685</u>
Net increase in cash and cash equivalents	171,675
Cash and cash equivalents:	
Beginning of year	<u>7,406,787</u>
End of year	<u><u>\$ 7,578,462</u></u>
Cash and cash equivalents:	
Cash and cash equivalents	\$ 6,948,416
Restricted cash and cash equivalents	<u>630,046</u>
Total cash and cash equivalents	<u><u>\$ 7,578,462</u></u>

San Elijo Joint Powers Authority
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2016

Reconciliation of operating (loss) to net cash provided by operating activities:

Operating (loss)	\$ (593,433)
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Adjustments to reconcile operating income to net cash provided by operating activities:

Depreciation and amortization	1,955,222
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Change in assets, liabilities, deferred outflows of resources, and deferred inflows of resources:

Due from other governmental agencies	(125,956)
Prepaid items	(643)
Deferred outflows related to pensions	(659,731)
Accounts payable	168,974
Accrued liabilities	(27,815)
Retentions payable	(47,691)
Unearned revenue	238,348
Net pension liability	525,848
Net OPEB obligation	17,411
Compensated absences	64,481
Deferred inflows related to pensions	76,041

Total adjustments	<u>2,184,489</u>
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Net cash provided by operating activities	<u><u>\$ 1,591,056</u></u>
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Non-cash items:

Amortization of bond issuance costs	\$ 5,098
Amortization of deferred amount on refunding	<u>41,287</u>

Total non-cash items	<u><u>\$ 46,385</u></u>
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NOTES TO THE FINANCIAL STATEMENTS

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San Elijo Joint Powers Authority
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1 – Reporting Entity

The San Elijo Joint Powers Authority (SEJPA) was established on June 17, 1987 with the power to own, operate, maintain and upgrade the San Elijo Water Reclamation Facility (WRF) through an agreement between the Cardiff Sanitation District (Cardiff) and the Solana Beach Sanitation District (Solana Beach) (collectively, the “member agencies”). The SEJPA which is governed by a board consisting of four members, two from each member agency; serves as a wastewater treatment facility for the member agencies as well as portions of Rancho Santa Fe Community Services District, Improvement Areas 2 and 3, and portions of the City of San Diego. On July 1, 1990, the City of Solana Beach succeeded to the powers and responsibilities of the Solana Beach Sanitation District; and on October 18, 2001, the City of Encinitas succeeded to the powers and responsibilities of the Cardiff Sanitation District.

Under the agreement establishing the SEJPA, Cardiff retained its right to 56% of the available treatment capacity of the plant, and Solana Beach retained its right to the remaining 44%. In May 1989 through an agreement between the SEJPA and the member agencies to upgrade and expand the WRF; Solana Beach paid Cardiff to increase its ownership percentage and capacity rights to 50%.

The SEJPA and the City of Escondido are joint owners and users, 21% and 79% respectively, of the San Elijo Ocean Outfall which is generally comprised of a regulator station and piping extending from an on-shore location out into the ocean.

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Cod. Sec. 2100 “Defining the Financial Reporting Entity.” The SEJPA is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the SEJPA appoints a voting majority of the component units board, or because the component unit will provide a financial benefit or impose a financial burden on the SEJPA. The SEJPA has no component units.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (“GASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

Method of Accounting

The Financial Statements (i.e., the statement of net position, the statement of revenues, expenses and changes in net position, and statement of cash flows) report information on all of the activities of the SEJPA.

The SEJPA utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the Financial Statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Method of Accounting (Continued)

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

- ***Deferred Outflows of Resources*** represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.
- ***Deferred Inflows of Resources*** represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Operating revenues are those revenues that are generated from the primary operations of the SEJPA. The SEJPA reports a measure of operations by presenting the change in net position from operations as "operating income" in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the SEJPA as all activities other than financing and investing activities (interest expense and investment income, rental income, etc.), and other infrequently occurring transaction of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the SEJPA. All other expenses are reported as non-operating expenses.

The SEJPA has not elected to apply the option allowed in GASB Cod. Sec. P80.103 "Proprietary Fund Accounting and Financial Reporting" and, as a consequence, will continue to apply GASB statements and interpretations.

Estimates

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

Revenue Recognition

The SEJPA recognizes revenue from charges for services to other government agencies and contributions from its members when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the SEJPA considers charges for services to other government agencies and contributions from the cities to be operating revenues.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value. The majority of the SEJPA's cash and investments are invested in the State of California's Local Agency Investment Fund ("LAIF"). The SEJPA does not own any specifically identifiable securities or investments in LAIF. As a participant in LAIF, the SEJPA has rights to its ratable share of the pooled cash and investments in LAIF, on a dollar-for-dollar basis. The SEJPA's ratable share of investment income from the LAIF pool is calculated and distributed on a quarterly basis. Investment income is reported as non-operating revenue in the Statement of Revenues, Expenses and Changes in Net Position. Since all amounts invested in LAIF are available upon demand, the SEJPA considers all amounts invested in LAIF to be cash equivalents.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

Certain disclosure requirements, if applicable for deposit and investment risk, are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk
- Foreign Currency Risk

Investments

Investments are stated at their fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all amounts due from other government agencies, loans receivable and the retrofit loans receivable were fully collectible; therefore no allowance for doubtful accounts was recorded at June 30, 2016.

Capital Assets

Capital assets consist of construction in progress, plant equipment, lab equipment, office equipment, and vehicles. Capital assets purchased or acquired with a cost exceeding \$2,000 and an estimated useful life of more than one year are reported at historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

<u>Asset Type</u>	<u>Years</u>
Plant equipment	5 - 50
Lab equipment	5 - 40
Office equipment	5 - 20
Vehicles	5

Capitalized Interest

The SEJPA incurred interest charges on long-term debt. No interest was capitalized as a cost of construction for the year ended June 30, 2016.

Amortization

Bond insurance costs are being amortized on the straight-line method over periods not to exceed the debt maturities. Amortization expense totaled \$5,098 for the year ended June 30, 2016.

The original issue premium is being amortized on the straight-line method over the remaining life of the related debt. Amortization of the original issue premium totaled \$79,847 for the year ended June 30, 2016 and is included in interest expense.

The deferred amount on refunding is being amortized over the remaining life of the refunded debt. Amortization expense totaled \$41,286 for the year ended June 30, 2016, and is included in interest expense.

Classification of Liabilities

Certain liabilities which are currently payable have been classified as noncurrent because they will be funded from restricted assets.

Compensated Absences

Employees are entitled to accrue vacation leave up to a maximum amount equal to twice the employees' annual accrual rate, after which accrual ceases until the balance of maximum accrued falls below the maximum accumulation (208 – 368 hours, depending on length of service). Upon separation of employment, accrued vacation benefits that have not been used are paid to the employee. Sick leave benefits may be accrued up to a maximum of 1,000 hours after which accrual ceases. Employee who are not terminated for cause and have given the SEJPA 14 calendar days written notice are paid for 50% of their sick leave balance upon separation. Accumulated and unpaid vacation and sick-leave totaling \$408,434 is accrued when incurred and included in noncurrent liabilities at June 30, 2016.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Risk Management

The SEJPA is a member of the California Sanitation Risk Management Authority (CSRMA). CSRMA is a risk-pooling self-insurance authority created under provisions of California Government Code Sections 6500 et. seq. The purpose of CSRMA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Each insured agency pays for its proportionate share of its individually contracted insurance coverage and consulting services. At June 30, 2016, the SEJPA participated in the programs of CSRMA as follows:

- **General Liability including Bodily Injury, Property Damage, Public Entity Errors and Omissions, Employment Practices Liability and Automobile Liability**

The CSRMA Pooled Liability (shared risk) Program provides \$25,500,000 per occurrence and in aggregate. CSRMA is self-insured up to \$15,500,000 and additional \$10,000,000 in excess insurance has been purchased to bring the total limit of liability coverage to \$25,500,000. SEJPA has a \$100,000 deductible in the CSRMA Pooled Liability Program.

- **Property Damage**

\$56,191,022 in scheduled values through the APIP Property Program with a \$1,000,000,000 shared loss limit per occurrence with a \$5,000 deductible. Coverage includes: all risk property coverage, mobile equipment, auto physical damage and boiler and machinery. The SEJPA has a \$5,000 to \$350,000 deductible for boiler and machinery coverage depending on the size of the machinery.

- **Faithful Performance/Employee Dishonesty Bond**

Insured up to \$2,000,000 with a \$2,500 deductible. Coverage includes: employee dishonesty, faithful performance forgery or alteration, computer fraud, money and securities theft, disappearance and destruction.

- **Workers' Compensation**

SEJPA participates in CSRMA's Workers' Compensation Program, which currently self-insures the first \$750,000 of each claim. The members have no deductible or self-insured retention. Excess insurance provides statutory limits for Workers' Compensation and \$750,000 for each accident or each employee for disease in limits for Employers Liability.

The SEJPA pays annual premiums for this coverage. They are subject to retrospective adjustments based on claims experienced. The nature and amounts of the adjustments cannot be estimated and are charged to expense as invoiced. The SEJPA's insurance expense totaled \$89,886 for the year ended June 30, 2016. There were no instances in the past three years where a settlement exceeded the SEJPA's coverage.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability at June 30, 2015, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 11). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

<u>CalPERS</u>	
Valuation date	June 30, 2014
Measurement date	June 30, 2015
Measurement period	July 1, 2014 to June 30, 2015

Economic Dependency

The SEJPA received approximately 44% of its operating revenues from its member agencies for the year ended June 30, 2016.

Use of Restricted/Unrestricted Assets

When both restricted and unrestricted resources are available for use, it is the SEJPA's policy to use restricted resources first, then unrestricted resources as they are needed.

Note 3 – Cash and Cash Equivalents

At June 30, 2016, cash and investments are reported at fair value based on quoted market prices. The following table presents the fair value measurements of investments recognized in the accompanying statement of net position measured at fair value on a recurring basis and the level within GASB 72 fair value hierarchy in which the fair value measurements fall at June 30, 2016:

	<u>Amount Invested</u>	<u>Percentage of Portfolio</u>	<u>Measurement Input</u>
Cash on hand	\$ 174	0.00%	N/A
Deposits held with financial institutions	316,050	4.17%	N/A
Local Agency Investment Fund (LAIF)	7,262,192	95.83%	Level 2
Open ended money market mutual funds	46	0.00%	N/A
Total cash and investments	\$ 7,578,462	100.00%	
Cash and investments reported in accompanying Statement of Net Position:			
Cash and investments	\$ 6,948,416		
Restricted cash and cash equivalents	630,046		
Total cash and investments	\$ 7,578,462		

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 3 – Cash and Cash Equivalents (Continued)

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

The table below identifies the investment types that are authorized for the SEJPA by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the SEJPA, rather than the general provision of the California Government Code or the SEJPA's investment policy:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Minimum Rating
Local agency bonds	5 years	None	None
U.S. Treasury obligations	5 years	None	None
State obligations	5 years	None	None
CA local agency obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Bankers' acceptances	180 days	40%	None
Commercial paper	270 days	25%	A1
Negotiable certificates of deposit	5 years	30%	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements	92 days	20%	None
Medium-term notes	5 years	30%	A
Mutual funds	n/a	20%	Multiple
Money market mutual funds	n/a	20%	Multiple
Collateralized bank deposits	5 years	None	None
Mortgage pass-through securities	5 years	20%	AA
Time deposits	5 years	None	None
California Local Agency Investment Fund (LAIF)	n/a	None	None
County pooled investments	n/a	None	None

The SEJPA's Investment Policy is more restrictive than the California Government Code. The SEJPA may invest in the California Local Agency Investment Fund and the San Diego County Pooled Money Investment account. Open ended money market mutual funds are being held by the bond trustee.

As of June 30, 2016, the SEJPA had \$7,262,192 invested in LAIF, which had invested 2.08% of the pool investment funds in structured notes and asset-backed securities.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The SEJPA manages its exposure to interest rate risk by purchasing shorter term investments so that a portion of the portfolio is maturing over time as necessary to provide the cash flows and liquidity needed for operations.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 3 – Cash and Cash Equivalents (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the SEJPA's investments (including investments held by the bond trustee) to market interest rate fluctuations is shown via the distribution of the SEJPA's investments by maturity at June 30, 2016 as follows:

<u>Description</u>	<u>Balance</u>	<u>Maturity</u>
		<u>12 Months or Less</u>
Cash on hand	\$ 174	\$ 174
Deposits held with financial institutions	316,050	316,050
California Local Agency Investment Fund (LAIF)	7,262,192	7,262,192
Open ended money market mutual funds	46	46
Total cash and cash equivalents	<u>\$ 7,578,462</u>	<u>\$ 7,578,462</u>

Disclosures Relating to Credit Risk

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical organization. Presented below is the minimum rating required by (where applicable) the Gov't Code, the Investment Policy, or debt agreements, and the actual rating as of year-end for each investment type.

Credit ratings as of June 30, 2016 were as follows:

<u>Description</u>	<u>Minimum Legal Rating</u>	<u>Standards & Poor's Rating at June 30, 2016</u>
Local Agency Investment Fund (LAIF)	N/A	Not Rated
Open ended money market mutual funds	N/A	Not Rated

Concentration of Credit Risk

Concentration of credit is the risk of loss attributed to the magnitude to the SEJPA's investment in a single issue. GASB Statement No. 40 requires disclosure by amount and issuer, of investments in any one issuer that represent 5% or more of total investments.

The investment policy of the SEJPA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The SEJPA holds no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the SEJPA's total investments at June 30, 2016.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 3 – Cash and Cash Equivalents (Continued)

Custodial Credit Risk

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

At June 30, 2016, none of the SEJPA's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. At June 30, 2016, no SEJPA investments were held by the same broker-dealer (counterparty) that was used by the SEJPA to buy the securities.

Investment in State of California Local Agency Investment Fund

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

SEJPA's investments with Local Agency Investment Fund (LAIF) include a portion of the pool funds invested in structured notes and asset-backed securities. These investments include the following:

- Structured Notes - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and by government-sponsored enterprises.
- Asset-Backed Securities - entitle their purchaser to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's), small business loans or credit card receivables.

LAIF is overseen by the Local Investment Advisory Board, which consists of five members, in accordance with State statute. The fair value of our position in the pool is the same as the value of the pool shares.

As of June 30, 2016, SEJPA had \$7,262,192 invested in LAIF, which had invested 1.55% of the pool investment funds in structured notes and asset-backed securities. The LAIF fair value factor of 1.000621222 was used to calculate the fair value of the investment in LAIF.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 4 – Due From Other Government Agencies

The SEJPA provides reclaimed water and wastewater treatment to a variety of governmental agencies within San Diego County. The following is a detail of amounts owed to/from the SEJPA by these agencies at June 30, 2016:

<u>Description</u>	<u>Balance</u>
San Dieguito Water District	\$ 171,803
San Diego County Water Authority	133,950
Rancho Santa Fe CSD 2 & 3	121,095
City of Escondido	101,014
Santa Fe Irrigation District	97,889
City of Del Mar	65,203
Olivenhain Municipal Water District	20,679
Other	8,930
Total due from other governmental agencies	<u>\$ 720,563</u>

Note 5 – Restricted Assets

Restricted assets were provided by and are to be used for the following at June 30, 2016:

<u>Funding Source</u>	<u>Use</u>	<u>Amount</u>
Receipts from customers	State loan reserve requirement	\$ 630,000
Debt proceeds and interest earned	Debt service - Solana Beach	13
Debt proceeds and interest earned	Debt service - Encinitas	33
		<u>\$ 630,046</u>

When both restricted and unrestricted resources are available for use, it is the SEJPA's policy to use restricted resources first, and then unrestricted resources as necessary.

Note 6 – Loans Receivable

The City of Encinitas and the City of Solana Beach have entered into the third amendment and restated loan agreements with the SEJPA. The loans bear interest from 2% to 4%. Principal and interest are payable semi-annually four days prior to each September 1 and March 1 of each year, in order to provide the SEJPA with sufficient funds to service the debt on the Refunding Revenue Bonds (See Note 9). Loans receivable consist of the following at June 30, 2016:

City of Solana Beach	\$ 2,286,111
City of Encinitas	2,033,889
Subtotal	<u>\$ 4,320,000</u>
Less: current portion	(1,305,000)
Total	<u><u>\$ 3,015,000</u></u>

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 7 – Retrofit Loans Receivable

The SEJPA has entered into agreements with certain reclaimed water users whereby the SEJPA reimbursed the reclaimed water users for reasonable costs incurred for the retrofitting of the water user's facilities in order for them to accept and use reclaimed water for non-potable purposes. The water users agreed to repay the SEJPA the aggregate amount of the retrofit work together with interest ranging from 3.5% to 4.5%. Reclaimed water is purchased at the potable water rate with the difference between the two rates being considered repayment of the reimbursed costs with the payment first applied to interest. Retrofit loans receivable consist of the following at June 30, 2016:

Oak Crest Park	\$	579
Total	\$	<u>579</u>

Note 8 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

Description	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Non-depreciable assets:					
Construction in progress	\$ 1,124,406	\$ 1,520,782	\$ -	\$ (52,087)	\$ 2,593,101
Total non-depreciable assets	<u>1,124,406</u>	<u>1,520,782</u>	<u>-</u>	<u>(52,087)</u>	<u>2,593,101</u>
Depreciable assets:					
Plant equipment	67,832,748	68,754	(3,075)	52,087	67,950,514
Lab equipment	110,294	-	-	-	110,294
Office equipment	79,786	-	-	-	79,786
Vehicles	289,287	-	-	-	289,287
Total depreciable assets	<u>68,312,115</u>	<u>68,754</u>	<u>(3,075)</u>	<u>52,087</u>	<u>68,429,881</u>
Accumulated depreciation:					
Plant equipment	(29,268,275)	(1,919,527)	646	-	(31,187,156)
Lab equipment	(91,627)	(7,153)	-	-	(98,780)
Office equipment	(69,165)	(4,773)	-	-	(73,938)
Vehicles	(229,040)	(18,671)	-	-	(247,711)
Total accumulated depreciation	<u>(29,658,107)</u>	<u>(1,950,124)</u>	<u>646</u>	<u>-</u>	<u>(31,607,585)</u>
Total depreciable assets, net	<u>38,654,008</u>	<u>(1,881,370)</u>	<u>(2,429)</u>	<u>52,087</u>	<u>36,822,296</u>
Total capital assets, net	<u>\$ 39,778,414</u>	<u>\$ (360,588)</u>	<u>\$ (2,429)</u>	<u>\$ -</u>	<u>\$ 39,415,397</u>

Depreciation totaled \$1,950,124 for the year ended June 30, 2016.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 9 – Noncurrent Liabilities

Summary of changes in noncurrent liabilities for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Classification	
					Due Within One Year	Due in More Than One Year
Payable from Restricted Assets:						
Due to member agencies payable from restricted assets	\$ 4	\$ 42	\$ -	\$ 46	\$ -	\$ 46
Total payable from restricted assets	<u>4</u>	<u>42</u>	<u>-</u>	<u>46</u>	<u>-</u>	<u>46</u>
Long-Term Debt:						
2011 Refunding Revenue Bonds	5,585,000	-	(1,265,000)	4,320,000	1,305,000	3,015,000
add: original issue premium	379,276	-	(79,848)	299,428	-	299,428
State loan payable	4,597,496	-	(719,738)	3,877,758	737,731	3,140,027
Private placement loan payable	1,757,268	-	(76,008)	1,681,260	79,194	1,602,066
SFID Reimbursement Agreement payable	453,493	-	(8,150)	445,343	-	445,343
Total long-term debt	<u>12,772,533</u>	<u>-</u>	<u>(2,148,744)</u>	<u>10,623,789</u>	<u>2,121,925</u>	<u>8,501,864</u>
Other Noncurrent Liabilities:						
Compensated absences	343,953	173,487	(109,006)	408,434	53,934	354,500
Net OPEB obligation	137,538	34,012	(16,599)	154,951	-	154,951
Net pension liability	1,937,636	525,848	-	2,463,484	-	2,463,484
Total other noncurrent liabilities	<u>2,419,127</u>	<u>733,347</u>	<u>(125,605)</u>	<u>3,026,869</u>	<u>53,934</u>	<u>2,972,935</u>
Total long-term obligations	<u>\$ 15,191,664</u>	<u>\$ 733,389</u>	<u>\$ (2,274,349)</u>	<u>\$ 13,650,704</u>	<u>\$ 2,175,859</u>	<u>\$ 11,474,845</u>

2011 Refunding Revenue Bonds

In December 2011, the SEJPA issued the 2011 Revenue Refunding Bonds in the amount of \$9,235,000 for the purpose of refunding its 2003 Refunding Revenue Bonds and prepaying a note to the California Energy Commission. The 2003 Refunding Revenue Bonds had been issued to refund the 1993 Refunding Revenue Bonds, the proceeds of which had been loaned to its two member agencies to finance the upgrade and expansion of the water pollution control facility.

Although the refunding resulted in a deferred amount on refunding of \$340,611, the SEJPA in effect reduced the aggregate debt service payments by approximately \$222,000 each year over the next seven years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of \$1,251,450. The deferred amount on refunding totaled \$154,823 at June 30, 2016.

The 2011 Refunding Revenue Bonds are payable in annual principal installments ranging from \$50,000 to \$1,415,000 through March 1, 2021. Interest payments are due semiannually on September 1, and March 1. Interest rates on the bonds range from 2% to 4%. The 2011 Refunding Revenue Bonds outstanding total \$4,320,000 at June 30, 2016. Accrued interest totaled \$56,622 at June 30, 2016. The member agencies have covenanted to make payments of loan installments in each year from net revenues derived from the operation of each Agency's respective wastewater collection system.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 9 – Noncurrent Liabilities (Continued)

2011 Refunding Revenue Bonds (Continued)

Debt service requirements on the 2011 Refunding Revenue Bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 1,305,000	\$ 169,867	\$ 1,474,867
2018	1,365,000	117,668	1,482,668
2019	1,415,000	63,068	1,478,068
2020	115,000	6,468	121,468
2021	120,000	3,420	123,420
Total	<u>\$ 4,320,000</u>	<u>\$ 360,491</u>	<u>\$ 4,680,491</u>

State Loan Payable

In March 1998, the SEJPA entered into an agreement with the State Water Resources Control Board for funding of the San Elijo Water Reclamation System. The loan was funded through the State Revolving Fund loan program administered by the State of California in the amount of \$12,633,522. The State Revolving Fund loan program provides funding for water reclamation projects at a reduced interest rate of 2.5%. The state loan payable outstanding totaled \$3,877,758 at June 30, 2016. Accrued interest totaled \$84,826 at June 30, 2016. The San Elijo Water Reclamation Project represented the construction of tertiary treatment, operational storage facilities, effluent pump stations and a reclaimed water distribution system. Annual loan payments are made by the SEJPA in the amount of \$834,675 and continue through August 2020. The SEJPA has agreed to maintain a dedicated source of revenue sufficient to provide reasonable assurance of repayment of the loan.

The terms of the state loan payable require the SEJPA to place \$63,000 into a reserve fund each year for ten (10) years, beginning with the issuance of the loan. The reserve fund balance was \$630,000 at June 30, 2016 (See Note 4).

Debt service requirements on the State Loan Payable are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 737,731	\$ 96,944	\$ 834,675
2018	756,175	78,500	834,675
2019	775,079	59,596	834,675
2020	794,456	40,219	834,675
2021	814,317	20,358	834,675
Total	<u>\$ 3,877,758</u>	<u>\$ 295,617</u>	<u>\$ 4,173,375</u>

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 9 – Noncurrent Liabilities (Continued)

Private Placement Loan Payable

In November 2011, the SEJPA entered into a private placement loan payable with Municipal Finance Corporation in the amount of \$2,000,000 to fund advanced water treatment improvements (Advanced Water Treatment Project) at the San Elijo Water Reclamation Facility. Interest accrues at 4.15% on the unpaid principal balance and is payable in forty (40) semi-annual payments of \$74,077 including principal and interest and continue through December 2031. The private placement loan payable outstanding totaled \$1,681,260 at June 30, 2016. Accrued interest totaled \$5,814 at June 30, 2016. The SEJPA's obligation to pay the loan repayments is a special obligation limited solely to the net revenues as defined in the loan agreement. The SEJPA has covenanted that it will fix, prescribe and collect rates, fees and charges sufficient to generate net revenues at least equal to 115% of the amount of the maximum annual debt service.

Debt service requirements on the private placement loan payable are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 79,194	\$ 72,146	\$ 151,340
2018	82,525	68,959	151,484
2019	85,975	65,638	151,613
2020	89,580	58,574	148,154
2021	93,336	54,817	148,153
2022-2026	414,154	178,458	592,612
2027-2031	623,191	117,574	740,765
2032	213,305	8,913	222,218
Total	<u>\$ 1,681,260</u>	<u>\$ 625,079</u>	<u>\$ 2,306,339</u>

SFID Reimbursement Agreement Payable

The Santa Fe Irrigation District (SFID) constructed a reclaimed water distribution pipeline extension of 3,400 linear feet to the SEJPA's reclaimed water distribution system in order to extend SEJPA's existing recycled water distribution system and enable the SFID to serve new reclaimed water customers. SEJPA agreed to reimburse SFID for the cost of design and construction of the extension in the amount of \$526,149 and the SFID agreed to convey ownership of the extension to SEJPA. Under the terms of the agreement, the reimbursement amount shall be increased each July 1st by adding interest at the rate equivalent to the average LAIF rate for the past four quarters, but not less than 1% nor greater than 2.5% calculated on the unpaid monthly balance. SEJPA shall reimburse the SFID at a monthly rate of \$450 per acre foot of recycled water delivered through the extension including water delivered to purveyors other than SFID. In addition, SEJPA made an initial down payment of \$50,000. SEJPA will further make a lump sum payment of all remaining principal and interest due after completion of the 20th year of this agreement if the average annual delivery volume of the extension from year 13 through year 15 exceeds 50 acre feet annually. Future payments on the SFID reimbursement agreement payable are contingent upon future reclaimed water sales, therefore future maturities have not been estimated and the agreement is considered noncurrent. The SFID reimbursement agreement payable totaled \$445,343 at June 30, 2016.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 10 – Postemployment Benefits

Plan Description

The SEJPA provides medical insurance benefits to eligible retirees in accordance with various labor agreements subject to the SEJPA's vesting schedule. Medical benefits are typically available at age 55 and are only available to those retirees that select CalPERS medical upon the date of retirement. The current maximum contribution by the SEJPA to the retiree is \$125 per month, which is set by CalPERS.

Funding Policy and Annual OPEB Costs

The contribution requirements of the SEJPA are established and may be amended annually by the Board of Directors. The SEJPA's annual other post-employment benefit (OPEB) cost (expense) for the Plan is calculated based on the annual required contribution of the SEJPA (ARC), an amount actuarially determined in accordance with GASB Cod. Sec. P50, "Postemployment Benefits Other Than Pension Benefits - Employer Reporting." The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. The SEJPA's Board of Directors has established a policy of funding the ARC on a pay as you go basis. The current ARC rate is 1.93% of annual covered payroll.

The following table shows the components of the SEJPA's annual OPEB cost, the amount actually contributed to the Plan including benefits paid to retirees, and changes in the SEJPA's net OPEB obligation for the three preceding years:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Annual required contribution	\$ 37,634	\$ 37,634	\$ 37,634
Interest on net OPEB obligation	5,151	4,782	3,442
Adjustment to annual required contribution	(18,930)	-	(6,801)
Total annual OPEB cost	<u>23,855</u>	<u>42,416</u>	<u>34,275</u>
Contributions (including benefits paid)	(6,442)	(7,141)	(5,616)
Total change in net OPEB obligation	<u>17,413</u>	<u>35,275</u>	<u>28,659</u>
Net OPEB obligation:			
Beginning of year	137,538	102,263	73,604
End of year	<u>\$ 154,951</u>	<u>\$ 137,538</u>	<u>\$ 102,263</u>

The SEJPA's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributions Made</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable (Asset)</u>
June 30, 2016	\$ 23,855	\$ 6,222	26.08%	\$ 154,951
June 30, 2015	42,416	7,141	16.84%	137,538
June 30, 2014	34,275	5,769	16.83%	102,263

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 10 – Postemployment Benefits (Continued)

Funding Status and Funding Progress

As of June 30, 2014, the most recent actuarial valuation date, the Plan was not yet funded. The SEJPA's actuarial accrued liability for benefits at June 30, 2014 was \$291,746 and the covered payroll (annual payroll of active employees covered by the Plan) was \$1,940,742, with a ratio of the UAAL to the covered payroll of 15.03%. The normal cost payments made during the year of \$6,442 funded 26.08% of the annual required contribution (ARC) leaving an unfunded actuarial liability (UAAL) of \$291,746 and a funded ratio of 0.00%.

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2014	\$ -	\$ 291,746	\$ 291,746	0.00%	\$ 1,940,742	15.03%

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

The schedule of funding progress for the Plan is presented as Required Supplementary Information following the Notes to the Financial Statements. These schedules show multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

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

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. The actuarial assumptions included a 4.0% discount rate, which assumes the SEJPA continues to maintain the retiree health benefits program as an unfunded plan. The amount represents the present value of all contributions for retiree health benefits projected to be paid by the SEJPA for current and future retirees; and an annual healthcare cost trend rate of 3.5%. The UAAL is being amortized as a level percentage of projected payroll over 17 years.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 11 – Defined Benefit Pension Plan

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the Miscellaneous Plan of the San Elijo Joint Powers Authority, (All Plans) a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS) in which the SEJPA participates with other public agencies that each have fewer than 100 active members and share the same benefit formula. CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The SEJPA participates in the miscellaneous 2.5% at 55 pool, for those employees hired before July 1, 2012. New employees with no prior CalPERS membership and those with prior CalPERS membership with a break in service greater than six months, hired after July 1, 2012 participate in the miscellaneous 2% at 62 pool. Employees hired after July 1, 2012 with prior CalPERS membership with less than six months break in service, participate in the miscellaneous 2% at 60 pool.

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire Date	Miscellaneous		
	Prior to July 1, 2012	On or After July 1, 2012	
		Second Tier	PEPRA
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.00%	6.25%
Required employer contribution rates	10.1%	7.1%	6.237%

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

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 11 – Defined Benefit Pension Plan (Continued)

Employees Covered by the Benefit Terms

For the year ended June 30, 2016, the SEJPA's Plan's proportionate share of aggregate employer contributions made for each plan was as follows:

	Tier 1	Tier 2	PEPRA	Total
Contributions - employer	\$ 129,947	\$ 12,204	\$ 19,128	\$ 161,279

At June 30, 2016, the following employees were covered by the benefit terms for each miscellaneous plan:

	Tier 1	Tier 2	PEPRA	Total
Active employees	12	2	6	20
Inactive employees or beneficiaries currently receiving benefits	14	-	-	14
Inactive employees entitled to, but not yet receiving benefits	12	-	-	12
Total	38	2	6	46

Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions

As of June 30, 2016, the SEJPA reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Tier 1	Tier 2	PEPRA	Total
Proportionate share of net pension liability	\$ 2,464,787	\$ (918)	\$ (385)	\$ 2,463,484

The SEJPA's net pension liability for each plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The SEJPA's proportion of the net pension liability was based on a projection of the SEJPA's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 11 – Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2014). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

The SEJPA's proportionate share of the net pension liability for each Plan as of June 30, 2016 was as follows:

	Tier 1	Tier 2	PEPRA
Proportion June 30, 2014	0.03114%	0.00000%	0.00000%
Proportion June 30, 2015	0.81736%	0.57100%	0.34950%
Change - increase (decrease)	0.78622%	0.57100%	0.34950%

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 11 – Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2016, the SEJPA recognized pension expense of \$161,279. At June 30, 2016, the SEJPA reported deferred outflows of resources and deferred inflows of resources from the following sources:

Tier 1 Plan		
	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	\$ 129,947	\$ -
Difference between expected and actual experience	15,410	-
Changes of assumptions	-	(145,789)
Net difference between projected and actual earnings on pension plan investments	373,684	(410,902)
Employer contributions in excess/(under) proportionate share of contributions		(62,115)
Adjustments due to difference in proportions	224,736	(15,061)
Total	<u>\$ 743,777</u>	<u>\$ (633,867)</u>

Tier 2 Plan		
	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	\$ 122,204	\$ -
Difference between expected and actual experience	1,077	-
Changes of assumptions	-	(10,185)
Net difference between projected and actual earnings on pension plan investments	26,105	(34)
Employer contributions in excess/(under) proportionate share of contributions	-	(11,534)
Adjustments due to difference in proportions	3,050	(12,218)
Total	<u>\$ 152,436</u>	<u>\$ (33,971)</u>

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 11 – Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions (Continued)

PEPRA Plan		
	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	\$ 19,128	\$ -
Difference between expected and actual experience	659	-
Changes of assumptions	-	(6,234)
Net difference between projected and actual earnings on pension plan investments	15,979	(5)
Employer contributions in excess/(under) proportionate share of contributions	-	(7,057)
Adjustments due to difference in proportions	1,513	(10,480)
Total	<u>\$ 37,279</u>	<u>\$ (23,776)</u>
TOTAL		
	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	\$ 271,279	\$ -
Difference between expected and actual experience	17,146	-
Changes of assumptions	-	(162,208)
Net difference between projected and actual earnings on pension plan investments	415,768	(410,941)
Employer contributions in excess/(under) proportionate share of contributions	-	(80,706)
Adjustments due to difference in proportions	229,299	(37,759)
Total	<u>\$ 933,492</u>	<u>\$ (691,614)</u>

The \$271,279 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	Deferred Outflows/(Inflows) of Resources			
	Tier 1 Plan	Tier 2 Plan	PEPRA Plan	Total
2016	\$ (42,834)	\$ (5,124)	\$ (4,357)	\$ (52,315)
2017	(39,796)	(4,566)	(4,970)	(49,332)
2018	(30,828)	(576)	(292)	(31,696)
2019	93,421	6,527	3,994	103,942
2020	-	-	-	-
Thereafter	-	-	-	-
Total	<u>\$ (20,037)</u>	<u>\$ (3,739)</u>	<u>\$ (5,625)</u>	<u>\$ (29,401)</u>

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 11 – Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability determined in the June 30, 2014 actuarial accounting valuation. The June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	3.3% to 14.2% depending on age, service, and type of employment
Investment Rate of Return	7.65%
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

The underlying mortality assumption and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details for the Experience Study can be found on the CalPERS website under "Forms and Publications."

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

Change of Assumption

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment, which previously reduced the discount rate for administrative expense.

Discount Rate

In determining the long-term expected rate of return, CalPERS took into account, both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 11 – Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions (Continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11 + ²
Global equity	47.00%	5.25%	5.71%
Global fixed income	19.00%	0.99%	2.43%
Inflation sensitive	6.00%	0.45%	3.36%
Private equity	12.00%	6.83%	6.95%
Real estate	11.00%	4.50%	5.13%
Infrastructure and forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

¹ An expected inflation of 2.5% was used for this period.

² An expected inflation of 3.0% was used for this period.

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 Section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. The difference was deemed immaterial to the Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 11 – Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of each Plan, as of the measurement date calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

Plan's Net Pension Liability/(Asset)						
	Discount Rate - 1%		Current Discount		Discount Rate + 1%	
	(6.65%)		Rate (7.65%)		(8.65%)	
Tier 1	\$	4,133,620	\$	2,464,787	\$	1,086,972
Tier 2		(1,540)		(918)		(405)
PEPRA		(646)		(385)		(170)

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2016, the SEJPA reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

Note 12 – Net Position

At June 30, 2016, net investment in capital assets consisted of the following:

Description	Balance
Net investment in capital assets:	
Capital assets – not being depreciated	\$ 2,593,101
Capital assets, net – being depreciated	36,822,296
Loans receivable - capital	4,320,000
Deferred amount on refunding	154,823
Accrued interest payable	(147,262)
Retention payable	(1,111)
2011 Refunding Revenue Bonds	(4,619,428)
State loan payable	(3,877,758)
Private placement loan	(1,681,260)
SFID loan payable	(445,343)
Total net investment in capital assets	<u>\$ 33,118,058</u>

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 13 – Commitments and Contingencies

Contracts

The SEJPA has entered into various contracts for the purchase of material and construction of capital assets. The amounts contracted are based on the contractor's estimated cost of construction. At June 30, 2016, the total unpaid amount on these contracts is approximately \$51,025.

Litigation

Legal claims and lawsuits arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the SEJPA's financial position.

Operating Leases

Under an agreement dated April 11, 1991 the SEJPA leases a maintenance facility to the City of Encinitas for \$1 per year for an initial term of 30 years. The lease may be renewed or extended at the expiration of the initial term at a rate mutually agreed upon. In addition to the annual payment of \$1, the City agreed to reimburse the SEJPA within 30 days for all engineering and inspection costs incurred as a result of the engineering and construction of the maintenance facility. The City also agreed to reimburse the SEJPA for all construction costs incurred by the SEJPA as a result of the construction of the maintenance facility in 30 equal annual installments at an interest rate equal to the interest rate on the bonds issued for construction of the upgrade and expansion of the Water Pollution Control Facility. The lease payments collected are then remitted directly to the member agencies.

In January 2007, the SEJPA entered into a Communications Site License Agreement as lessor with Omnipoint Communications, Inc. which was subsequently conveyed to T-Mobile West, LLC. The initial term of the agreement, which calls for an annual payment of \$20,400 and increasing 3% annually, is for 5 years commencing the earlier of the date the licensees intend to commence construction or October 1, 2007. This lease agreement may be extended automatically for five additional five-year terms on the same terms and conditions at the election of Omnipoint. The lease is currently extended through October 1, 2017. The SEJPA recognized rental income in the amount of \$25,842 for the year ended June 30, 2016.

Note 14 – New and Upcoming Governmental Accounting Standards Implementation

New Governmental Accounting Standards Implementation for the Year Ended June 30, 2016

GASB No. 72

In February 2015, The Governmental Accounting Standards Board issued Statement No. 72, "Fair Value Measurement and Application." This pronouncement provides guidance for determining fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Governments are required to use valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value. Required disclosures include the level of fair value hierarchy and valuation techniques and should be organized by type of asset or liability. This pronouncement is effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the SEJPA.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 14 – New and Upcoming Governmental Accounting Standards Implementation (Continued)

New Governmental Accounting Standards Implementation for the Year Ended June 30, 2016 (Continued)

GASB No. 73

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements 67 and 68). Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities that are not within the scope of GASB Statement 68, which are effective for financial statements for fiscal year ending June 30, 2017. This pronouncement did not have a material effect on the financial statements of the SEJPA.

Upcoming Governmental Accounting Standards Implementation

The SEJPA is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

GASB Statement No. 74

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which addresses reporting by postemployment benefits other than pensions (OPEB) plans that administer benefits on behalf of governments. This statement basically parallels GASB Statement 67 and replaces GASB Statement 43. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2017.

GASB Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2018.

GASB Statement No. 76

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2016.

GASB Statement No. 77

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2017.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 14 – New and Upcoming Governmental Accounting Standards Implementation (Continued)

Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 78

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2017.

GASB Statement No. 79

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2017.

GASB Statement No. 80

In December 2015, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2017.

GASB Statement No. 81

In December 2015, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2018.

San Elijo Joint Powers Authority
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2016

Note 14 – New and Upcoming Governmental Accounting Standards Implementation (Continued)

Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 82

In December 2015, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2018.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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San Elijo Joint Powers Authority
Required Supplementary Information (Unaudited)
Schedules of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios
Last Ten Fiscal Years*
Tier 1 Plan - 1932
As of June 30, 2016

	<u>6/30/2015¹</u>	<u>6/30/2014¹</u>
Plan's proportion of the net pension liability	0.81736%	0.03114%
Plan's proportionate share of the net pension liability	\$ 2,464,787	\$ 1,937,481
Plan's covered-employee payroll ²	\$ 1,343,800	\$ 1,568,564
Plan's proportionate share of the net pension liability as a percentage of covered-employee payroll	183.42%	123.52%
Plan's fiduciary net position	\$ 8,148,752	\$ 7,976,126
Plan's fiduciary net position as a percentage of the total pension liability	76.78%	80.46%
Plan's proportionate share of aggregate employer contributions ^{3,4}	\$ 308,067	\$ 215,688

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

³ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

⁴ This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

San Elijo Joint Powers Authority
Required Supplementary Information (Unaudited)
Schedules of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios (Continued)
Last Ten Fiscal Years*
Tier 2 Plan - 23261
As of June 30, 2016

	<u>6/30/2015¹</u>	<u>6/30/2014¹</u>
Plan's proportion of the net pension liability	0.00000%	0.00000%
Plan's proportionate share of the net pension liability	\$ (918)	\$ 133
Plan's covered-employee payroll ²	\$ 181,913	\$ 42,312
Plan's proportionate share of the net pension liability as a percentage of covered-employee payroll	-0.50%	0.31%
Plan's fiduciary net position	\$ 364,104	\$ 649
Plan's fiduciary net position as a percentage of the total pension liability	100.25%	82.99%
Plan's proportionate share of aggregate employer contributions ^{3,4}	\$ 21,521	\$ 18

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

³ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

⁴ This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

San Elijo Joint Powers Authority
Required Supplementary Information (Unaudited)
Schedules of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios (Continued)
Last Ten Fiscal Years*
PEPRA Plan - 26431
As of June 30, 2016

	<u>6/30/2015¹</u>	<u>6/30/2014¹</u>
Plan's proportion of the net pension liability	0.00000%	0.00000%
Plan's proportionate share of the net pension liability	\$ (385)	\$ 22
Plan's covered-employee payroll ²	\$ 306,692	\$ 96,820
Plan's proportionate share of the net pension liability as a percentage of covered-employee payroll	-0.13%	0.02%
Plan's fiduciary net position	\$ 19,219	\$ 108
Plan's fiduciary net position as a percentage of the total pension liability	102.04%	83.08%
Plan's proportionate share of aggregate employer contributions ^{3,4}	\$ 13,173	\$ 3

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

³ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

⁴ This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

San Elijo Joint Powers Authority
Required Supplementary Information (Unaudited)
Schedules of Contributions
Last Ten Fiscal Years*
Miscellaneous Tier 1 Plan - 1932
As of June 30, 2016

	2015-16 ¹	2014-15 ¹	2013-14 ¹
Contractually determined contribution (actuarially determined)	\$ 129,947	\$ 240,427	\$ 235,844
Contributions in relation to the actuarially determined contributions ²	(254,947)	(240,427)	(235,844)
Contribution deficiency (excess)	\$ (125,000)	\$ -	\$ -
Covered-employee payroll ^{3,4}	\$ 1,384,114	\$ 1,343,800	\$ 1,568,564
Contributions as a percentage of covered-employee payroll ³	18.42%	17.89%	15.04%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

⁴ Payroll from prior year was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule

Valuation date: 6/30/2014

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2011 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

San Elijo Joint Powers Authority
Required Supplementary Information (Unaudited)
Schedules of Contributions (Continued)
Last Ten Fiscal Years*
Miscellaneous Tier 2 Plan - 23261
As of June 30, 2016

	2015-16 ¹	2014-15 ¹	2013-14 ¹
Contractually determined contribution (actuarially determined)	\$ 122,204	\$ 16,796	\$ 14,207
Contributions in relation to the actuarially determined contributions ²	(122,204)	(16,796)	(14,207)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll ^{3,4}	\$ 187,370	\$ 181,913	\$ 42,312
Contributions as a percentage of covered-employee payroll ³	65.22%	9.23%	33.58%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

⁴ Payroll from prior year was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule

Valuation date: 6/30/2014

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2011 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

San Elijo Joint Powers Authority
Required Supplementary Information (Unaudited)
Schedules of Contributions (Continued)
Last Ten Fiscal Years*
PEPRA Plan - 26431
As of June 30, 2016

	2015-16 ¹	2014-15 ¹	2013-14 ¹
Contractually determined contribution (actuarially determined)	\$ 19,128	\$ 10,281	\$ 6,181
Contributions in relation to the actuarially determined contributions ²	(19,128)	(10,281)	(6,181)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll ^{3,4}	\$ 315,893	\$ 306,692	\$ 96,820
Contributions as a percentage of covered-employee payroll ³	6.06%	3.35%	6.38%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

⁴ Payroll from prior year was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule

Valuation date: 6/30/2014

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2011 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

San Elijo Joint Powers Authority
Required Supplementary Information (Unaudited)
Schedule of Funding Progress – Other Post-Employment Benefits Plan
For the Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2014	\$ -	\$ 291,746	\$ 291,746	0.00%	\$ 1,940,742	15.03%
June 30, 2011	-	149,480	149,480	0.00%	1,623,768	9.21%

Notes to the Schedule:

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB No. 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually, if there are significant changes in the plan.

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**SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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San Elijo Joint Powers Authority
Combining Statement of Net Position
June 30, 2016

	<u>Wastewater</u>	<u>Reclamation</u>	<u>Total</u>
Current assets:			
Cash and investments	\$ 6,480,711	\$ 467,705	\$ 6,948,416
Due from other governmental agencies	230,104	490,459	720,563
Accrued interest receivable	63,713	2,623	66,336
Prepaid items	13,950	4,879	18,829
Current portion of loans receivable	1,305,000	579	1,305,579
Total current assets	<u>8,093,478</u>	<u>966,245</u>	<u>9,059,723</u>
Non-current assets:			
Restricted cash and cash equivalents	46	630,000	630,046
Loans receivable - net of current portion	3,015,000	-	3,015,000
Other assets	19,119	-	19,119
Capital assets:			
Nondepreciable	900,008	1,693,093	2,593,101
Depreciable, net of accumulated depreciation	20,992,127	15,830,169	36,822,296
Total capital assets	<u>21,892,135</u>	<u>17,523,262</u>	<u>39,415,397</u>
Total non-current assets	<u>24,926,300</u>	<u>18,153,262</u>	<u>43,079,562</u>
Total assets	<u>33,019,778</u>	<u>19,119,507</u>	<u>52,139,285</u>
Deferred outflows of resources:			
Deferred amount on refunding	154,823	-	154,823
Deferred outflows related to pensions	791,157	142,335	933,492
Total deferred outflows of resources	<u>945,980</u>	<u>142,335</u>	<u>1,088,315</u>

San Elijo Joint Powers Authority
Combining Statement of Net Position (Continued)
June 30, 2016

	<u>Wastewater</u>	<u>Reclamation</u>	<u>Total</u>
Current liabilities:			
Accounts payable	\$ 228,126	\$ 95,013	\$ 323,139
Accrued liabilities	61,772	13,296	75,068
Accrued interest payable	56,622	90,640	147,262
Retention payable	1,111	-	1,111
Unearned revenue	176,129	62,219	238,348
Revenue refunding bonds - due within one year	1,305,000	-	1,305,000
State loan payable - due within one year	-	737,731	737,731
Private placement loan payable - due within one year	-	79,194	79,194
Compensated absences - due within one year	46,923	7,011	53,934
Total current liabilities	<u>1,875,683</u>	<u>1,085,104</u>	<u>2,960,787</u>
Non-current liabilities:			
Due to member agencies payable from restricted assets	46	-	46
Revenue refunding bonds - due in more than one year	3,314,428	-	3,314,428
State loan payable - due in more than one year	-	3,140,027	3,140,027
Private placement loan payable - due in more than one year	-	1,602,066	1,602,066
SFID reimbursement agreement payable	-	445,343	445,343
Net pension liability	2,111,379	352,105	2,463,484
Net OPEB obligation	128,462	26,489	154,951
Compensated absences - due in more than one year	306,491	48,009	354,500
Total non-current liabilities	<u>5,860,806</u>	<u>5,614,039</u>	<u>11,474,845</u>
Total liabilities	<u>7,736,489</u>	<u>6,699,143</u>	<u>14,435,632</u>
Deferred inflows of resources			
Deferred inflows related to pensions	590,900	100,714	691,614
Total deferred inflows of resources	<u>590,900</u>	<u>100,714</u>	<u>691,614</u>
Net position:			
Net investment in capital assets	21,689,797	11,428,261	33,118,058
Restricted	-	630,000	630,000
Unrestricted	3,948,572	403,724	4,352,296
Total net position	<u>\$ 25,638,369</u>	<u>\$ 12,461,985</u>	<u>\$ 38,100,354</u>

San Elijo Joint Powers Authority
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

Operating revenues:	Wastewater	Reclamation	Total
Charges for services to other government agencies	\$ 1,020,284	\$ 2,341,779	\$ 3,362,063
Contributions from the City of Encinitas	1,792,541	-	1,792,541
Contributions from the City of Solana Beach	1,421,683	-	1,421,683
Total operating revenues	4,234,508	2,341,779	6,576,287
Operating expenses:			
Personnel costs	2,401,854	556,760	2,958,614
Depreciation and amortization	1,366,098	589,124	1,955,222
Utilities	539,832	271,007	810,839
Contracted services	378,916	206,241	585,157
Supplies	161,166	100,951	262,117
Disposal services	194,015	-	194,015
Miscellaneous	86,844	58,847	145,691
Repair parts expense	90,291	43,613	133,904
Permit/purveyor fees	44,280	24,811	69,091
Insurance	38,550	16,520	55,070
Total operating expenses	5,301,846	1,867,874	7,169,720
Operating income (loss)	(1,067,338)	473,905	(593,433)
Non-operating revenues (expenses):			
Investment income	216,929	8,117	225,046
State grants	-	60,925	60,925
Rental income	25,843	-	25,843
Loss on disposal of assets	(2,429)	-	(2,429)
Interest expense	(156,612)	(175,597)	(332,209)
Other	3,158	-	3,158
Total non-operating revenues (expenses), net	86,889	(106,555)	(19,666)
Net (loss) before capital contributions	(980,449)	367,350	(613,099)
Capital contributions:			
Member agency assessments	997,819	-	997,819
Total capital contributions	997,819	-	997,819
Change in net position	17,370	367,350	384,720
Net position:			
Beginning of year, as previously stated	25,620,999	12,094,635	37,715,634
End of year	\$ 25,638,369	\$ 12,461,985	\$ 38,100,354

San Elijo Joint Powers Authority
Combining Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities:	Wastewater	Reclamation	Total
Cash receipts from customers	\$ 4,470,958	\$ 2,217,721	\$ 6,688,679
Cash payments to vendors and suppliers for materials and services	(1,458,267)	(676,977)	(2,135,244)
Cash payments to employees for services	(2,382,275)	(580,104)	(2,962,379)
Net cash provided by operating activities	630,416	960,640	1,591,056
Cash flows from non-capital financing activities:			
Rental and other nonoperating income	29,001	-	29,001
Net cash (used in) non-capital financing activities	29,001	-	29,001
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(622,098)	(967,438)	(1,589,536)
Proceeds from the sale of capital assets	-	-	-
Principal paid on long-term debt	(1,344,806)	(803,896)	(2,148,702)
Interest paid on long-term debt	(127,977)	(191,604)	(319,581)
Proceeds of state grants	-	60,933	60,933
Capital contributions	997,819	-	997,819
Net cash provided by capital and related financing activities	(1,097,062)	(1,902,005)	(2,999,067)
Cash flows from investing activities:			
Proceeds from loans receivable	1,265,000	-	1,265,000
Proceeds from retrofit loans receivable	-	52,065	52,065
Investment earnings	225,906	7,714	233,620
Net cash provided by investing activities	1,490,906	59,779	1,550,685
Net increase in cash and cash equivalents	1,053,261	(881,586)	171,675
Cash and cash equivalents:			
Beginning of year	5,427,496	1,979,291	7,406,787
End of year	\$ 6,480,757	\$ 1,097,705	\$ 7,578,462
Cash and cash equivalents	\$ 6,480,711	\$ 467,705	\$ 6,948,416
Restricted cash and cash equivalents	46	630,000	630,046
Total cash and cash equivalents	\$ 6,480,757	\$ 1,097,705	\$ 7,578,462

San Elijo Joint Powers Authority
Combining Statement of Cash Flows (Continued)
For the Year Ended June 30, 2016

	<u>Wastewater</u>	<u>Reclamation</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ (1,067,338)	\$ 473,905	\$ (593,433)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,366,098	589,124	1,955,222
Change in assets, liabilities, deferred outflows of resources, and deferred inflows of resources:			
Due from other governmental agencies	60,321	(186,277)	(125,956)
Prepaid items	(546)	(97)	(643)
Deferred outflows related to pensions	(561,233)	(98,498)	(659,731)
Accounts payable	123,864	45,110	168,974
Accrued liabilities	(2,444)	(25,371)	(27,815)
Retentions payable	(47,691)	-	(47,691)
Unearned revenue	176,129	62,219	238,348
Net pension liability	447,339	78,509	525,848
Net OPEB obligation	13,875	3,536	17,411
Compensated absences	57,354	7,127	64,481
Deferred inflows related to pensions	64,688	11,353	76,041
Total adjustments	<u>1,697,754</u>	<u>486,735</u>	<u>2,184,489</u>
Net cash provided by operating activities	<u>\$ 630,416</u>	<u>\$ 960,640</u>	<u>\$ 1,591,056</u>
Non-cash items:			
Amortization of bond issuance costs	\$ 5,098	\$ -	\$ 5,098
Amortization of deferred amount on refunding	41,287	-	41,287
Total non-cash items	<u>\$ 46,385</u>	<u>\$ -</u>	<u>\$ 46,385</u>

San Elijo Joint Powers Authority
Operating Budget Comparison Schedule - Wastewater
For the Year Ended June 30, 2016

	Budget	Actual	Variance
Operating revenues:			
Charges for services to other government agencies	\$ 1,182,485	\$ 1,020,284	\$ (162,201)
Contributions from the City of Encinitas	1,795,541	1,792,541	(3,000)
Contributions from the City of Solana Beach	1,594,814	1,421,683	(173,131)
Total operating revenues	4,572,840	4,234,508	(338,332)
Operating expenses:			
Personnel costs	2,392,783	2,401,854	(9,071)
Utilities	573,324	539,832	33,492
Contracted services	453,984	378,916	75,068
Supplies	191,351	161,166	30,185
Disposal services	212,633	194,015	18,618
Miscellaneous	98,736	86,844	11,892
Repair parts expense	132,350	90,291	42,059
Permit/purveyor fees	59,640	44,280	15,360
Insurance	43,000	38,550	4,450
Capital expense	34,500	-	34,500
Contingency	129,900	-	129,900
Total operating expenses	4,322,201	3,935,748	386,453
Operating income (loss)	\$ 250,639	\$ 298,760	\$ 48,121

San Elijo Joint Powers Authority
Operating Budget Comparison Schedule - Reclamation
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Charges for services to other government agencies	\$ 2,593,403	\$ 2,341,779	\$ (251,624)
Contributions from the City of Encinitas	-	-	-
Contributions from the City of Solana Beach	-	-	-
Total operating revenues	<u>2,593,403</u>	<u>2,341,779</u>	<u>(251,624)</u>
Operating expenses:			
Personnel costs	505,658	556,760	(51,102)
Utilities	346,874	271,007	75,867
Contracted services	219,484	206,241	13,243
Supplies	116,308	100,951	15,357
Disposal services	-	-	-
Miscellaneous	81,374	58,847	22,527
Repair parts expense	42,000	43,613	(1,613)
Permit/purveyor fees	34,100	24,811	9,289
Insurance	18,150	16,520	1,630
Total operating expenses	<u>1,363,948</u>	<u>1,278,750</u>	<u>85,198</u>
Operating income (loss)	<u>\$ 1,229,455</u>	<u>\$ 1,063,029</u>	<u>\$ (166,426)</u>

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City of Encinitas California



Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2016

The front cover of this Financial Report highlights City Council priority projects worked on during FY 2015-2016 starting upper left and moving clockwise: 1) Marine Safety Center at Moonlight Beach (artists rendering), 2) Paul Ecke Central Elementary Safe Route to School Improvements, 3) Annual Street Overlay project, and 4) Leo Mullen Turf project. The picture in the center highlights the adoption of an urban agriculture ordinance by City Council that encourages sustainable practices, improves local food security and access to healthy food while protecting the environment, public health and animal welfare.

City of Encinitas California



Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2016



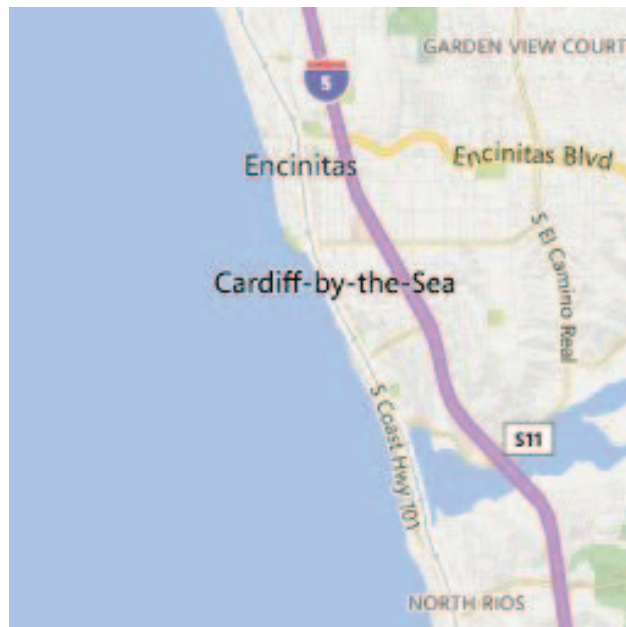
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www.encinitasca.gov



ABOUT THE CITY OF ENCINITAS

The City of Encinitas was incorporated as a general law city in 1986, merging the existing communities of New and Old Encinitas, Cardiff-by-the-Sea, Leucadia, and Olivenhain. The City of Encinitas has a population of approximately 62,000 and is located along six miles of Pacific coastline in the northern half of San Diego County. Approximately 21 square miles in area, Encinitas is characterized by coastal beaches, cliffs, flat-topped coastal areas, steep mesa bluffs, and rolling hills. Encinitas is the center of a significant flower growing industry and is often referred to as the Flower Capital of the World.



Issued by the Finance Department

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CITY COUNCIL KEY STRATEGIC PLAN DOCUMENT ELEMENTS:

VISION STATEMENT

“Encinitas is five unique communities thriving as ONE great city.”

MISSION STATEMENT

“Preserve, protect and provide innovative services that enhance the quality of life for residents, visitors, businesses and our communities.”

ABOUT THE COVERS

On the front cover is a collage highlighting City Council priority projects worked on during FY 2015-2016 starting upper left and moving clockwise: 1) Marine Safety Center at Moonlight Beach (artists rendering), 2) Paul Ecke Central Elementary Safe Route 2 School Improvements, 3) Annual Street Overlay project, and 4) Leo Mullen Turf project. The picture in the center highlights the adoption of an urban agriculture ordinance by City Council that encourages sustainable practices, improves local food security and access to healthy food while protecting the environment, public health and animal welfare. On the back cover is a photo taken courtesy of Morgan Mallory.

Copies of this report are available at the City of Encinitas, 505 South Vulcan Avenue, Encinitas, California 92024.



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City of Encinitas
Comprehensive Annual Financial Report
For the Year Ended June 30, 2016

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TRANSMITTAL LETTER • INTRODUCTORY SECTION



December 7, 2016

Honorable Mayor, City Council and Citizens of the City of Encinitas, California,

We are pleased to present the fiscal year 2015-16 *Comprehensive Annual Financial Report* (CAFR) for the City of Encinitas and its related entities. This report was prepared by the City's Finance Department to assist those interested in understanding the financial condition and results of operations of the City for the fiscal year ended June 30, 2016 and includes financial information for the City of Encinitas, the San Dieguito Water District, the Encinitas Housing Authority, and the Encinitas Public Financing Authority. These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. Responsibility for the accuracy of the data, the completeness and reliability of the presentation, including all disclosures, rests with City management.

To provide a reasonable basis for making the presentations shown in this report and to compile sufficient reliable information for the preparation of the City's financial statements, the management of the City has established a comprehensive internal control framework designed to protect the City's assets from loss, theft, or misuse. Because the cost of internal controls should not exceed their benefits, the City's internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

The City's financial statements have been audited by the Pun Group, certified public accountants. The independent auditor concluded based on the audit, that there was reasonable basis for rendering an unmodified opinion (or a "clean audit") on the City's financial statements for the fiscal year ended June 30, 2016, which means in the auditors opinion, the financial statements accurately present the City's financial position.

Management's Discussion & Analysis (MD&A) immediately follows the independent auditors report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

CITY PROFILE AND BACKGROUND

The City of Encinitas was incorporated in October 1986 as a general law city, bringing together the communities of New and Old Encinitas, Cardiff-by-the-Sea, Leucadia, and Olivenhain. Encinitas is located in northern San Diego County approximately 25 miles north of downtown San Diego on the Southern California coast. The City with an estimated population of 61,000 covers approximately 21 square miles and is predominately residential with two major commercial corridors.

TRANSMITTAL LETTER • INTRODUCTORY SECTION

GOVERNANCE

The City is governed by a City Council consisting of a Mayor and four Council members under the Council-Manager form of government. The Council members are elected at large, on staggered four-year terms while the Mayor is elected at large every two years. The City Council appoints the City Manager and City Attorney. All other staff positions are appointed by the City Manager or her designee. The City Council acts as the Board of Directors for the San Dieguito Water District, the Encinitas Housing Authority, and the Encinitas Public Financing Authority.

MUNICIPAL SERVICES

The City provides a full range of municipal services such as:

Fire and paramedic services	Law enforcement (contract)
Marine safety	Parks and trails
Planning and development services	Recreation services
Street maintenance and construction	Traffic control
Wastewater services	Water services

CITY FACILITIES

City Hall is located on Vulcan Avenue between D and E Streets, adjacent to the Encinitas Train Station and downtown. The City maintains an active Community and Senior Center located at Encinitas Boulevard and Balour Drive, the 44-acre Encinitas Community Park located at 425 Santa Fe Drive along with 20 other park sites and Moonlight Beach located at 400 B Street which attracts an estimated 3 million visitors annually. There are six fire stations located throughout the city, as well as one sheriff substation which is owned and operated by the County of San Diego. The corporate yard for both the City of Encinitas and San Dieguito Water District is located near Encinitas Boulevard and Calle Magdalena.

BUDGETING OVERVIEW

The City develops and adopts both an operating and a capital budget on a two-year budget cycle. Amounts are appropriated for the first year only, with the amounts for the second year subject to revision before appropriation. Any changes to the operating or capital budgets must be approved by the City Council. The City also publishes a six-year capital improvement/work project program and financial plan which is updated as part of the two-year budget cycle. This document provides management and the City Council with long-term financial planning information and tools. Online access to detailed City financial information is available on the City's website. This web-based tool allows the user to sort and filter City financial information in order to obtain the specific financial information desired. This tool may be found by selecting the "Open Finance" page on the City's website <https://encinitasca.opengov.com/transparency>.

FACTORS AFFECTING FINANCIAL CONDITION OF THE CITY

Local Economy – Encinitas enjoys a strong and well diversified tax base. Over the years, the property values and personal income levels within the City have generated tax revenues sufficient to support the level of municipal services and facilities for the community to enjoy. The tax base

TRANSMITTAL LETTER • INTRODUCTORY SECTION

has performed well in good economic times and it has also been able to weather the financial impacts during slower economic times. The net taxable assessed value of property in the City has grown 50% since Fiscal Year 2005-06 (ten years ago). Throughout the recession the City maintained slight increases each year in net taxable assessed value. For Fiscal Years 2014-15 and 2015-16 taxable values increased 5.9% and 6.4% respectively.

Employment in Encinitas is strong with the unemployment rate just 4.1% as of July 2016. The unemployment rate for all of San Diego County was 5.3% while statewide the rate was 5.9%. Encinitas also has over 3,300 businesses reporting retail sales within the City. The top 100 sales tax producers include a wide variety of businesses such as car dealers, home improvement stores, big box retail, gas stations, grocery stores and restaurants.

Property and Sales Tax Revenue - Property tax and sales tax revenue represent approximately 80% of the City's total General fund revenue. Property tax revenue in FY 2015-16 totaled \$39.7 million which was an increase of \$2.6 million or 7% over FY 2014-15. Sales tax revenue in FY 2015-16 was \$14.2 million, an increase of \$1.6 million or 12.7% over FY 2014-15 revenue of \$12.6 million. FY 2015-16 sales tax revenue included a one-time "true up" payment of \$1.6 million which marked the end of the property tax in lieu of sales tax program in California that was commonly known as the "Triple Flip". Other revenue sources remained relatively stable, although revenues from the State of California are still considered to be vulnerable to State actions.

Financial Strength and Sustainability - The City of Encinitas is well positioned to weather economic fluctuations and has been evaluated and rated by internationally recognized third party reviewers. On August 28, 2015, Standard & Poor's Rating Services (S&P) affirmed its 'AAA' issuer credit rating (ICR) for the City of Encinitas. As stated in S&P's rating rationale, the 'AAA' ICR reflects the City's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 52% of operating expenditures;
- Very strong liquidity, with total government available cash of 1.5x total governmental fund expenditures and 21.0x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges of 7.2% of expenditures and net direct debt that is 78.3% of total governmental fund revenue and low overall net debt at less than 3% of market value; and
- Adequate institutional framework score.

The City had approximately \$54.2 million of general fund bonded debt and capital leases outstanding at June 30, 2016, with scheduled payments of principal and interest of \$4.8 million in FY 2015-16. This translates to a debt ratio of 7.0%, which is far below the City's goal to maintain a debt service coverage ratio of less than 10%.

Development and Maintenance of Financial Reserves – The City has an established financial policy regarding maintenance of adequate financial reserves. The City sets aside 20% of General

TRANSMITTAL LETTER • INTRODUCTORY SECTION

Fund operating expenses for contingencies (unanticipated events that could negatively impact the City's financial condition.) The City has never had occasion to draw on this reserve, since its inception in the early 1990's. The City also maintains a General Fund budget stabilization reserve, established in 2007 in anticipation of the ensuing recession. This reserve is funded at a minimum of 2% of operating revenues. The City has not had any need to draw on this reserve, despite the decline in operating revenues experienced during the recession. Any amounts remaining after these two reserves are fully funded are considered available for City Council directed use, primarily for future funding of capital improvements. General Fund reserves for contingencies and budget stabilization total \$13.2 million and funding available for capital improvements was \$18.6 million as of June 30, 2016.

Major Initiatives and Projects – In 2013, the City Council developed the City's Strategic Plan which serves as a roadmap to accomplish the City Council's goals and initiatives through the most cost-efficient allocation of resources. The plan incorporates eight vital areas of focus including: Transportation, Recreation, Economic Development, Environment, Arts & Culture, Community Planning, Public Safety and Organizational Effectiveness and Efficiency.

Within the context of the Strategic Plan, on October 7 and December 8, 2015, the City Council held planning workshops to determine the City's Work Program for Fiscal Years 2015-16 and 2016-17. While the City works on many other projects, this Work Program provides a foundation for making tangible progress on specific projects identified during the planning workshops. A few of the Work Program projects are highlighted below.

Circulation Element – Mobility – Under this broad project are more than a dozen specific projects that include safe routes to school sidewalk projects, a grade-separated pedestrian rail crossing at El Portal Ave., the evaluation of a at-grade pedestrian rail crossing at Montgomery Ave., construction of ADA curb ramps at various locations throughout the City, addition of a coastal rail trail and the annual pavement rehabilitation program. Funding for these projects comes from a variety of sources, including Transnet (the Countywide one-half cent sales tax for regional projects), Community Development Block Grant, State Grants, Local and Regional Traffic Impact Fees, and the General Fund.

Coastal Restoration Project - Beach nourishment projects are a “soft” or “green” solution to coastal erosion as they reduce the need for additional seawalls, and considered a climate adaptation strategy in the recently adopted California Coastal Commission Sea Level Rise Policy Guidance document. The United States Corp of Engineers Encinitas-Solana Beach Storm Damage Reduction Project is a long-term plan for beach sand nourishment along approximately 7,800 feet of Encinitas coastline.

Leucadia 101 Streetscape – This project provides streetscape improvements along N. Coast Highway 101 from A Street to La Costa Avenue. Phase I will construct full improvements from A Street to Basil Street and extend other elements such as road diet and tree plantings throughout the entire corridor.

Moonlight Beach Marine Safety Center - The Moonlight Beach Marine Safety Center will replace the existing Lifeguard Tower at Moonlight Beach, which is functionally obsolete. Construction on the \$3.7 million structure is scheduled to be complete in May 2017.

Coastal Mobility and Livability Study – The Rail Corridor Vision Study, Coastal Business Districts Parking Study and Active Transportation Plan are three related mobility studies. These three related mobility studies are being conducted as a consolidated work program, with integrated project management, schedule and public engagement.

TRANSMITTAL LETTER • INTRODUCTORY SECTION

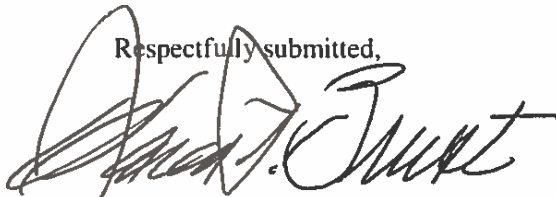
Active Transportation Plan - This Council-directed study combines the Let's Move, Encinitas! Pedestrian and Safe Routes to School Plan with the Bicycle Master Plan, the Trails Master Plan, and the Transit Needs Assessment, into a comprehensive document. The plan will provide a prioritized list of projects to assist Council in developing future Capital Improvement Project budgets.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded their Certificate of Achievement for Excellence in Financial Reporting to the City of Encinitas for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. The City feels the FY 2015-16 Comprehensive Annual Financial Report continues to meet the GFOA criteria for the award.

Lastly, we deeply appreciate the dedication and leadership of the Mayor and Council Members who have consistently supported our goal of excellence in all aspects of financial management. The completion of this report could not have been accomplished without the dedication and hard work of the staff in the Finance Department. Special recognition goes to Finance Manager Cindy Choquette, for her work with the auditors and the coordination of the preparation of this report.

Respectfully submitted,



Karen P. Brust
City Manager



Tim Nash
Director of Finance



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LIST OF CITY OFFICIALS

As of June 30, 2016

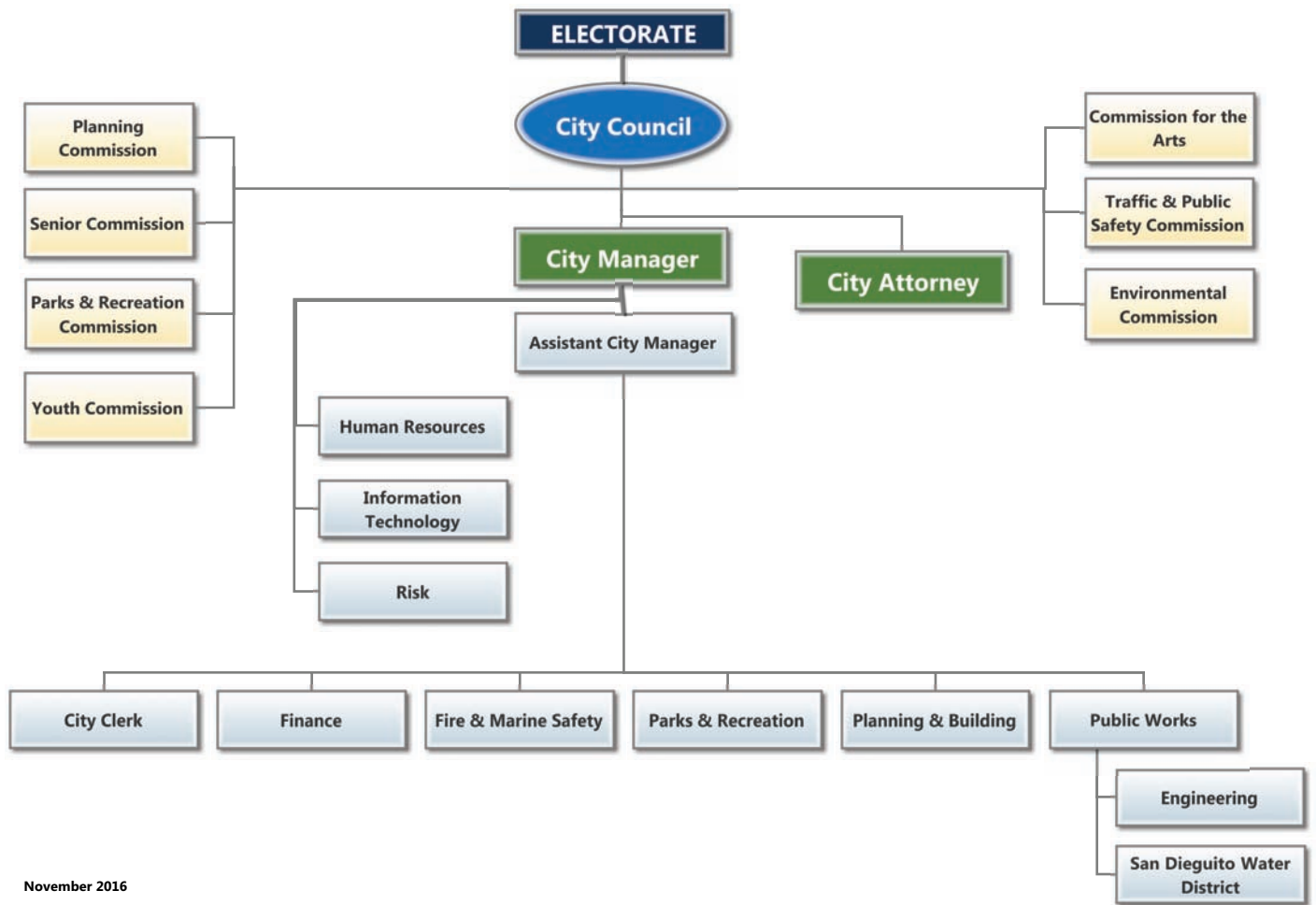
CITY COUNCIL

Mayor	Kristen Gaspar
Deputy Mayor	Lisa Shaffer
Councilmember	Catherine Blakespear
Councilmember	Tony Kranz
Councilmember	Mark Muir

EXECUTIVE TEAM MEMBERS

City Manager	Karen P. Brust
City Clerk/Legislative Services Director	Kathy Hollywood
Public Works Director	Glenn Pruim
Finance Director	Tim Nash
Fire Chief	Michael Stein
Human Resources Department Manager	Jodene Dunphy
Chief Information Officer	Lynn Tufts
Law Enforcement Services Director	Captain John Maryon
Parks & Recreation Department Director	Jennifer Campbell
Planning & Building Director (Interim)	Manjeet Ranu
Risk Management Manager	Jace Schwarm

City of Encinitas Organizational Chart



November 2016



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Encinitas
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Encinitas
Encinitas, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Encinitas, California (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Investments in Joint Ventures which represent 9.6 percent, 14.3 percent and 3.8 percent of the assets, net position, and expenses, respectively, of the City. The financial statements of these agencies, as listed in Note 5 to the basic financial statements, were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Investments in Other Agencies, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules, Schedules of Changes in Net Pension Liability and Related Ratios, Schedules of the Proportionate Share of the Net Pension Liability, Schedules of Contributions, and Schedules of Funding Progress on pages 7 through 19 and 119 through 128 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Combining and Individual Nonmajor Fund Financial Statements and Budgetary Comparison Schedules, and Statistical Section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining and Individual Nonmajor Fund Financial Statements and Budgetary Comparison Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Nonmajor Fund Financial Statements and Budgetary Comparison Schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

To the Honorable Mayor and Members of the City Council
of the City of Encinitas
Encinitas, California
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

The Pw Group, LLP

San Diego, California
December 7, 2016



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the City Council
of the City of Encinitas
Encinitas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Encinitas, California (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 7, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and Members of the City Council
of the City of Encinitas
Encinitas, California
Page 2

Purpose of this Report

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

The PwC Group, LLP

San Diego, California
December 7, 2016



City of Encinitas

Management's Discussion and Analysis

For the Year Ended June 30, 2016

This discussion and analysis of the City of Encinitas' financial performance provides an overview of the fiscal year ended June 30, 2016. The City's financial statements include the accounts of the City, the Encinitas Public Financing Authority (EPFA), the Encinitas Housing Authority (EHA), and the San Dieguito Water District (SDWD). Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The City's total assets increased overall by \$7.5 million. This is composed of a \$4.5 million increase in Governmental activities and \$3.0 million increase in Business-Type activities.
- The City's total net position increased overall by \$11.8 million. Total assets increased \$7.5 million and total liabilities increased \$1.9 million (due to an increase in the aggregate net pension liabilities).
- The City's total revenues increased \$5.1 million from 2015.
 - Governmental activities revenues increased \$6.0 million
 - Business-type activities revenues decreased \$.9 million
- The City's total expenses increased \$0.8 million from 2015.
 - Governmental activities expenses increased \$3.4 million
 - Business-type activities expenses decreased \$2.6 million

THE FINANCIAL STATEMENTS

The financial statements presented herein include all the activities of the City of Encinitas (City) and the component unit of San Dieguito Water District (SDWD) using the integrated approach as prescribed by GASB Statement No. 34. The City includes accounts for the Encinitas Public Financing Authority (EPFA) and the Encinitas Housing Authority (EHA).

The Government-Wide Financial Statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present Governmental activities and Business-type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.



City of Encinitas Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016

The Fund Financial Statements include statements for each of the three categories of activities: Governmental, Business-Type (proprietary) and Fiduciary. The Governmental activities (other than internal service activities) are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The Business-Type activities are prepared using the economic resources management focus and the accrual basis of accounting. The Fiduciary activities include agency funds that only report a balance sheet and do not have a measurement focus. Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are included in order to explain the differences created by the integrated approach (please see pages 34 and 36).

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The Government-Wide Financial Statements consist of two financial statements. The *Statement of Net Position* and the *Statement of Activities and Changes in Net Position*, report information about the City as a whole and its activities. These statements include all assets and liabilities of the City using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Revenues and expenses for the current fiscal year are accounted for, regardless of when cash is received or paid. One of the most important questions asked about the City's finances is "Are the City's finances better or worse off as a result of this year's activities?" These statements can help answer this question and provides an analysis of the City's financial position.

The Statement of Net Position presents information on all of the City's assets, deferred outflows-inflows and liabilities, with the difference between the four reported as *Net Position*, which is one way to measure the City's financial health. Over time, increases or decreases in the City's Net Position is one indicator of whether its financial health is improving or deteriorating.

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

In both the Statement of Net Position and the Statement of Activities and Changes in Net Position, the City activities are separated as follows:

Governmental activities - Most of the City's basic services are reported in this category, including General Government, Public Safety, Public Works, Building and Planning, Engineering Services, and Parks and Recreation. Property and sales taxes, user fees, franchise fees, investment earnings and state and federal grants finance these activities.

Business-Type activities – The City charges a fee to customers to cover all or most of the cost of certain services it provides. These activities include the water and wastewater operations and a portion of the City's affordable housing program.



City of Encinitas Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016

Reporting the City's Most Significant Funds

Fund Financial Statements – The City's Fund Financial Statements provide a greater level of detail regarding the City's *Governmental Activities*, which include the General fund, Capital Improvements, and other Nonmajor Governmental funds. The City reports the General fund and the Capital Improvements fund as major funds, under the guidance provided by GASB No. 34. All other governmental funds are considered Nonmajor funds, and are reported as one group. The General Fund is the largest and most discretionary source of funding for operations, debt service and capital improvements, via both direct expenditures and transfers to other City funds. The Capital Improvements Capital Projects Fund accounts for all governmentally funded capital improvements, as well as a number of work projects such as long-term consultant studies. All of these expenses appear as capital outlay expenditures. Capital spending totaled \$10.8 million this fiscal year, a decrease of approximately \$7.6 million from the prior year. Further discussion of the City's capital program is included in the section below entitled CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAM. The other Nonmajor Governmental Funds are primarily Special Revenue funds, where monies are collected and held, but are restricted to the specific purpose for which they are collected. The City's Debt Service funds are included in this group. Discussion of the City's debt service program is included in the section below entitled DEBT ISSUANCE AND ADMINISTRATION.

The City's Major Funds include:	Type of Activity
<ul style="list-style-type: none">• General Fund• Capital Improvements Capital Projects Fund• City's Water and Wastewater Enterprises<ul style="list-style-type: none">○ San Dieguito Water District○ Cardiff Sanitary Division○ Encinitas Sanitary Division	<ul style="list-style-type: none">Governmental ActivitiesGovernmental ActivitiesBusiness-Type Activities

Governmental funds – Most of the City's basic services are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported by using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental fund statements provide a detailed *short-term view* of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be used in the near future to finance the City's programs.

Proprietary funds - When the City charges customers for the services it provides (whether to outside customers or to other units of the City), these services are generally reported in proprietary funds. Proprietary funds are reported in the same manner as the governmental activities are reported in *Statement of Net Position* and the *Statement of Activities and Changes in Net Position*. The City's enterprise funds (one component of the proprietary funds) are the same as the business-type activities reported in the government-wide financial statements, but provide more detail and additional information such as cash flows for proprietary funds. Internal service funds (the other component of the proprietary funds) report activities that provide supplies and services to other City's programs and activities. The Internal Service funds are reported with Governmental activities in the Government-Wide financial statements.



City of Encinitas

Management's Discussion and Analysis (Continued)

For the Year Ended June 30, 2016

Fiduciary funds – The City is the trustee, or *fiduciary*, for certain funds held on behalf of the Community Facilities District No. 1 (the Encinitas Ranch Development) and Requeza Street Assessment District No. 93-1. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Liabilities. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Net Position – The City of Encinitas' combined Net Position (i.e. inclusive of *all* City funds) for the fiscal year ended June 30, 2016 are compared to results for 2015 in **Table 1**.

Table 1

Statement of Net Position

(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 74.8	\$ 66.2	\$ 42.7	\$ 42.5	\$ 117.5	\$ 108.7
Capital assets (net)	217.9	218.8	55.6	55.7	273.5	274.5
Other non-current assets	4.3	7.5	43.6	40.7	47.9	48.2
Total Assets	297.0	292.5	141.9	138.9	438.9	431.4
Current liabilities	16.5	14.8	4.1	4.5	20.6	19.3
Long-term liabilities	86.7	86.9	18.8	18.0	105.5	104.9
Total Liabilities	103.2	101.7	22.9	22.5	126.1	124.2
Deferred inflows (outflows)	0.5	5.5	(0.4)	0.8	0.1	6.3
Net Position:						
Net investment in capital assets	162.9	157.3	42.5	39.8	205.4	197.1
Restricted	31.0	18.8	1.4	-	32.4	18.8
Unrestricted	(0.6)	9.2	75.5	75.8	74.9	85.0
Total Net Position	\$ 193.3	\$ 185.3	\$ 119.4	\$ 115.6	\$ 312.7	\$ 300.9



City of Encinitas

Management's Discussion and Analysis (Continued)

For the Year Ended June 30, 2016

Net Position represents the most simple test of financial health for the City, indicating the excess (or deficit) of assets and deferred outflows of resources over liabilities. Net Position for the City as a whole increased 3.9% from \$300.9 million at June 30, 2015, to \$312.7 million at June 30, 2016.

- The overall increase in total assets is \$7.5 million. The Governmental activities total assets increased \$4.5 million with a slight decrease in cash/investments, an increase in receivables and inventory as well as a decrease in capital assets. The Business-Type activities total assets increased \$3.0 million with increases in both investment in joint ventures and capital assets. In summary, the Governmental increase of \$4.5 million plus the Business-Type increase of \$3.0 million results in an overall *increase* to the City's total assets of \$7.5 million.
- The overall increase in total liabilities is \$1.9 million. This is the net change attributable to \$4.2 million increase in the long-term liabilities and \$2.3 million decrease in other liabilities in the Governmental and Business activities (accounts payable, deposits, and unearned revenue). \$4.0 million of the overall increase in long-term liabilities is the result of an increase in net pension liabilities (governmental activities total \$ 2.8 million and business-type activities total \$1.2 million).
- The increase of total assets of \$7.5 million along with an increase of Total Liabilities of \$1.9 million and a decrease in Deferred Inflows of \$6.2 million has increased the City's Total Net Position by \$11.8 million or approximately 3.9% increase from 2015.

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City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

Table 2

Statement of Activities and Changes in Net Position
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Program Revenues:						
Charges for services	\$ 8.6	\$ 6.4	\$ 22.5	\$ 23.7	\$ 31.1	\$ 30.1
Operating grants	3.3	3.9	1.1	1.0	4.4	4.9
Capital grants	5.4	4.1	0.7	0.5	6.1	4.6
General Revenues:						
Property taxes	41.2	38.5	0.9	0.8	42.1	39.3
Sales and use taxes	14.2	12.6	-	-	14.2	12.6
Other taxes	4.8	4.6	-	-	4.8	4.6
Intergovernmental	0.4	0.8	-	-	0.4	0.8
Other general revenue	1.6	2.6	0.1	0.2	1.7	2.8
Total Revenues	79.5	73.5	25.3	26.2	104.8	99.7
Program Expenses:						
General government	11.7	10.8	-	-	11.7	10.8
Public safety	27.3	25.8	-	-	27.3	25.8
Public works	11.7	11.6	-	-	11.7	11.6
Planning and building	7.3	6.6	-	-	7.3	6.6
Engineering services	4.6	6.2	-	-	4.6	6.2
Parks and recreation	6.8	5.2	-	-	6.8	5.2
Interest on long-term debt	2.5	2.3	-	-	2.5	2.3
Cardiff Sanitary Division	-	-	3.9	4.3	3.9	4.3
San Dieguito Water District	-	-	13.5	15.0	13.5	15.0
Encinitas Sanitary Division	-	-	2.3	1.7	2.3	1.7
Affordable Housing	-	-	1.4	1.4	1.4	1.4
Recreation	-	-	-	1.3	-	1.3
Total Expenses	71.9	68.5	21.1	23.7	93.0	92.2
Change in Net Position	7.6	5.0	4.2	2.5	11.8	7.5
Transfers in (out)	0.4	-	(0.4)	-	-	-
Increase in Net Position	8.0	5.0	3.8	2.5	11.8	7.5
Net Position - beginning	185.3	180.3	115.6	113.1	300.9	293.4
Net Position - ending	\$ 193.3	\$ 185.3	\$ 119.4	\$ 115.6	\$ 312.7	\$ 300.9



City of Encinitas **Management's Discussion and Analysis (Continued)** **For the Year Ended June 30, 2016**

Chart 1 shows the financial impact of the various City programs, or the extent to which these programs generate revenue from fees and grants. The City's programs include General Government, Public Safety (Fire and Law Enforcement), Public Works, Planning and Building, Engineering Services, and Parks and Recreation. Each program's net cost (total cost less revenues generated by the activities) is presented in the Statement of Activities and Changes in Net Position.

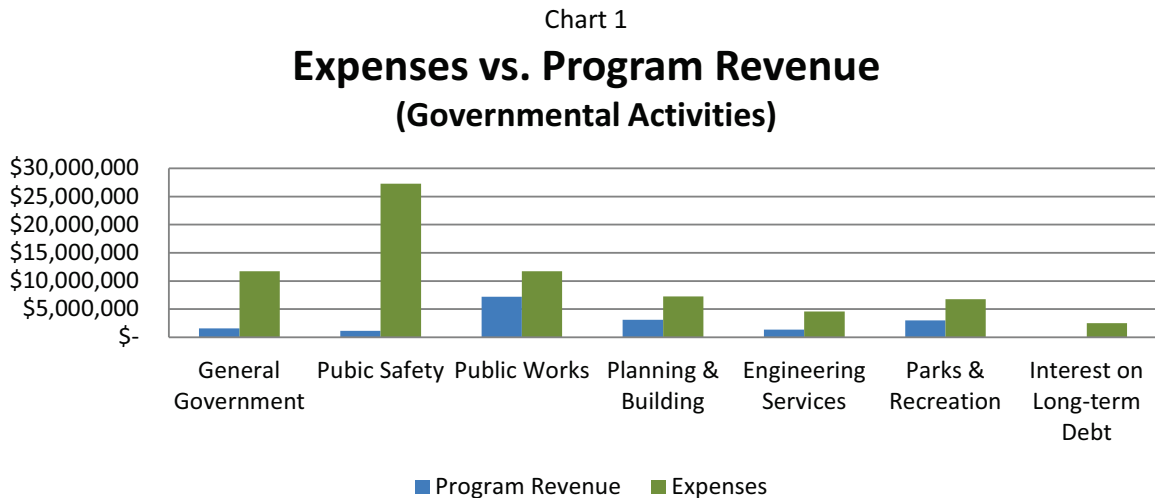
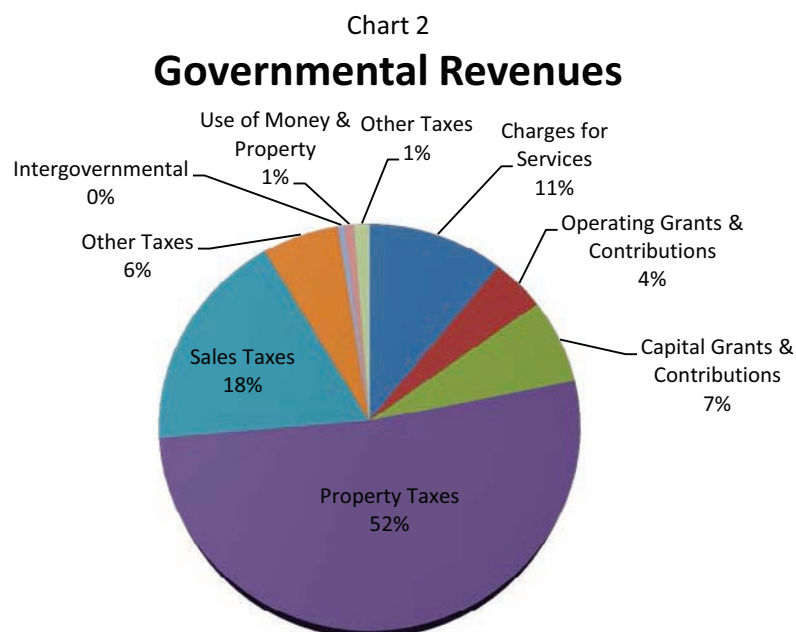


Chart 2 shows that Property Tax, Sales Tax, Charges for Services, Capital Grants and Contributions, and Operating Grants and Contributions, which are the top five categories of revenue and comprise 94% of funding for Governmental activities. The *Other* category includes proceeds from the disposition of City real property, intergovernmental, cost recovery, and miscellaneous revenues.





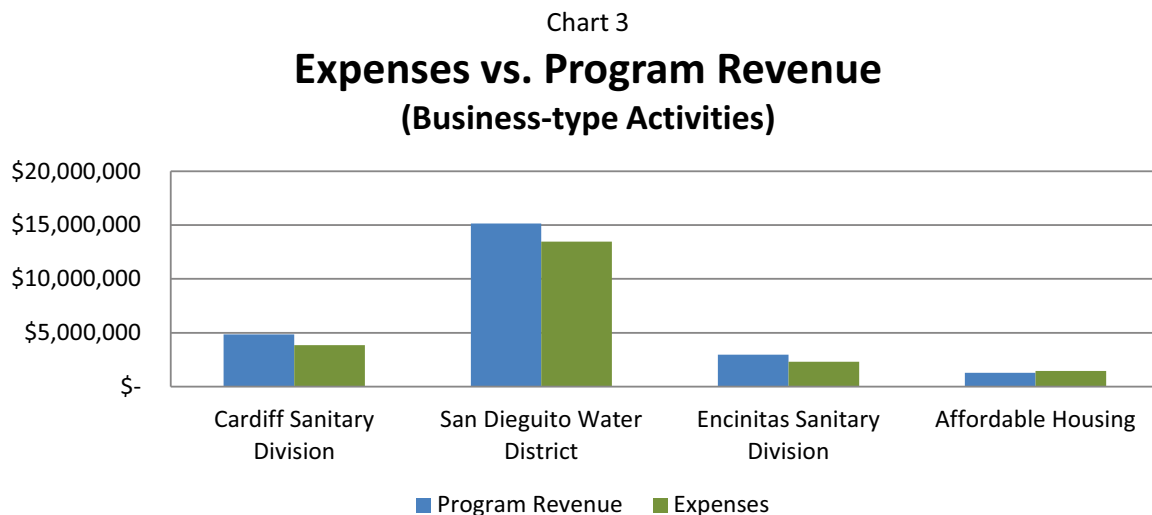
City of Encinitas Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016

Business-Type Activities for the City of Encinitas include water and wastewater operations and a portion of the City's affordable housing program. These activities increased Net Position (including transfers) by \$3.8 million from the last fiscal year as noted in Table 2. Overall revenues decreased \$0.9 million while overall expenses decreased \$2.6 million from 2015. Net transfers (an increase to Net Position) increase \$0.4 million from the prior year.

The Statement of Revenues, Expenses, and Changes in Net Position for proprietary funds indicate a decrease of \$1.3 million in operating revenues from the previous year. The Water operating revenue decreased \$0.1 million while Wastewater and Affordable Housing revenues increased \$1.4 million. Operating expenses decreased \$2.7 million. The primary reason for the decrease in operating revenue and expenses in 2016 is attributable to the recreation program funds being transferred back to the General Fund and are now reported in the Governmental activities starting 2016.

Overall, operating revenue exceeded operating expenses (before transfers) in 2016 resulting in a total net operating income of \$1.3 million.

Chart 3 below compares program revenue from Business-Type activities to program expenses. Water and wastewater operations operated at a surplus, as referenced in the Statement of Activities and Changes in Net Position (with transfers-out for \$462,721 appearing "below the line" of program expenses).





City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

General Fund

General Fund Budgetary Highlights

General Fund Revenues

\$2.0 million above projections

Property taxes made up 60% of the general fund revenue budget. The City of Encinitas receives approximately 24 cents of each dollar of property tax revenue generated in the City. Current secured property taxes, along with other property tax categories, exceeded projections by \$530,243, a 7.1% increase over 2015. Documentary transfer tax exceeded projections by \$137,189. Sales tax is the City's second largest revenue source and actual revenue received exceeded projections by \$381,583, a 12.6% increase over 2015. 80% of the City's Transient Occupancy Tax (TOT) is deposited to the General Fund and 20% is deposited to the Coastal Zone Management Fund for sand replenishment. TOT revenue exceeded projections by \$114,172, an increase of 10.4% from 2015. Overall, franchise taxes exceeded projections by \$161,567. Licenses and permits were lower than projections by \$17,773 mainly due to a decrease in business registration renewals and short-term vacation permits. Intergovernmental revenue was lower than projected by \$185,068, primarily due to revenue not yet received from agencies participating in the Carlsbad Watershed Management Area Cost Sharing Agreement. Planning and building fees were lower than projections, while Engineering, Fire and Recreation fees exceeded projections so overall Charges for Services revenue exceeded projections by \$201,892. Fines and Penalties, which include vehicle code and red light violations, exceeded projections by \$154,638. Use of money and property include investment earnings which exceeded projections by \$211,577 and income from City property rentals that exceeded projections by \$169,539, an increase of 59.7%. This was primarily due to an additional lease agreement for a cell tower at Fire Station 3. Other general fund revenues overall exceeded projections by \$183,593, primarily due to an increase in cost recovery revenue received.

General Fund Expenditures

\$2.4 million under budget

All general fund functional areas, including general government/administration, experienced savings in the current fiscal year, with total savings (budget vs. actual) of over \$2.4 million. This represents savings of approximately 4.2%. Actual general fund expenditures were \$54.9 million compared to prior year actuals of \$52.1 million.

Excess of Revenues over Expenditures

\$4.4 million above projections

Actual revenues over expenditures were approximately \$13.8 million, compared to a budget of \$9.4 million. NOTE: This does not take into account the Other Financing Sources (Uses) discussed below. This result is a combination of revenues being above projections and expenditures being under budget, as discussed above.

Other Financing Sources and Uses – General Fund

Other Financing Sources and Uses consisted of Transfers-in and Transfers-(out) this fiscal year.



City of Encinitas **Management's Discussion and Analysis (Continued)** **For the Year Ended June 30, 2016**

Scheduled transfers-in included: (a) monies from the Gasoline Taxes special revenue fund, which fund a portion of the City's street maintenance program, and (b) monies for impact fees collected for community facilities and fire mitigation. The impact fees are transferred at year-end to reimburse the General Fund for amounts expended in prior years for the Public Library and Fire Station Rehabilitation projects. Transfers in for operating were lower than budgeted by \$35,591 primarily due to the Gasoline Taxes received were lower than budgeted.

Transfers out to internal service funds includes the General Fund's contribution to the Self-Insurance fund. The contribution was set and funded at approximately \$900,000.

Appropriations for capital projects from the general fund totaled \$16.0 million in 2016.

Transfers-(out) for debt service totaled \$5.0 million, which was the same as the \$5.0 million budgeted

Analysis of Fund Balance and Changes in Fund Balance

Fund balance projected to be \$28.5 million as of June 30, 2016, a scheduled decrease of about \$12.9 million. Actual fund balance was \$32.9 million, or \$4.4 million higher than projected.

There was an *excess of revenues over expenditures* of 13.8 million. Factoring in transfers for debt service payments of \$5.0, capital expenditures of \$16.1 and other transfer activity of \$1.2 million, the net result is a decrease in total fund balance of \$8.5 million at year-end.

CAPITAL ASSETS AND THE CAPITAL IMPROVEMENT PROGRAM

As of June 30, 2016, the City had approximately \$393.4 million invested in a broad range of capital assets including road and drainage systems, parks and beach facilities, public buildings, water and wastewater treatment facilities, collection and distribution systems and affordable housing stock. Of that amount, \$298.9 million is classified as capital assets under the category of *Governmental Activities*, and \$94.5 million is classified as capital assets of *Business-Type Activities*. In addition, there are \$42.2 million of assets under Business-Type Activities classified as Investment in Joint Ventures. This investment consists mainly of capital assets belonging to related governmental agencies where the City holds an equity interest in the joint venture. The assets are principally water and wastewater treatment facilities.



City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

Governmental Activities

\$298.9 million

The City has two Capital Projects Improvement Funds for the capital improvements for *governmental activities*. These include public facilities, acquisition of parkland and park improvements, infrastructure, and certain City “work projects” such as multi-year consultant studies that meet the criteria for inclusion as capital projects for budgeting purposes. The City uses a dollar threshold of \$100,000 and a useful life of five years or more in its evaluation for capitalizing a capital expenditure. Eligible project costs are additions to construction in progress (CIP) at fiscal year-end. Costs for completed projects are recorded as additions to the appropriate capital asset category at year-end. .

The City spent approximately \$10.8 million this fiscal year on capital improvement projects. These capital expenditures consisted of a variety of different projects that were either in development or construction phase. The primary emphasis this fiscal year was on the North Coast Highway 101 Streetscape, Santa Fe Drive Improvements, Devonshire Drive Traffic Calming, Civic Center Improvements, El Camino Real Channel Storm Drain Repair, Highway 101 Emergency Repair, and on-going pavement overlay project.

Business-Type Activities

Capital Assets:

\$94.5 million

The City accounts for the acquisition and construction of capital assets for its Water and Wastewater operations under its Proprietary-Type funds and as enterprise activities. Capital spending is recorded as expenses in the appropriate capital fund under each separate activity during the fiscal year. At the end of the fiscal year, the expenses are analyzed to determine if they meet the criteria to be capitalized as long-term fixed assets. The criteria are the same as the City criteria (\$100,000 threshold and a minimum five-year life.) Eligible capital expenses are then capitalized to the construction-in-progress account(s), while non-eligible expenses are reclassified as operating expenses. Total amounts expended on completed projects are then transferred to the appropriate capital asset class.

The City's affordable housing fund carries its investment of about \$4 million in affordable housing stock under the classification of utility, plant, vehicles and equipment. There has not been any capital spending activity in this fund since its original purchase of 16 housing units in 2004.

Investment in Joint Ventures:

\$42.2 million

The City's water and wastewater enterprises each hold equity interests in joint ventures with other local agencies.

SDWD holds an equity interest, along with Santa Fe Irrigation District, in the R.E. Badger Joint Facilities. SDWD makes capital contributions each year for the replacement and improvement of the Joint Facilities, which then gets added to the Investment account at the end of the fiscal year. SDWD also makes monthly payments to cover its ratable share of annual operating costs.



City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

SDWD also holds an equity interest in the R.E. Badger Water Facilities Financing Authority. The primary content of this investment consists of a ratable share of certain debt service reserve fund assets and capitalized financing costs. Therefore, these resources are not available to SDWD for the funding of its operations.

Cardiff Sanitary Division (CSD) holds an equity interest, along with the City of Solana Beach, in the San Elijo Joint Powers Authority Joint Facilities. CSD makes capital contributions each year for the replacement and improvement of the Joint Facilities, which gets added to its Investment account at the end of the fiscal year. CSD also makes quarterly payments to cover its ratable share of annual operating costs. The treatment facilities, also serving other local agencies, bill quarterly for their ratable share of operations costs and capital improvements.

Encinitas Sanitary Division (ESD) holds an equity interest, along with five other local agencies, in the Encina Wastewater Authority Joint Facilities. ESD makes capital contributions each year for the replacement and improvement of the Joint Facilities. These capital contributions are additions to the Investment account at the end of the fiscal year. The Division also makes quarterly payments to cover its ratable share of annual operating costs.

DEBT ISSUANCE AND ADMINISTRATION

The City has a total of \$73.0 million of long-term debt for both Governmental and Business-type activities as shown in Note 9 – Long-Term Obligations schedule on page 75 of this report. The Governmental Activities debt totaling \$58.7 million include \$2.0 million in capital leases, \$53.0 million in bonded debt and \$3.7 million in claims payable and compensated absences. The capital leases consist of the Civic Center Roof Replacement and fire apparatus vehicles. The Business-type Activities debt totals \$14.3 million and includes \$14.1 million in bonded debt and \$0.2 million in compensated absences. \$8.7 million of the total \$73.0 million is due within one year.

Governmental Activities

\$58.7 million

The majority of the City's long-term debt is bonded debt issued in order to acquire and/or construct public facilities including City Hall, the Public Library, the Encinitas Community Park and the Pacific View land acquisition. On September 23, 2015, the Encinitas Public Financing Authority (on behalf of the City) refunded its 2006 Public Library bonds with the principal balance of \$16,975,000 with the 2015 Lease Revenue Refunding Bonds for \$15,645,000. The issuance of the new debt and refunding of the old debt resulted in an economic gain of approximately \$3.2 million and the final maturity is the same. Debt payments for all of these bonds are due semi-annually at fixed amounts, and the debt matures at various times through 2036. Annual debt service averages approximately \$1.1 million.

The City has a policy of utilizing lease/purchase financing for the acquisition of equipment costing more than \$100,000. The City is obligated under a lease/purchase agreement (a private placement with a financial institution) for improvements made to City Hall in 2008. Annual payments on that lease are \$180,000. The City's total annual debt service of approximately \$4.8 million represents approximately 7.0% of annual general fund operating revenues. The City currently leases three Fire Engines and the average annual leases are \$325,000.



City of Encinitas

Management's Discussion and Analysis (Continued)

For the Year Ended June 30, 2016

Business-Type Activities

\$14.3 million

SDWD and CSD carry long-term debt issued to construct capital improvements to both their distribution and collection systems and their Joint Facilities. The Encinitas Housing Authority has a mortgage loan with a financial institution that partially funded the acquisition of the City's affordable housing units (Pacific Pines). The City is not obligated in any way for repayment of these debt issues.

General Information on City debt

The City of Encinitas obtained and affirmed in 2015 an upgrade to its issuer credit rating to AAA by Standard & Poor's (S & P). The City's credit rating affirmed recently by S & P issued a credit rating of AA+ on the City's 2015 Lease Revenue bonds. Ratings for lease revenue bond issues are typically one notch lower than the issuers' rating, due to the structure of the bond issue.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's elected and appointed officials consider many economic factors when setting budgets, including national, state and local economic conditions, trends in residential housing, and the unique needs of the community. The Finance Department coordinates the development of the operating and capital budgets presented by the City Manager to the City Council for consideration. The City adopts its operating budget in a two-year cycle, with legal appropriations set for the first year only. The operating and capital budgets for Fiscal Year 2015-16 were appropriated by the City Council in June 2015.

The fiscal year 2015-16 actual results, when compared to the adopted projections and appropriations, showed revenues well above forecasts and expenditures significantly under budget. Fiscal year 2016-17 revenues expect to increase modestly above 2015-16 actual levels. Expenditures expect to rise modestly above 2015-16 levels. Next year's budget does anticipate a 1% adjustment to employee compensation, which is the largest portion of the general fund budget. Debt service costs will remain consistent with 2015-16.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report's intention is to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the monies it receives and manages.

If you have questions about this report or need additional information, please contact the Finance Department of the City of Encinitas, 505 South Vulcan Ave, Encinitas, CA 92024, telephone (760) 633-2600, or visit our website at www.encinitasCA.gov and review the Finance Department webpage.



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BASIC FINANCIAL STATEMENTS



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GOVERNMENT-WIDE FINANCIAL STATEMENTS



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City of Encinitas
Statement of Net Position
June 30, 2016

	Governmental Activities	Primary Government Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 64,366,979	\$ 39,850,247	\$ 104,217,226
Restricted cash and investments with fiscal agent	2,559,011	19,510	2,578,521
Receivables	6,721,481	2,625,060	9,346,541
Inventory and prepaid items	1,145,388	261,878	1,407,266
Total current assets	74,792,859	42,756,695	117,549,554
Noncurrent assets:			
Restricted cash and investments with fiscal agent	3,007,966	1,377,006	4,384,972
Internal balances	65,610	(65,610)	-
Long-term receivable	948,633	-	948,633
Investments in joint ventures	-	42,164,196	42,164,196
Other assets	332,518	98,155	430,673
Capital assets:			
Non-depreciable	78,212,996	11,292,597	89,505,593
Depreciable, net	139,695,076	44,278,260	183,973,336
Total capital assets, net	217,908,072	55,570,857	273,478,929
Total noncurrent assets	222,262,799	99,144,604	321,407,403
Total assets	297,055,658	141,901,299	438,956,957
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding, net	383,229	-	383,229
Pension related deferred outflows of resources (Note 14)	4,537,030	840,631	5,377,661
Total deferred outflows of resources	4,920,259	840,631	5,760,890
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	4,968,415	1,693,398	6,661,813
Interest payable	525,851	133,468	659,319
Unearned revenue	714,534	892	715,426
Deposits and other liabilities	3,425,669	372,888	3,798,557
Long-term liabilities - due within one year	6,882,319	1,865,249	8,747,568
Total current liabilities	16,516,788	4,065,895	20,582,683
Noncurrent liabilities:			
Long-term liabilities - due in more than one year	51,799,312	12,454,024	64,253,336
Due to R.E. Badger	-	1,377,006	1,377,006
Aggregate net pension liability (Note 14)	34,876,632	5,019,493	39,896,125
Total noncurrent liabilities	86,675,944	18,850,523	105,526,467
Total liabilities	103,192,732	22,916,418	126,109,150
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding, net	-	146,836	146,836
Pension related deferred inflows of resources (Note 14)	5,444,262	287,437	5,731,699
Total deferred inflows of resources	5,444,262	434,273	5,878,535
NET POSITION			
Net investment in capital assets	162,923,350	42,501,264	205,424,614
Restricted:			
Community development	1,372,165	-	1,372,165
Debt service	2,574,192	1,377,006	3,951,198
Capital projects	27,049,952	-	27,049,952
Total restricted	30,996,309	1,377,006	32,373,315
Unrestricted	(580,736)	75,512,969	74,932,233
Total Net Position	\$ 193,338,923	\$ 119,391,239	\$ 312,730,162

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Activities and Changes in Net Position
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Program Revenues
Primary government:					
Governmental activities:					
General government	\$ 11,750,738	\$ 1,594,277	\$ -	\$ -	\$ 1,594,277
Public safety	27,255,755	1,009,713	133,648	-	1,143,361
Public works	11,743,123	107,279	2,782,836	4,296,593	7,186,708
Planning and building	7,255,460	2,800,413	310,559	225	3,111,197
Engineering services	4,591,315	1,367,902	-	-	1,367,902
Parks and recreation	6,778,769	1,741,619	122,143	1,112,280	2,976,042
Interest on long-term debt	2,494,815	-	-	-	-
Total governmental activities	71,869,975	8,621,203	3,349,186	5,409,098	17,379,487
Business-type activities:					
Cardiff Sanitary Division	3,857,531	4,761,486	-	93,623	4,855,109
San Dieguito Water District	13,462,935	14,684,337	-	470,003	15,154,340
Encinitas Sanitary Division	2,306,540	2,855,690	-	117,786	2,973,476
Affordable Housing	1,440,124	218,148	1,068,549	-	1,286,697
Total business-type activities	21,067,130	22,519,661	1,068,549	681,412	24,269,622
Total primary government	\$ 92,937,105	\$ 31,140,864	\$ 4,417,735	\$ 6,090,510	\$ 41,649,109

City of Encinitas
Statement of Activities and Changes in Net Position (Continued)
For the Year Ended June 30, 2016

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (10,156,461)	\$ -	\$ (10,156,461)
Public safety	(26,112,394)	-	(26,112,394)
Public works	(4,556,415)	-	(4,556,415)
Planning and building	(4,144,263)	-	(4,144,263)
Engineering services	(3,223,413)	-	(3,223,413)
Parks and recreation	(3,802,727)	-	(3,802,727)
Interest on long-term debt	(2,494,815)	-	(2,494,815)
Total governmental activities	(54,490,488)	-	(54,490,488)
Business-type activities:			
Cardiff Sanitary Division	-	997,578	997,578
San Dieguito Water District	-	1,691,405	1,691,405
Encinitas Sanitary Division	-	666,936	666,936
Affordable Housing	-	(153,427)	(153,427)
Total business-type activities	-	3,202,492	3,202,492
	(54,490,488)	3,202,492	(51,287,996)
General revenues:			
Taxes:			
Property taxes and transfer fees	41,210,485	906,106	42,116,591
Sales tax	14,166,771	-	14,166,771
Transient occupancy taxes	2,018,024	-	2,018,024
Franchise taxes	2,794,144	-	2,794,144
Total taxes	60,189,424	906,106	61,095,530
Intergovernmental - unrestricted	388,876	-	388,876
Use of money and property	611,350	(63,690)	547,660
Gain on disposal of capital assets	8,750	4,010	12,760
Other	956,940	153,667	1,110,607
Transfers	399,112	(399,112)	-
Total general revenues and transfers	62,554,452	600,981	63,155,433
Changes in net position	8,063,964	3,803,473	11,867,437
Net Position:			
Beginning of year	185,274,959	115,587,766	300,862,725
End of year	\$ 193,338,923	\$ 119,391,239	\$ 312,730,162

See accompanying Notes to the Basic Financial Statements.



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FUND FINANCIAL STATEMENTS



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GOVERNMENTAL FUND FINANCIAL STATEMENTS



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**City of Encinitas
Balance Sheet
Governmental Funds
June 30, 2016**

	Major Funds			
	General Fund	Capital Improvements Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 27,578,888	\$ 19,221,877	\$ 11,695,248	\$ 58,496,013
Receivables	5,866,695	-	820,067	6,686,762
Due from other funds	2,516,638	8,200,603	-	10,717,241
Inventory and prepaid items	227,781	-	287,756	515,537
Other assets	332,518	-	-	332,518
Long-term receivable	520,000	-	428,633	948,633
Restricted cash and investments	3,007,966	-	2,559,011	5,566,977
Total assets	\$ 40,050,486	\$ 27,422,480	\$ 15,790,715	\$ 83,263,681
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 3,159,413	\$ 1,019,579	\$ 613,220	\$ 4,792,212
Interest payable	-	-	-	-
Unearned revenue	596,323	-	118,211	714,534
Due to other funds	-	-	10,021,780	10,021,780
Deposits and other liabilities	3,410,206	-	15,463	3,425,669
Total liabilities	7,165,942	1,019,579	10,768,674	18,954,195
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	428,633	428,633
Total deferred inflows of resources	-	-	428,633	428,633
Fund Balances:				
Nonspendable	1,109,424	-	287,756	1,397,180
Restricted	-	-	12,521,387	12,521,387
Committed	-	1,626,219	-	1,626,219
Assigned	-	24,776,682	-	24,776,682
Unassigned	31,775,120	-	(8,215,735)	23,559,385
Total fund balances	32,884,544	26,402,901	4,593,408	63,880,853
Total liabilities, deferred inflows of resources, and fund balances	\$ 40,050,486	\$ 27,422,480	\$ 15,790,715	\$ 83,263,681

City of Encinitas
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2016

Total Fund Balances - Total Governmental Funds	\$ 63,880,853
Amounts reported for governmental activities in the Statement of Net Position were different because:	
Capital assets used in governmental activities were not financial resources and therefore were not reported in governmental funds (net of \$3,195,015 reported in internal service funds).	
Land	61,862,474
Land easements	2,114,042
Construction in progress	14,236,480
Public facilities	100,389,962
Vehicles, equipment and machinery	1,935,410
Infrastructure	111,024,528
Less: Accumulated depreciation	(76,849,839)
Total capital assets	214,713,057
Deferred loss on refunding in the governmental activities were not financial resources and therefore were not reported in governmental funds.	383,229
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.	(525,851)
Long-term liabilities applicable to the City's governmental activities were not due and payable in the current period and therefore were not reported in the governmental funds (net of \$927,533 reported in internal service funds):	
Amount reported in Government-Wide Statement of Net Position:	
2008 Civic Center roof replacement	(1,123,307)
1997 Civic Center COPs	(590,000)
2002 ABAG financing	(565,000)
2010 Community Park Lease Revenue Bonds, net of unamortized premium of \$152,656	(15,417,656)
2013 Community Park Bonds, net of unamortized premium of \$105,120	(7,025,120)
2014 Moonlight Beach Tower Series A Bonds, net of unamortized discount of \$53,303	(2,976,697)
2014 Pacific View Series B Bonds, net of unamortized discount of \$222,803	(9,942,197)
2015 Library Refunding Bonds, net of unamortized premium of \$772,212	(16,417,212)
Claims payable	(1,589,220)
Compensated absences	(2,107,689)
Total long-term liabilities	(57,754,098)
Aggregate net pension liability is not due and payable in the current period and therefore is not required to be reported in the governmental funds.	(34,876,632)
Pension contributions made during the year after the measurement date are reported as expenditures in governmental funds and as deferred outflow of resources in the government-wide financial statements.	4,537,030
Actuarially determined pension deferred inflows of resources are reported in the government-wide statements:	
Difference between expected and actual experience	(254,827)
Difference between projected and actual earnings on pension plan investments are reported in the government-wide statements	(743,525)
Changes in actuarial assumptions	(1,925,790)
Difference between employer contributions and proportionate share of contributions	(720,785)
Deferred change in pension plan proportion	(1,799,335)
	(5,444,262)
Unavailable revenue deferred inflows of resources are not available for the current period and, therefore, are deferred in the governmental funds or not recorded in the governmental funds.	428,633
Internal service funds were used by management to charge the costs of risk management, personnel support, fleet maintenance and vehicle replacement to individual funds. The assets and liabilities of the internal service funds were included in governmental activities in the Government-Wide Statement of Net Position.	7,996,964
Net Position of Governmental Activities	\$ 193,338,923

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

	Major Funds			
	General Fund	Capital Improvements Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes and assessments	\$ 58,479,429	\$ -	\$ 2,845,879	\$ 61,325,308
Licenses and permits	232,227	-	-	232,227
Intergovernmental	801,966	-	5,887,509	6,689,475
Development impact fees	-	-	1,695,565	1,695,565
Charges for services	6,585,518	-	-	6,585,518
Fines, forfeitures and penalties	889,388	-	-	889,388
Use of money and property	972,663	-	250,067	1,222,730
Other	779,892	-	96,474	876,366
Total revenues	68,741,083	-	10,775,494	79,516,577
EXPENDITURES:				
Current:				
General government	9,096,174	-	192,053	9,288,227
Public safety	26,775,120	-	201,016	26,976,136
Public works	3,970,924	-	2,334,416	6,305,340
Planning and building	4,896,957	-	262,820	5,159,777
Engineering services	4,078,841	-	219,722	4,298,563
Parks and recreation	6,112,079	-	254,258	6,366,337
Capital outlay	-	10,799,083	-	10,799,083
Debt service:				
Principal	-	-	2,783,268	2,783,268
Interest and fiscal charges	-	-	2,372,231	2,372,231
Total expenditures	54,930,095	10,799,083	8,619,784	74,348,962
REVENUES OVER (UNDER) EXPENDITURES	13,810,988	(10,799,083)	2,155,710	5,167,615
OTHER FINANCING SOURCES (USES):				
Proceeds from bond issuance	-	-	15,645,000	15,645,000
Premium on bond issuance	-	-	772,212	772,212
Deposit to escrow for bond refunding	-	-	(16,820,243)	(16,820,243)
Proceeds from sale of property	-	-	-	-
Transfers in	1,519,174	37,647,543	5,383,529	44,550,246
Transfers out	(23,848,063)	(445,559)	(21,283,822)	(45,577,444)
Total other financing sources (uses)	(22,328,889)	37,201,984	(16,303,324)	(1,430,229)
NET CHANGE IN FUND BALANCES	(8,517,901)	26,402,901	(14,147,614)	3,737,386
FUND BALANCES:				
Beginning of year	41,402,445	-	18,741,022	60,143,467
End of year	\$ 32,884,544	\$ 26,402,901	\$ 4,593,408	\$ 63,880,853

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Reconciliation of the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Position
For the Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds **\$ 3,737,386**

Amounts reported for governmental activities in the Statement of Activities were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period. 5,651,323

Contributions of capital assets were reported in the Government-Wide Statement of Activities and Changes in Net Position, but they did not provide current financial resources. Therefore, contribution revenue was not reported as revenue in the Governmental Funds. 9,500

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Position, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds (net of \$310,496 recorded in internal service funds). (6,197,207)

The issuance of long-term liabilities provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Repayment of long-term liabilities was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.

Issuance of long-term debt	(15,645,000)
Premium on issuance of long-term debt	(772,212)
Refunding of long-term debt	16,820,243
Principal payment of long-term debt	2,783,268
Interest payment of long-term debt	(177,014)

Amortization expenses were reported in the Government-Wide Statement of Activities and Changes in Net Position, but they did not require the use of current financial resources. Therefore, amortization expenses were not reported as expenditures in the Governmental Funds.

Bond premium and discount	10,016
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Certain long-term liabilities were reported in the Government-Wide Statement of Activities and Changes in Net Position, but they did not require the use of current financial resources. Therefore, long-term liabilities were not reported as expenditures in governmental funds. These amounts represented the changes in long-term liabilities from prior year.

Changes in compensated absences	(5,761)
Changes in claims payable	(395,931)

Changes in the net pension liability reported in the Statement of Activities did not require the use of current financial resources and, therefore, were not reported as an expenditure in the governmental funds. (2,814,251)

Pension contribution made after the measurement date is reported as deferred outflow of resources in the Government-Wide Statement of Net Position but is reported as pension expense in governmental funds. 4,537,030

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Position, but it did not require the use of current financial resources. This amount represented the change in accrued interest from prior year. 70,662

Issuances of loans receivable were recorded as expenditures in the governmental funds but not on the Government-Wide Statement of Activities and Changes in Net Position. 428,633

Internal service funds were used by management to charge the costs of certain activities to individual funds. The net revenue of internal service funds was reported with governmental activities (net of \$1,252,139 transfer of capital leases from governmental activities). 23,279

Change in Net Position of Governmental Activities	\$ 8,063,964
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PROPRIETARY FUND FINANCIAL STATEMENTS

City of Encinitas
Statement of Net Position
Proprietary Funds
June 30, 2016

	Major Enterprise Funds			Nonmajor
	Cardiff Sanitary Division	San Dieguito Water District	Encinitas Sanitary Division	Affordable Housing
ASSETS				
Current assets:				
Cash and investments	\$ 13,449,441	\$ 15,490,693	\$ 10,435,073	\$ 475,040
Restricted cash and investments with fiscal agent	-	-	-	19,510
Accounts and taxes receivable	88,244	2,481,987	43,443	11,386
Inventory and prepaid items	-	181,393	-	80,485
Total current assets	13,537,685	18,154,073	10,478,516	586,421
Noncurrent assets:				
Restricted cash and investments with fiscal agent	-	1,377,006	-	-
Other assets	-	98,155	-	-
Investment in joint ventures	18,446,627	19,780,139	3,937,430	-
Capital assets:				
Land easements	-	3,219,301	-	-
Public works facility right-of-use	-	3,378,700	-	-
Construction in progress	1,495,624	937,749	2,261,223	-
Capacity rights, net	-	191,221	-	-
Utility, plant, vehicles, and equipment, net	13,499,000	14,756,670	13,024,689	2,806,680
Total capital assets, net	14,994,624	22,483,641	15,285,912	2,806,680
Total noncurrent assets	33,441,251	43,738,941	19,223,342	2,806,680
Total assets	46,978,936	61,893,014	29,701,858	3,393,101
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension related items	-	840,631	-	-
Total deferred outflows of resources	-	840,631	-	-
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	24,806	1,316,714	351,729	149
Due to other funds	-	-	-	65,610
Accrued interest payable	26,630	106,838	-	-
Unearned revenue	-	-	-	892
Deposits	1,250	354,628	-	17,010
Current portion of long-term debt	612,192	1,186,310	-	66,747
Total current liabilities	664,878	2,964,490	351,729	150,408
Noncurrent liabilities:				
Capital leases payable	-	-	-	-
Revenue bonds payable, due in more than one year	-	5,300,000	-	-
Notes and mortgages payable, due in more than one year	1,593,700	4,284,973	-	1,275,351
Due to R.E. Badger	-	1,377,006	-	-
Aggregate net pension liability (Note 14)	-	5,019,493	-	-
Total noncurrent liabilities	1,593,700	15,981,472	-	1,275,351
Total liabilities	2,258,578	18,945,962	351,729	1,425,759
DEFERRED INFLOWS OF RESOURCES				
Deferred amount on refunding	146,836	-	-	-
Deferred pension related items (Note 14)	-	287,437	-	-
Total deferred inflows of resources	146,836	287,437	-	-
NET POSITION				
Net investment in capital assets	12,641,896	13,089,364	15,285,912	1,484,092
Restricted	-	1,377,006	-	-
Unrestricted	31,931,626	29,033,876	14,064,217	483,250
Total net position	\$ 44,573,522	\$ 43,500,246	\$ 29,350,129	\$ 1,967,342

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Net Position (Continued)
Proprietary Funds
June 30, 2016

	Nonmajor Recreation Fund	Total	Governmental Activities Internal Service Funds
ASSETS			
Current assets:			
Cash and investments	\$ -	\$ 39,850,247	\$ 5,870,966
Restricted cash and investments with fiscal agent	-	19,510	-
Accounts and taxes receivable	-	2,625,060	34,719
Inventory and prepaid items	-	261,878	629,851
Total current assets	-	42,756,695	6,535,536
Noncurrent assets:			
Restricted cash and investments with fiscal agent	-	1,377,006	-
Other assets	-	98,155	-
Investment in joint ventures	-	42,164,196	-
Capital assets:			
Land easements	-	3,219,301	-
Public works facility right-of-use	-	3,378,700	-
Construction in progress	-	4,694,596	-
Capacity rights, net	-	191,221	-
Utility, plant, vehicles, and equipment, net	-	44,087,039	3,195,015
Total capital assets, net	-	55,570,857	3,195,015
Total noncurrent assets	-	99,210,214	3,195,015
Total assets	-	141,966,909	9,730,551
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension related items	-	840,631	-
Total deferred outflows	-	840,631	-
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	-	1,693,398	176,203
Due to other funds	-	65,610	629,851
Accrued interest payable	-	133,468	-
Unearned revenue	-	892	-
Deposits	-	372,888	-
Current portion of long-term debt	-	1,865,249	331,993
Total current liabilities	-	4,131,505	1,138,047
Noncurrent liabilities:			
Capital leases payable	-	-	595,540
Revenue bonds payable, due in more than one year	-	5,300,000	-
Notes and mortgages payable, due in more than one year	-	7,154,024	-
Due to R.E. Badger	-	1,377,006	-
Aggregate net pension liability (Note 14)	-	5,019,493	-
Total noncurrent liabilities	-	18,850,523	595,540
Total liabilities	-	22,982,028	1,733,587
DEFERRED INFLOWS OF RESOURCES			
Deferred amount on refunding	-	146,836	-
Deferred pension related items (Note 14)	-	287,437	-
Total deferred inflows	-	434,273	-
NET POSITION			
Net investment in capital assets	-	42,501,264	2,267,482
Restricted	-	1,377,006	-
Unrestricted	-	75,512,969	5,729,482
Total net position	\$ -	\$ 119,391,239	\$ 7,996,964

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Major Enterprise Funds			Nonmajor
	Cardiff Sanitary Division	San Dieguito Water District	Encinitas Sanitary Division	Affordable Housing
OPERATING REVENUES:				
Charges for services	\$ 4,761,486	\$ 14,628,656	\$ 2,855,690	\$ -
Rental income	-	103,181	-	119,682
Contribution from users	-	-	-	-
Interfund revenues	-	55,681	-	97,800
Intergovernmental	-	-	-	120,348
Other revenues	7,165	4,734	2,341	1,287
Total operating revenues	4,768,651	14,792,252	2,858,031	339,117
OPERATING EXPENSES:				
Housing assistance payments	-	-	-	1,069,882
Source of supply	-	5,352,508	-	-
General operations and maintenance	1,013,875	4,729,923	652,711	96,339
Facility operations and maintenance	1,250,059	1,788,841	594,288	-
General and administrative	228,039	76,947	110,964	166,358
Depreciation of capital assets	387,320	675,549	369,141	100,538
Amortization of other assets	-	98,152	-	-
Amortization of investment in joint ventures	915,952	741,015	556,036	-
Administrative support	-	-	-	-
Operational support services	-	-	-	-
Insurance and claims	62,286	-	23,400	7,007
Total operating expenses	3,857,531	13,462,935	2,306,540	1,440,124
OPERATING INCOME (LOSS)	911,120	1,329,317	551,491	(1,101,007)
NONOPERATING REVENUES (EXPENSES):				
Use of money and property	85,383	103,590	64,865	3,273
Property taxes	-	906,106	-	-
Operating grants	-	-	-	1,068,549
Gain (loss) on disposal of capital assets	-	4,010	-	-
Accretion of bond premium	63,768	74,372	-	-
Interest expense	(91,757)	(412,108)	-	(39,799)
Total nonoperating revenues (expenses)	57,394	675,970	64,865	1,032,023
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	968,514	2,005,287	616,356	(68,984)
Capital contributions	93,623	470,003	117,786	-
Transfers in	-	-	-	63,609
Transfers out	-	-	-	-
Total capital contributions and transfers	93,623	470,003	117,786	63,609
CHANGES IN NET POSITION	1,062,137	2,475,290	734,142	(5,375)
NET POSITION:				
Beginning of year	43,511,385	41,024,956	28,615,987	1,972,717
End of year	<u>\$ 44,573,522</u>	<u>\$ 43,500,246</u>	<u>\$ 29,350,129</u>	<u>\$ 1,967,342</u>

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Revenues, Expenses, and Changes in Net Position (Continued)
Proprietary Funds
For the Year Ended June 30, 2016

	Nonmajor Recreation Fund	Total	Governmental Activities Internal Service Funds
OPERATING REVENUES:			
Charges for services	\$ -	\$ 22,245,832	\$ -
Rental income	-	222,863	-
Contribution from users	-	-	-
Interfund revenues	-	153,481	2,629,196
Intergovernmental	-	120,348	-
Other revenues	-	15,527	356,423
Total operating revenues	-	22,758,051	2,985,619
OPERATING EXPENSES:			
Housing assistance payments	-	1,069,882	-
Source of supply	-	5,352,508	-
General operations and maintenance	-	6,492,848	-
Facility operations and maintenance	-	3,633,188	-
General and administrative	-	582,308	-
Depreciation of capital assets	-	1,532,548	310,496
Amortization of other assets	-	98,152	-
Amortization of investment in joint ventures	-	2,213,003	-
Administrative support	-	-	1,507,347
Operational support services	-	-	1,026,079
Insurance and claims	-	92,693	1,527,229
Total operating expenses	-	21,067,130	4,371,151
OPERATING INCOME (LOSS)	-	1,690,921	(1,385,532)
NONOPERATING REVENUES (EXPENSES):			
Use of money and property	-	257,111	-
Property taxes	-	906,106	-
Operating grants	-	1,068,549	-
Gain (loss) on disposal of capital assets	-	4,010	8,750
Accretion of bond premium	-	138,140	-
Interest expense	-	(543,664)	(26,249)
Total nonoperating revenues (expenses)	-	1,830,252	(17,499)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	-	3,521,173	(1,403,031)
Capital contributions	-	681,412	(1,252,139)
Transfers in	-	63,609	1,539,310
Transfers out	(462,721)	(462,721)	(113,000)
Total capital contributions and transfers	(462,721)	282,300	174,171
CHANGES IN NET POSITION	(462,721)	3,803,473	(1,228,860)
NET POSITION:			
Beginning of year	462,721	115,587,766	9,225,824
End of year	<u>\$ -</u>	<u>\$ 119,391,239</u>	<u>\$ 7,996,964</u>

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Major Enterprise Funds			
	Cardiff Sanitary Division	San Dieguito Water District	Encinitas Sanitary Division	Nonmajor Affordable Housing
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from users	\$ 4,758,164	\$ 14,291,536	\$ 2,871,294	\$ 228,919
Cash received from other funds	-	55,681	-	99,216
Cash payments to suppliers and employees for goods and services	(2,546,340)	(11,892,150)	(1,351,214)	(1,338,421)
Other operating revenues	7,165	4,734	2,341	1,287
Net cash provided by (used in) operating activities	2,218,989	2,459,801	1,522,421	(1,008,999)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(349,588)	(650,467)	(401,703)	-
Capital contributions received - connection/capacity fees	93,623	470,003	117,786	-
Principal payments on long-term debt	(627,931)	(1,046,126)	-	(59,520)
Interest payments on long-term debt	(63,291)	(339,173)	-	(39,799)
Capital related payments to other agencies	(504,762)	(1,491,918)	(400,913)	-
Proceeds received from disposal of capital assets	-	4,010	-	-
Net cash (used in) capital and related financing activities	(1,451,949)	(3,053,671)	(684,830)	(99,319)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating grants	-	-	-	1,068,549
Proceeds from property taxes	-	906,106	-	-
Transfers in	-	-	-	63,609
Transfers (out)	-	-	-	-
Net cash provided by (used in) noncapital financing activities	-	906,106	-	1,132,158
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	85,383	103,590	64,865	3,273
Net cash provided by investing activities	85,383	103,590	64,865	3,273
Net increase (decrease) in cash and cash equivalents	852,423	415,826	902,456	27,113
CASH AND CASH EQUIVALENTS:				
Beginning of year	12,597,018	16,451,873	9,532,617	467,437
End of year	<u>\$ 13,449,441</u>	<u>\$ 16,867,699</u>	<u>\$ 10,435,073</u>	<u>\$ 494,550</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:				
Cash and investments	\$ 13,449,441	\$ 15,490,693	\$ 10,435,073	\$ 475,040
Restricted cash and investments with fiscal agent - current	-	-	-	19,510
Restricted cash and investments with fiscal agent - non-current	-	1,377,006	-	-
Total cash and cash equivalents	\$ 13,449,441	\$ 16,867,699	\$ 10,435,073	\$ 494,550

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2016

	Nonmajor Recreation Fund	Total	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from users	\$ 50,054	\$ 22,199,967	\$ 2,951,487
Cash received from other funds	-	154,897	-
Cash payments to suppliers and employees for goods and services	(598,589)	(17,726,714)	(4,100,149)
Other operating revenues	-	15,527	-
Net cash provided by (used in) operating activities	(548,535)	4,643,677	(1,148,662)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	-	(1,401,758)	-
Capital contributions received - connection/capacity fees	-	681,412	-
Principal payments on long-term debt	-	(1,733,577)	(324,606)
Interest payments on long-term debt	-	(442,263)	(26,249)
Capital related payments to other agencies	-	(2,397,593)	-
Proceeds received from disposal of capital assets	-	4,010	8,750
Net cash (used in) capital and related financing activities	-	(5,289,769)	(342,105)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants	-	1,068,549	-
Proceeds from property taxes	-	906,106	-
Transfers in	-	63,609	1,539,310
Transfers (out)	(462,721)	(462,721)	(113,000)
Net cash provided by (used in) noncapital financing activities	(462,721)	1,575,543	1,426,310
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	-	257,111	-
Net cash provided by investing activities	-	257,111	-
Net increase (decrease) in cash and cash equivalents	(1,011,256)	1,186,562	(64,457)
CASH AND CASH EQUIVALENTS:			
Beginning of year	1,011,256	40,060,201	5,935,423
End of year	\$ -	\$ 41,246,763	\$ 5,870,966
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:			
Cash and investments	\$ -	\$ 39,850,247	\$ 5,870,966
Restricted cash and investments with fiscal agent - current	-	19,510	-
Restricted cash and investments with fiscal agent - non-current	-	1,377,006	-
Total cash and cash equivalents	\$ -	\$ 41,246,763	\$ 5,870,966

City of Encinitas
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2016

	Major Enterprise Funds			Nonmajor
	Cardiff Sanitary Division	San Dieguito Water District	Encinitas Sanitary Division	Affordable Housing
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	\$ 911,120	\$ 1,329,317	\$ 551,491	\$ (1,101,007)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	387,320	675,549	369,141	100,538
Amortization of other assets	-	98,152	-	-
Amortization of investment in joint ventures	915,952	741,015	556,036	-
Changes in operating assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts and taxes receivable	(3,322)	(440,301)	15,604	(11,111)
Inventory and prepaid items	-	(33,750)	-	1,719
Pension-related deferred outflows	-	(203,086)	-	-
Accounts payable and accrued liabilities	7,669	(1,647)	30,149	149
Due to other funds	-	-	-	1,416
Unearned revenue	-	-	-	(1,355)
Deposits	250	42,473	-	652
Aggregate net pension liability	-	1,240,208	-	-
Pension-related deferred inflows	-	(988,129)	-	-
Total adjustments	1,307,869	1,130,484	970,930	92,008
Net cash provided by (used in) operating activities	\$ 2,218,989	\$ 2,459,801	\$ 1,522,421	\$ (1,008,999)
NON-CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Amortization of original issue premium	\$ 34,401	\$ 74,372	\$ -	\$ -
Amortization of deferred amount on refunding	29,367	-	-	-
Contributions of capital assets from governmental activities	-	410,603	-	-
	\$ 63,768	\$ 484,975	\$ -	\$ -

City of Encinitas
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2016

	Nonmajor Recreation Fund	Total	Governmental Activities Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ -	\$ 1,690,921	\$ (1,385,532)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	-	1,532,548	310,496
Amortization of other assets	-	98,152	-
Amortization of investment in joint ventures	-	2,213,003	-
Changes in operating assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Accounts and taxes receivable	50,054	(389,076)	(34,132)
Inventory and prepaid items	-	(32,031)	(629,851)
Pension-related deferred outflows	-	(203,086)	-
Accounts payable and accrued liabilities	(81,271)	(44,951)	(39,494)
Due to other funds	-	1,416	629,851
Unearned revenue	(513,168)	(514,523)	-
Deposits	(4,150)	39,225	-
Aggregate net pension liability	-	1,240,208	-
Pension-related deferred inflows	-	(988,129)	-
Total adjustments	(548,535)	2,952,756	236,870
Net cash provided by (used in) operating activities	\$ (548,535)	\$ 4,643,677	\$ (1,148,662)
NON-CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Amortization of original issue premium	\$ -	\$ 108,773	\$ -
Amortization of deferred amount on refunding	-	29,367	-
Contributions of capital assets from governmental activities	-	410,603	(1,252,139)
	\$ -	\$ 548,743	\$ (1,252,139)



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FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds – These funds are used to account for money and property held by the City as trustee or custodian. They are custodial in nature (assets equal liabilities). These funds include one Assessment District and one Community Facilities (Mello-Roos) District.



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City of Encinitas
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Agency Funds
	<hr/>
ASSETS	
Cash and investments	\$ 2,092,758
Restricted cash and investments with fiscal agent	1,976,121
Special assessments receivable	<hr/> 28,350,000
Total assets	<hr/> \$ 32,437,410 <hr/>
 LIABILITIES	
Due to bondholders	<hr/> \$ 32,437,410
Total liabilities	<hr/> \$ 32,437,410 <hr/>



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City of Encinitas
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

Note 1 – Reporting Entity

The City of Encinitas (the “City”) was incorporated on October 1, 1986, pursuant to an election approving the San Dieguito Reorganization Plan, which consisted primarily of the detachment of territory from the Cardiff area and the annexation of the same territory to the City of Solana Beach.

The reporting entity of the City includes the accounts of the City, as the primary government, and the following blended component units: the Encinitas Housing Authority (the “EHA”), the Encinitas Public Financing Authority (the “EPFA”), and the San Dieguito Water District (“SDWD”).

The EHA was formed on January 26, 1994, under the laws of the State of California to provide housing assistance to citizens of the City.

The EPFA was formed on November 6, 1991, by the City and SDWD as a Joint Powers Authority under the laws of the State of California to purchase, finance, and lease certain real property to the members. The member agencies are the City and the SDWD.

SDWD was formed in 1922 under the laws of the State of California to supply water services to the central western portion of San Diego County. Certain management, maintenance, and operating functions are the responsibility of the City, which bills periodically for these services.

The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity - Omnibus –An Amendment of GASB Statements No. 14 and No. 34*. The City is the primary governmental unit. Component units are financially accountable to the City. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and (1) it is able to impose its will on that organization or (2) there is potential for the organization to provide financial benefit, or impose financial burdens on the primary government. The component units have been accounted for as "blended" component units of the City. Despite being legally separate, these entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units are reported within the funds of the City. SDWD is reported as an enterprise fund of the City.

The following specific criteria were used in determining the status of these component units:

- Members of the City Council also act as the governing body of the EHA, the EPFA, and SDWD.
- The City, the EHA, the EPFA, and SDWD are financially interdependent.
- The EHA, the EPFA, and SDWD are managed, at least in part, by employees of the City, who provide various support functions including financial reporting and investment decisions.

Separate financial statements for SDWD are available at the City's administrative office. Separate financial statements are not required or prepared for the EHA and the EPFA.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies

A. Basis of Presentation

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (“GASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

B. Measurement Focus, Basis of Accounting and Financial Statements Presentation

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained in accordance with legal and managerial requirements.

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

Government-Wide Financial Statements

The City’s Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

B. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

Government-Wide Financial Statements (Continued)

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities and Changes in Net Position, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

Government Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in Net Position as presented in these statements to the Net Position presented in the Government-Wide Financial Statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except for that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, transient occupancy taxes, franchise taxes, sales tax, licenses, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The City reports the following major Governmental Funds:

The **General Fund** is used to account for resources which are not required to be accounted for in another fund. The fund includes the general activities of the City and other administrative functions.

The **Capital Improvements Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major property, equipment, or facilities which are generally financed by governmental funds.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

B. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued)

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows for each major Proprietary Fund. A separate column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements. The City's internal service funds include four individual funds which provide services directly to other City funds. These areas of service include Risk Management, Wastewater Support, Vehicle Maintenance, and Vehicle Replacement.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the following major proprietary funds:

The **Cardiff Sanitary Division ("CSD") Enterprise Fund** provides wastewater collection and treatment services to approximately 6,000 customers in the southern portion of the City.

The **San Dieguito Water District ("SDWD") Enterprise Fund** provides potable and reclaimed water services to approximately 11,000 customers in Encinitas.

The **Encinitas Sanitary Division ("ESD") Enterprise Fund** provides wastewater collection and treatment services to approximately 5,000 customers in the northern portion of the City.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements are accounted for according to the nature of the fund. The City has only Agency funds, which are purely custodial in nature (assets equal liabilities) and thus, do not involve the measurement of the results of operations. These funds are accounted for on the accrual basis of accounting.

The **Agency Fund** accounts for one Assessment District and one Community Facilities (Mello-Roos) District for which the City acts as an agent for debt service activities.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents, and Investments

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The statement of cash flows requires presentation of “cash and cash equivalents”. For the purposes of the statement of cash flows, the City considers all proprietary fund pooled cash and investments as “cash and cash equivalents”, as such funds are available to the various funds as needed.

Certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

D. Restricted Cash and Investments with Fiscal Agents

Cash and investments with fiscal agents are restricted due to limitations on their use by bond covenants. Fiscal agents acting on behalf of the City hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, and have been invested only as permitted by specific State statutes or applicable City ordinance, resolution or bond indenture.

E. Fair Value Measurement

In accordance with GASB Statement No. 72, Fair Value Measurement and Application, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, which are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

F. Receivables

Receivables include such items as taxes, intergovernmental revenues, charges for services, miscellaneous accounts receivable, and interest receivable. No allowance for doubtful accounts has been established, as the City believes all amounts are considered to be collectible in the normal course of business.

G. Investments in Other Agencies

The City's Cardiff Sanitary Division, San Dieguito Water District, and Encinitas Sanitary Division (the "City agencies") participate in joint ventures with other local agencies, generally to more efficiently provide water and wastewater treatment. Each entity has an ownership interest in the respective joint facilities, which are accounted for under the equity method of accounting. The City agencies pay for the fair share of operating costs, and make capital contributions for major maintenance and the upgrade or construction of facilities. The City agencies also record their share of the results of operations for these joint ventures. See Note 5, Investment in Joint Ventures.

H. Inventory and Prepaid Items

Inventory applies only to SDWD and consists of water meters and other material used in the repair of capital facilities. Inventory is valued at average-cost using first-in first-out basis. Prepaid items are payments made to vendors for services that will benefit periods beyond the fiscal year ended, such as prepaid pension costs for the City and SDWD.

I. Other Assets

Other assets include prepaid pension costs for the City and SDWD.

J. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000 for non-infrastructure assets and \$100,000 for infrastructure assets. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Structures and improvements	20 - 45 years
Equipment, machinery and vehicles	5 - 20 years
Infrastructure	20 - 50 years
Collection and distribution systems	50 years

The City defines infrastructure as the basic physical assets that allow the City to function.

Governmental fund capital assets include land, land easements, construction in progress, public facilities (buildings and building improvements), vehicles, equipment and machinery, and infrastructure assets (e.g., roads, streets and sidewalks, bridges, curbs and gutters, drainage systems, lighting systems and similar assets).

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

J. Capital Assets (Continued)

Proprietary fund capital assets include, land easements, public works facility right of use, construction in progress, structures and improvements, collection and distribution systems, machinery and equipment, and capacity rights, which are stated at cost. Contributed assets, which are principally collection and distribution lines, are stated at cost or estimated fair value on the date of donation.

K. Deposit Liabilities

The City collects deposits from homeowners and commercial enterprises as surety for the payment of fees and other costs related to planning and engineering services provided by the City. The City collects two types of deposits: (1) Application Deposits and (2) Security Deposits. Application deposits are collected on certain projects for which a fee for services has not been established. As costs for these projects are incurred by the City, the applicant's deposit balance is adjusted and revenue (including applicable overhead charges) is recognized. Expenses incurred in excess of the deposit amounts are billed to the applicant. Any surplus at project completion is returned to the applicant. Security deposits are collected from the applicant to guarantee required performance. These may either be in cash or in the form of non-cash, such as performance bonds or letters of credit. The amount of cash deposits on hand as of June 30, 2016, is reported as a *current liability* in the *Statement of Net Position and Balance Sheets*. Noncash security deposits are not reported as liabilities, as the corresponding surety is not an asset of the City.

L. Unearned Revenue

Unearned revenue recorded in the government-wide statement of net position for governmental activities and the governmental fund financial statements consist of federal and state capital grants, representing voluntary nonexchange transactions, for which advance payments have been received from the provider for which eligibility requirements, other than timing requirements, have not been satisfied.

Unearned revenue recorded in the government-wide statement of net position for business-type activities and the proprietary fund financial statements generally consist of program fees collected from customers prior to the statement of net position date for recreation programs that begin in the next fiscal year or donations for capital or work projects, for which the related expenses have not yet been incurred.

M. Long-Term Debt

For the government-wide financial statements and proprietary fund financial statements, long-term debt and other financial obligations are reported as liabilities, net of bond premiums or discounts. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Issuance costs are reported as expense when incurred.

Governmental fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

N. Arbitrage Rebate Requirement

The City is subject to the Internal Revenue Code (“IRC”) Section 148(f), related to its tax exempt revenue bonds. The IRC requires that investment earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. The City had no rebate liability for arbitrage as of June 30, 2016.

O. Claims Liabilities

The City accounts for material claims and judgments outstanding at year-end. When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the City records the estimated loss.

P. Compensated Absences

The City’s policy permits its non-fire employees to accumulate not more than two times their current annual vacation allotment. Fire employees can accrue up to a maximum of 720 hours of vacation, depending on length of employment with the City. Non-fire employees are compensated five days of sick leave per year with no balances accruing upon separation of employment. Fire employees may accrue up to 240 hours of sick leave. The combined unused vacation and sick pay will be paid to the employee or his/her beneficiary upon leaving the City’s employment. The amount due will be determined using salary/wage rate in effect at the time of separation.

Government-Wide Financial Statements – For governmental and business-type activities, compensated absences are recorded as expenses and liabilities as incurred.

Fund Financial Statements – In governmental funds, compensated absences are recorded as expenditures in the years paid, as it is the City’s policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources. The General Fund is typically used to liquidate compensated absences. In proprietary funds, compensated absences are expensed to the various funds in the period they are earned, and such fund’s share of the unpaid liability is recorded as a long-term liability of the fund.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis as they are reported by the plans (Note 14). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

<u>CalPERS</u>	
Valuation date	June 30, 2014
Measurement Date	June 30, 2015
Measurement Period	July 1, 2014 to June 30, 2015

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Q. Pensions (Continued)

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

R. Net Position

For government-wide and proprietary fund financial statements, net position represents the difference between all other elements in the statement of net position and should be displayed in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When an expense is incurred for purposes for which both restricted and unrestricted Net Position are available, the City's policy is to apply restricted Net Position first.

S. Fund Balances

In governmental fund financial statements, fund balances are categorized as follows:

Non-spendable – Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body, and that remain binding unless removed in the same manner. Adoption of a resolution by the City Council is required to commit resources or rescind the commitment.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

S. Fund Balances (Continued)

Assigned – Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council adopts a resolution contained within the annual budget that delegates the authority to the Finance Director to assign fund balance amounts in the annual financial statements.

Unassigned – This amount is for any portion of the fund balances that do not fall into one of the above categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that particular fund.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order: committed, assigned, and unassigned.

T. Property Taxes

Property taxes are levied on July 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of San Diego, California (County) bills and collects property taxes and remits them to the City according to a payment schedule established by the County.

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year or the current CPI, whichever is less. The City receives a share of this basic tax levy proportionate to what it received during the years 1980-1981.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days after the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are not recorded as revenue until collected.

No allowance for doubtful accounts was considered necessary.

U. Use of Estimates

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

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

V. Accounting Changes

New Governmental Accounting Standards Implementation for the Year Ended June 30, 2016

GASB No. 72

In February 2015, The Governmental Accounting Standards Board issued Statement No. 72, *Fair Value Measurement and Application*. This pronouncement provides guidance for determining fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Governments are required to use valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value. Required disclosures include the level of fair value hierarchy and valuation techniques and should be organized by type of asset or liability. This pronouncement is effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. This pronouncement did not have any new measurement impact on the City's investment portfolio, except for additional disclosure on measurement input as discussed in Note 3 to the Basic Financial Statements.

GASB No. 73

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements 67 and 68). Application of this statement is effective for the City's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities that are not within the scope of GASB Statement 68, which are effective for financial statements for fiscal year ending June 30, 2017. This pronouncement did not have a material effect on the financial statements of the City.

GASB Statement No. 76

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Application of this statement is effective for the City's fiscal year ending June 30, 2016. This pronouncement did not have a material effect on the financial statements of the City.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

V. Accounting Changes (Continued)

**New Governmental Accounting Standards Implementation for the Year Ended June 30, 2016
(Continued)**

GASB Statement No. 79

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This pronouncement did not have a material effect on the financial statements of the City.

Upcoming Governmental Accounting Standards Implementation

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

GASB Statement No. 74

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which addresses reporting by postemployment benefits other than pensions (OPEB) plans that administer benefits on behalf of governments. This statement basically parallels GASB Statement 67 and replaces GASB Statement 43. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

GASB Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. Application of this statement is effective for the City's fiscal year ending June 30, 2018.

GASB Statement No. 77

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

V. Accounting Changes (Continued)

Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 78

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

GASB Statement No. 80

In December 2015, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

GASB Statement No. 81

In December 2015, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of this statement is effective for the City's fiscal year ending June 30, 2018.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

V. Accounting Changes (Continued)

Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 82

In December 2015, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). Application of this statement is effective for the City's fiscal year ending June 30, 2018.

Note 3 – Cash and Investments

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

	Government-Wide Statement of Position		Fiduciary Funds	
	Governmental	Business-type	Statement of	
	Activities	Activities	Net Position	Total
Current assets:				
Cash and investments	\$ 64,366,979	\$ 39,850,247	\$ 2,092,758	\$ 106,309,984
Restricted cash and investments with fiscal agent	2,559,011	19,510	1,976,121	4,554,642
Noncurrent assets:				
Restricted cash and investments with fiscal agent	3,007,966	1,377,006	-	4,384,972
Total cash and investments	\$ 69,933,956	\$ 41,246,763	\$ 4,068,879	\$ 115,249,598

Cash and investments at June 30, 2016, consisted of the following:

	Fair
	Value
Cash on hand	\$ 3,500
Deposits with financial institutions	3,551,617
Investments	111,694,481
Total cash and investments	\$ 115,249,598

At June 30, 2016, cash and investments, excluding restricted cash and investments held by fiscal agent, are reported at fair value based on quoted market prices. The following table represents the fair value measurements of investments recognized in the accompanying Statement of Net Position measured at fair value on a recurring basis and the level within GASB 72 fair value hierarchy in which the fair value measurements fall at June 30, 2016:

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Cash and Investments (Continued)

Investment Type	Fair Value	Percentage of Investments	Measurement Input
Investments:			
Local Agency Investment Fund (LAIF)	\$ 23,890,024	22.40%	Level 2
California Asset Management Program	1,003,469	0.94%	Level 2
Money Market Mutual Funds	470	0.00%	N/A
Certificates of Deposit	4,004,129	3.76%	N/A
US Treasury Securities	28,266,327	26.51%	Level 2
U.S. Government Sponsored Enterprise Securities	49,467,284	46.39%	Level 2
Total Investments	<u><u>\$ 106,631,703</u></u>		

A. Demand Deposits

The carrying amounts of the City's demand deposits were \$3,551,617 at June 30, 2016. Bank balances were \$3,346,015 at that date, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City's deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). The City, however, has not waived the collateralization requirements.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Cash and Investments (Continued)

B. Investments Authorized by the California Government Code and the City's Adopted Investment Policy

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

Authorized Investment Type	Authorized by Investment Policy	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Repurchase Agreements-Overnight "Sweep"	Yes	1 year	20%	No Limit
Local Agency Investment Fund (LAIF) **	Yes	N/A	30%	No Limit
Local Agency Bonds	No	5 years	N/A	N/A
Other Governmental Managed Investment Pools	Yes	N/A	30%	No Limit
Money Market Mutual Funds	Yes	N/A	20%	10%
Certificates of Deposit	Yes	5 years	10%	\$1M
Negotiable Certificates of Deposit	Yes	5 years	10%	\$1M
Banker's Acceptances	Yes	180 days	10%	\$1M
U.S. Treasury Bills, Notes and Bonds	Yes	5 years	50%	15%
U.S. Gov't Sponsored Enterprises	Yes	5 years	60%	15%
Commercial Paper	Yes	270 days	25%	\$5M
Commercial Medium-Term Notes	Yes	5 years	15%	\$1M

* Excluding amounts held by bond trustee that are not subject to California Government Code restriction.

** Maximum is \$50 million per account.

C. Investments Authorized by Debt Agreements

The investment of the proceeds from debt issuances, held by a third-party trustee, is governed by the provisions of the specific debt agreement rather than by the Gov't Code or the Investment Policy. The investment types that are authorized and currently utilized by the City are *Guaranteed Investment Contracts* and *Money Market Mutual Funds*.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Cash and Investments (Continued)

D. Risk Disclosures

Disclosures Related to Interest Rate Risk

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

Information about the sensitivity of the fair values of the City's investments to interest rate risk is provided in the table that shows the distribution by maturity is as follows:

Investment Type	Total	Remaining Maturity (in Months)	
		Less than 12 Months	12 to 60 Months
Investments:			
Local Agency Investment Fund (LAIF)	\$ 23,890,024	\$ 23,890,024	\$ -
California Asset Management Program	1,003,469	1,003,469	-
Money Market Mutual Funds	470	470	-
Certificates of Deposit	4,004,129	2,237,669	1,766,460
Corporate Medium Term Notes	-	-	-
US Treasury Securities	28,266,327	8,006,780	20,259,547
U.S. Government Sponsored Enterprise Securities	49,467,284	12,940,924	36,526,360
Total Investments	106,631,703	48,079,336	58,552,367
Investment with Fiscal Agents:			
Guaranteed Investment Contracts	619,500	-	619,500
Money Market Mutual Funds	4,443,278	4,443,278	-
Total Investment with Fiscal Agents	5,062,778	4,443,278	619,500
Total	\$ 111,694,481	\$ 52,522,614	\$ 59,171,867

Disclosures Related to Credit Risk

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation to repay the holder at the maturity date. This is generally measured by the assignment of a rating by a nationally recognized statistical organization. However, some issuers do not seek a credit rating. For instance, the California Local Agency Investment Fund (LAIF) has not sought or received a credit rating. In these cases, the purchaser is solely responsible for performing their own due diligence before purchasing an investment or participating in an external investment pool. Certificates of deposit of \$250,000 or less are fully insured by the Federal Deposit Insurance Corporation (FDIC), and therefore, do not seek a credit rating.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Cash and Investments (Continued)

D. Risk Disclosures (Continued)

Disclosures Related to Credit Risk (Continued)

Presented on the following is the minimum rating required by (where applicable) the Government Code, the Investment Policy, or the debt agreements, and the actual rating as of year-end for each investment type as well as the fair value measurements of investments recognized in the accompanying statement of net position measured at fair value on a recurring basis and the level within GASB 72's fair value hierarchy in which the fair value measurements fall at June 30, 2016.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End	
			AAA/AA+	Not Rated
Investments:				
Local Agency Investment Fund (LAIF)	\$ 23,890,024	N/A	\$ -	\$ 23,890,024
California Asset Management Program	1,003,469	N/A	1,003,469	-
Money Market Mutual Funds	470	AAA	470	-
Certificates of Deposit	4,004,129	N/A	-	4,004,129
Corporate Medium Term Notes	-	A	-	-
US Treasury Securities	28,266,327	N/A	28,266,327	-
U.S. Government Sponsored Enterprise Securities	49,467,284	N/A	49,467,284	-
Total Investments	106,631,703		78,737,550	27,894,153
Investments with Fiscal Agents:				
Guaranteed Investment Contracts	619,500	N/A	-	619,500
Money Market Mutual Funds	4,443,278	AAA	-	4,443,278
Total Investments with Fiscal Agents	5,062,778		-	5,062,778
Total	\$ 111,694,481		\$ 78,737,550	\$ 32,956,931

Disclosures Relating to Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated in the Gov't Code. GASB Statement No. 40 requires disclosure by amount and issuer, of investments in any one issuer that represent 5% or more of total investments. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represents 5% or more of the City's total investments are as follows:

Issuer	Investment Type	Fair Value
Federal National Mortgage Association	U.S. Government Sponsored Enterprise Securities	\$ 20,315,280
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Enterprise Securities	\$ 10,056,680
Federal Home Loan Bank	U.S. Government Sponsored Enterprise Securities	\$ 15,077,864
Local Agency Investment Fund (LAIF)	California Pooled Investment Fund	\$ 23,890,024

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Cash and Investments (Continued)

D. Risk Disclosures (Continued)

Disclosures Relating to Custodial Credit Risk

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

E. Investments in State Investment Pool – Local Agency Investment Fund

The City's investments with the Local Agency Investment Fund (LAIF) include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- Structured Notes - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Investment Advisory Board, which consists of five members, in accordance with State statute. The fair value of our position in the pool is the same as the value of the pool shares.

As of June 30, 2016, the City had \$23,890,024 invested in LAIF, which had invested 2.81% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.000621222 was used to calculate the fair value of the investment in LAIF.

F. Investment in California Asset Management Program (CAMP)

The City is a voluntary participant in CAMP, a California Joint Powers Authority that falls under California Government Code Section 53601(p), which is directed by a Board of Trustees that is made up of experienced local government finance directors and treasurers. The Pool is required to maintain an average maturity of less than 60 days, and is rated AAAM by Standard & Poor's national rating agency. As of June 30, 2016, the City had \$1,003,469 invested in CAMP.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 4 – Receivables

At June 30, 2016, receivables consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Accounts receivable	\$ 640,520	\$ 2,450,117	\$ 3,090,637
Taxes and assessments receivable	330,159	165,758	495,917
Accrued revenues	4,802,169	9,185	4,811,354
Loans receivable	948,633	-	948,633
Total	<u>\$ 6,721,481</u>	<u>\$ 2,625,060</u>	<u>\$ 9,346,541</u>

Loans receivable consist of loans to developers and loans to employees for the purchase of computer equipment, a program approved by the City Council to promote more efficient use of technology.

Note 5 – Investment in Joint Ventures

Investment in joint ventures (See Note 2G) is reported as *other noncurrent assets* in the Statement of Net Position, consists of the following as of June 30, 2016:

Cardiff Sanitary Division	San Elijo Joint Facilities	\$ 18,446,627
San Dieguito Water District	R.E. Badger Joint Facilities	19,015,947
San Dieguito Water District	R.E. Badger Financing Authority	764,192
		<u>19,780,139</u>
Encinitas Sanitary Division	Encina Joint Facilities	<u>3,937,430</u>
Total Investment in Joint Ventures		<u><u>\$ 42,164,196</u></u>

A. Cardiff Sanitary Division

Investment in San Elijo Joint Powers Authority (CITY)

In 1964, Cardiff Sanitary Division ("CSD") entered into an agreement with Solana Beach Sanitation District ("Solana Beach") for the joint ownership, maintenance, operation, and use of a Wastewater Treatment Plant and Ocean Outfall (collectively, the "Joint Facilities"). In 1987, CSD and Solana Beach agreed to establish the San Elijo Joint Powers Authority ("SEJPA"), a separate legal entity whose function it is to manage and operate the Joint Facilities and to determine the joint and separate obligations of the members concerning the transmission, treatment, disposal, and reclamation of wastewater within the respective service territories. On June 30, 1988, CSD and Solana Beach each transferred all of their assets related to the Facilities in exchange for a 50% interest in SEJPA. The Ocean Outfall is jointly owned by SEJPA (21% interest) and the City of Escondido (79% interest).

SEJPA is responsible for the operations and maintenance of the Joint Facilities as well as the related administration. The operations and maintenance costs are allocated monthly and billed quarterly, based on the relative volume of flows after taking into account charges to other agencies that lease certain capacity rights and share in the costs of operations and maintenance. For the year ended June 30, 2016, CSD's share of those costs was \$1,250,059, which is reported as a component of "facility operations and maintenance" in the accompanying financial statements.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 5 – Investments in Joint Ventures (Continued)

B. San Dieguito Water District

Investment in R.E. Badger Filtration Plant and related Facilities (the "Joint Facilities")

In 1967, SDWD entered into an agreement with Santa Fe Irrigation District ("Santa Fe") for the joint ownership, maintenance, operation, and use of a water treatment plant and various facilities for the storage and delivery of potable water. During the ensuing years, the SDWD and Santa Fe have added various facilities and improvements, which are owned in different percentages depending on the type of facility and the agreements in place. The ownership percentages of these Joint Facilities are described below:

<u>San Dieguito Water District</u>	<u>Santa Fe</u>	<u>Facilities</u>
45%	55%	Filtration Plant
31%	69%	Filtered Water Reservoir
39%	61%	Joint Pipeline
42%	58%	San Dieguito Water Reservoir

Santa Fe is responsible for the operations and maintenance of the Joint Facilities as well as the related administration. The operations and maintenance costs are allocated monthly on the basis of the water used by each district, and administrative costs are allocated based on an agreed-upon cost allocation plan. For the year ended June 30, 2016, SDWD's share of those was \$1,788,841, which is shown as "facility operations and maintenance" in the accompanying financial statements.

Investment in R.E. Badger Water Facilities Financing Authority (the "Financing Authority")

In 1999, SDWD and Santa Fe entered into a joint exercise of powers agreement and formed the Financing Authority to provide financing for the acquisition and construction of capital improvements related to the Joint Facilities. The Financing Authority subsequently issued revenue bonds for the purpose of funding those capital improvements. SDWD and Santa Fe are obligated under Installment Purchase Agreements to repay their proportionate shares of the long-term financing. The investment in the Financing Authority consists primarily of SDWD's share of the debt reserve funds held by a fiscal agent and unamortized bond discounts and issuance costs.

C. Encinitas Sanitary Division

Investment in Encina Water Pollution Control Facility (the "Joint Facilities")

ESD is one of six member agencies with an ownership interest in the Joint Facilities. ESD owns approximately 2.7% of the Joint Facilities, after adjusting for the construction and upgrades to the Joint Facilities, referred to as "Phase V improvements." This ownership percentage affords ESD treatment capacity rights of approximately 2.0 million gallons/day, which is in excess of current needs and sufficient to meet all projected future needs. The Encina Wastewater Authority (Encina) is responsible for the operations and maintenance of the Joint Facilities, as well as the related administration. The operations, maintenance, and administrative costs are allocated monthly on the basis of the relative flows of each member agency. For the year ended June 30, 2016, ESD's share of those costs was \$594,288, which is shown as "facility operations and maintenance" in the accompanying financial statements.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Receivables

At June 30, 2016 the City's long-term receivables consisted of the following:

Encinitas Ranch Town Center	\$ 520,000
Iris Apartments	428,633
Total	<u>\$ 948,633</u>

A. Encinitas Ranch Town Center

At June 30, 2016, the outstanding balance of the long-term receivable was \$520,000. This receivable is one of the results of the Encinitas Ranch Development Agreement that was executed between the City and the developer of the Encinitas Ranch planned community in 1994. Part of that agreement allowed the developer to apply up to 50% of the sales tax proceeds generated by the Encinitas Ranch Town Center towards the payment of CFD assessments during its first five years of operation. The funds were applied to CFD payments pursuant to this loan agreement for approximately two years, and then discontinued. The original loan amount was about \$1.3 million. The developer has been making interest and certain principal repayments, consistent with the contract terms, in the ensuing years. In 2011, the City Council approved an extension to the final maturity of the note by five years, to June 15, 2018. The balance at that time was approximately \$650,000. Simple interest is payable annually, with principal payments commencing in June 2016 and continuing through until June 2018 when the remaining balance is due and payable. The note is secured by the developer's share of the future net revenues of the Encinitas Ranch Golf Course, which substantially exceed the face value of the note.

B. Iris Apartments

On April 20, 2012, the City entered into a promissory note agreement with Iris Apartments in the amount of \$350,000, secured by a Deed of Trust on the project. The outstanding principal balance due the City bears simple interest at a rate of 6% per annum, commencing on the date of fund disbursement which was May 2012. Under the terms of the agreement, Iris Apartments is obligated to make annual payments of principal and interest in the amount equal to 50% of residual receipts, as defined in the promissory note agreement. All principal and unpaid interest will be due and payable on April 20, 2067. The outstanding principal and interest receivable at June 30, 2016 was \$428,633.

Note 7 – Other Assets

At June 30, 2016, the City has recorded other assets consisting of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Other Assets:			
Prepaid pension side funds	\$ 3,325,189	\$ 981,523	\$ 4,306,712
Less: accumulated amortization	(2,992,671)	(883,368)	(3,876,039)
Total other assets	<u>\$ 332,518</u>	<u>\$ 98,155</u>	<u>\$ 430,673</u>

These amounts represent the related unamortized prepayment of its pension side fund obligations in 2007. The City elected to amortize over a 10-year period. For the year ended June 30, 2016, the amortization expense was \$332,519 for the governmental activities and \$98,152 for the business-type activities.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – Capital Assets

A. Governmental Activities

The summary of changes in governmental activities capital assets for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Deletions	Transfers/ Reclassification	Balance June 30, 2016
Capital assets, not being depreciated:					
Land	\$ 61,862,474	\$ -	\$ -	\$ -	\$ 61,862,474
Land easements	2,104,542	9,500	-	-	2,114,042
Construction in progress	9,959,944	5,226,128	-	(949,592)	14,236,480
Total capital assets, not being depreciated	73,926,960	5,235,628	-	(949,592)	78,212,996
Capital assets, being depreciated:					
Public facilities	100,192,351	-	-	197,611	100,389,962
Vehicles, equipment and machinery	9,245,293	425,195	(390,537)	-	9,279,951
Infrastructure	110,272,547	-	-	751,981	111,024,528
Total capital assets, being depreciated	219,710,191	425,195	(390,537)	949,592	220,694,441
Less accumulated depreciation					
Public facilities	(25,662,524)	(3,262,689)	-	-	(28,925,213)
Vehicles, equipment and machinery	(5,432,312)	(637,137)	390,537	-	(5,678,912)
Infrastructure	(43,787,363)	(2,607,877)	-	-	(46,395,240)
Total accumulated depreciation	(74,882,199)	(6,507,703)	390,537	-	(80,999,365)
Total capital assets being depreciated, net	144,827,992	(6,082,508)	-	949,592	139,695,076
Governmental activities capital assets, net	\$ 218,754,952	\$ (846,880)	\$ -	\$ -	\$ 217,908,072

Depreciation expense was charged to the functions/programs of the governmental activities as follows:

General government	\$ 1,452,692
Public safety	350,158
Public works	2,826,056
Parks and recreation	1,568,301
Internal service funds	310,496
Total depreciation expense	\$ 6,507,703

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – Capital Assets (Continued)

B. Business-type Activities

The summary of changes in business-type activities capital assets for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Deletions	Transfers/ Reclassification	Balance June 30, 2016
Capital assets, not being depreciated:					
Land easements	\$ 3,047,151	\$ 172,150	\$ -	\$ -	\$ 3,219,301
Public works facility right of use	3,378,700	-	-	-	3,378,700
Construction in progress	4,375,674	906,235	-	(587,313)	4,694,596
Total capital assets, not being depreciated	10,801,525	1,078,385	-	(587,313)	11,292,597
Capital assets, being depreciated:					
Structures and improvements	19,118,795	-	-	28,780	19,147,575
Collection and distribution	60,497,024	269,629	-	558,533	61,325,186
Machinery and equipment	2,381,068	53,744	(6,600)	-	2,428,212
Capacity Rights	323,190	-	-	-	323,190
Total capital assets, being depreciated	82,320,077	323,373	(6,600)	587,313	83,224,163
Less accumulated depreciation					
Structures and improvements	(4,986,387)	(418,575)	-	-	(5,404,962)
Collection and distribution	(29,834,608)	(868,874)	-	(609,295)	(31,312,777)
Machinery and equipment	(2,473,455)	(238,635)	6,600	609,295	(2,096,195)
Capacity rights	(125,505)	(6,464)	-	-	(131,969)
Total accumulated depreciation	(37,419,955)	(1,532,548)	6,600	-	(38,945,903)
Total capital assets being depreciated, net	44,900,122	(1,209,175)	-	587,313	44,278,260
Business-type activities capital assets, net	\$ 55,701,647	\$ (130,790)	\$ -	\$ -	\$ 55,570,857

Depreciation expense was charged to the functions/programs of the business-type activities as follows:

Cardiff Sanitary Division	\$ 387,320
San Dieguito Water District	675,549
Encinitas Sanitary Division	369,141
Non-major Affordable Housing	100,538
Total	\$ 1,532,548

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance			Balance	Classification	
	July 1, 2015	Additions	Deletion	June 30, 2016	Due Within One Year	Due in More Than One Year
Governmental Activities:						
Capital Leases:						
2008 Civic Center Roof Replacement	\$ 1,261,575	\$ -	\$ (138,268)	\$ 1,123,307	\$ 143,417	\$ 979,890
2011 Fire Apparatus	498,147	-	(161,975)	336,172	166,015	170,157
2012 Fire Apparatus	353,750	-	(85,582)	268,168	87,458	180,710
2013 Fire Apparatus	400,242	-	(77,049)	323,193	78,520	244,673
Bonded Debt:						
1997 Civic Center COP's	1,150,000	-	(560,000)	590,000	590,000	-
2002 ABAG Financing	830,000	-	(265,000)	565,000	275,000	290,000
2006 Public Library Bonds	16,975,000	-	(16,975,000)	-	-	-
less: original issue discount	(220,000)	-	220,000	-	-	-
2010 Community Park Bonds	16,000,000	-	(735,000)	15,265,000	770,000	14,495,000
add: original issue premium	163,433	-	(10,777)	152,656	-	152,656
2013 Community Park Bonds	7,245,000	-	(325,000)	6,920,000	330,000	6,590,000
add: original issue premium	113,880	-	(8,760)	105,120	-	105,120
2014 Moonlight Beach Tower (Series A)	3,095,000	-	(65,000)	3,030,000	65,000	2,965,000
less: original issue discount	(55,141)	-	1,838	(53,303)	-	(53,303)
2014 Pacific View (Series B)	10,365,000	-	(200,000)	10,165,000	200,000	9,965,000
less: original issue discount	(230,486)	-	7,683	(222,803)	-	(222,803)
2015 Library Refunding Bonds	-	15,645,000	-	15,645,000	480,000	15,165,000
add: original issue premium	-	772,212	-	772,212	-	772,212
Subtotal of governmental capital leases and bonded debt	57,945,400	16,417,212	(19,377,890)	54,984,722	3,185,410	51,799,312
Claims payable	1,193,289	1,430,314	(1,034,383)	1,589,220	1,589,220	-
Compensated absences	2,101,928	4,442,733	(4,436,972)	2,107,689	2,107,689	-
Total governmental activities	61,240,617	22,290,259	(24,849,245)	58,681,631	6,882,319	51,799,312
Business-type Activities:						
2011 CSD Note Payable to SEJPA	2,627,419	-	(593,530)	2,033,889	612,192	1,421,697
add: original issue premium	206,405	-	(34,401)	172,004	-	172,004
2007 SDWD Note Payable Badger	5,130,000	-	(415,000)	4,715,000	440,000	4,275,000
2004 EHA Housing Note Payable	1,391,715	-	(60,306)	1,331,409	56,059	1,275,350
2014 SDWD Water Revenue Bonds	5,870,000	-	(570,000)	5,300,000	585,000	4,715,000
add: original issue premium	669,345	-	(74,372)	594,973	-	594,973
Subtotal of business-type bonded debt	15,894,884	-	(1,747,609)	14,147,275	1,693,251	12,454,024
Compensated absences (SDWD)	148,064	293,833	(280,587)	161,310	161,310	-
Compensated absences (Affordable Housing)	9,902	60,379	(59,593)	10,688	10,688	-
Total business-type activities	16,052,850	354,212	(2,087,789)	14,319,273	1,865,249	12,454,024
Total long-term obligations	\$ 77,293,467	\$ 22,644,471	\$ (26,937,034)	\$ 73,000,904	\$ 8,747,568	\$ 64,253,336

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities

2008 Civic Center Roof Replacement and Energy Optimization Project

On February 27, 2008, the City entered into a long-term lease arrangement with a financial institution to finance \$2,100,000 of the 2008 improvements to the Encinitas Civic Center. The lease has a term of fifteen (15) years, an interest rate of 3.69%, and semi-annual payments of \$91,778. The project was completed during fiscal year 2008-2009, and the final payment is due in fiscal year 2023. The total cost of the project was \$3,543,258.

The annual debt service requirements for the lease outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 143,417	\$ 40,139	\$ 183,556
2018	148,758	34,798	183,556
2019	154,298	29,258	183,556
2020	160,045	23,511	183,556
2021	166,005	17,552	183,557
2022-2023	350,784	16,327	367,111
Total	<u>\$ 1,123,307</u>	<u>\$ 161,585</u>	<u>\$ 1,284,892</u>

2011 Fire Apparatus Lease

The City entered into a long-term lease arrangement in fiscal year 2010-11 to finance the purchase of a 2011 Pierce Arrow XT Aerial Tiller Truck for \$1,214,003. The lease has a term of seven years, an interest rate of 2.48%, and semi-annual payments of \$86,665. The lease is accounted for as a capital lease, as the City will be purchasing the unit for \$1.00 at the maturity of the lease in fiscal year 2018.

The annual debt service requirements for the lease outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 166,015	\$ 7,314	\$ 173,329
2018	170,157	3,171	173,328
Total	<u>\$ 336,172</u>	<u>\$ 10,485</u>	<u>\$ 346,657</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

2012 Fire Apparatus Lease

The City entered into a long-term lease arrangement in fiscal year 2011-12 to finance the purchase of a 2012 Pierce Arrow XT Pumper Truck for \$603,397. The lease has a term of seven (7) years with an interest rate of 2.18% and semi-annual payments of \$46,415. The lease is accounted for as a capital lease, as the City has the option to purchase the unit for \$1 at the maturity of the lease term in fiscal year 2019.

The annual debt service requirements for the lease outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 87,458	\$ 5,372	\$ 92,830
2018	89,375	3,455	92,830
2019	91,335	1,496	92,831
Total	<u>\$ 268,168</u>	<u>\$ 10,323</u>	<u>\$ 278,491</u>

2013 Fire Apparatus Lease

The City entered into a long-term lease arrangement in fiscal year 2012-13 to finance the purchase of a 2012 Pierce Arrow XT Pumper Truck for \$559,653. The lease has a term of seven years, an interest rate of 1.91%, and annual payments of \$84,693. The lease is accounted for as a capital lease, as the City will be purchasing the unit for \$1.00 at the maturity of the lease in fiscal year 2020.

The annual debt service requirements for the lease outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 78,520	\$ 6,173	\$ 84,693
2018	80,020	4,673	84,693
2019	81,548	3,145	84,693
2020	83,105		83,105
Total	<u>\$ 323,193</u>	<u>\$ 13,991</u>	<u>\$ 337,184</u>

Capital assets and accumulated depreciation for assets held under capital leases are as follows:

	Cost	Accumulated Depreciation	Net Capital Assets
Public facilities	\$ 3,543,258	\$ (1,003,922)	\$ 2,539,336
Fire apparatus and equipment	2,377,053	(704,469)	1,672,584

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

1997 Refunding Certificates of Participation (COPs)-Series A (Encinitas Civic Center)

In December 1991, the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued its 1991 Certificates of Participation-Series A totaling \$7,635,000, to purchase the site and existing improvements for the Encinitas Civic Center. In December 1997, the EPFA issued the 1997 Refunding Certificates of Participation-Series A totaling \$7,550,000, to refund all of the 1991 Certificates. The refunding qualified as an in-substance defeasance. Principal is due and payable annually in amounts ranging from \$505,000 to \$590,000. Interest is due and payable semi-annually with rates ranging from 3.70% to 5.05%. The final maturity of the issue is due and payable in fiscal year 2017. These certificates are subject to federal arbitrage requirements. The certificates are not subject to optional redemption prior to maturity.

The annual debt service requirements for the 1997 Certificates of Participation outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 590,000	\$ 14,750	\$ 604,750
Total	\$ 590,000	\$ 14,750	\$ 604,750

2002 Association of Bay Area Governments (ABAG) Lease Revenue Bonds

In July 2002, the City issued \$6,590,000 of Lease Revenue Bonds, Series 2002-1 through ABAG, a California Joint Powers Authority. The proceeds were utilized to retire the 1992 Certificates of Participation-Series B (Encinitas Civic Center) and four existing debt obligations (including one of the Encinitas Sanitary Division) and to provide funding for improvements to the Civic Center and the SDWD Water Utility meter exchange and automation program. The Bonds mature annually in amounts ranging from \$240,000 to \$290,000. Interest is due and payable semiannually at rates ranging from 3.00% to 4.65%. The final maturity of the issue is due and payable in fiscal year 2018. The bonds are subject to federal arbitrage requirements.

The Encinitas Sanitary Division and the San Dieguito Water District have repaid all of their obligations to the City under the agreement to advance funds. The remaining amounts payable are all attributable to the Civic Center funding.

The annual debt service requirements for the 2002 ABAG Lease Revenue Bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 275,000	\$ 19,810	\$ 294,810
2018	290,000	6,743	296,743
Total	\$ 565,000	\$ 26,553	\$ 591,553

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

2002 Association of Bay Area Governments (ABAG) Lease Revenue Bonds (Continued)

The bonds are subject to optional redemption beginning in 2013 at the following respective redemption prices (expressed as percentages of the principal amount of the Bonds to be redeemed).

Redemption Period	Redemption Price
July 1, 2014 and thereafter	100%

2006 Lease Revenue Bonds (Public Library)

On October 1, 2006 the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued its 2006 Lease Revenue Bonds - Series A (Library Construction Project) in the amount of \$20,000,000 to provide funds for the construction of a new 26,000 square foot public library. The bonds consist of \$10,405,000 of serial bonds and \$9,595,000 in term bonds. The serial bonds mature through 2026 in annual installments ranging from \$465,000 to \$755,000. The term bonds mature through 2037 and are subject to mandatory sinking fund requirements. Annual principal installments range from \$785,000 to \$1,155,000. Interest is due and payable semi-annually at rates ranging from 3.6% to 4.4%. The bonds were issued at a discount, which is being amortized over the life of the bonds on a straight-line basis in the government-wide financial statements. The bonds are subject to federal arbitrage requirements.

The 2006 Lease Revenue Bonds were refunded in fiscal year 2016 via the issuance of the 2015 Library Refunding Bonds. The outstanding balance at June 30, 2016 is \$0.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

2010 Lease Revenue Refunding Bonds (Park Project)

On September 1, 2010, the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued its 2010 Lease Revenue Refunding Bonds, Series A (Park Project) in the amount of \$19,530,000 to provide funds for the refinancing of its 2001 Lease Revenue Bonds, Series A. The bonds consist of \$15,675,000 of serial bonds and \$3,855,000 of term bonds. The serial bonds mature from 2011 to 2028 in annual installments ranging from \$625,000 to \$1,175,000. The term bond matures on April 1, 2031 and is subject to mandatory sinking fund requirements. Interest is due and payable semi-annually at rates ranging from 2.00% to 4.85%. The bonds were issued at a premium, which is being amortized over the life of the bonds on a straight-line basis in the government-wide financial statements. The bonds are subject to federal arbitrage requirements.

The bonds maturing on or after April 1, 2018 are subject to optional redemption on any date after April 1, 2017, without premium.

The annual debt service requirements for the 2010 Lease Revenue Refunding Bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 770,000	\$ 640,081	\$ 1,410,081
2018	810,000	601,581	1,411,581
2019	830,000	577,281	1,407,281
2020	855,000	552,381	1,407,381
2021	885,000	523,525	1,408,525
2022-2026	4,965,000	2,071,156	7,036,156
2027-2031	6,150,000	892,900	7,042,900
Total	<u>\$ 15,265,000</u>	<u>\$ 5,858,905</u>	<u>\$ 21,123,905</u>

2013 Lease Revenue Refunding Bonds (Public Park Construction Project)

On March 20, 2013, the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued its 2013 Lease Revenue Bonds, Series A (Public Park Construction Project) in the amount of \$7,865,000 to provide funds for the construction of capital improvements to the Encinitas Community Park. The bonds consist of \$7,865,000 of serial bonds, which mature annually through 2033 in installments ranging from \$305,000 to \$510,000. Interest is due and payable semi-annually at rates ranging from 2.00% to 3.00%. The bonds were issued at a premium, which is being amortized over the life of the bonds on a straight-line basis in the government-wide financial statements. The bonds are subject to federal arbitrage requirements.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

2013 Lease Revenue Refunding Bonds (Public Park Construction Project) (Continued)

The annual debt service requirements for the 2013 Lease Revenue Refunding Bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 330,000	\$ 185,644	\$ 515,644
2018	335,000	178,994	513,994
2019	345,000	172,194	517,194
2020	350,000	164,806	514,806
2021	360,000	156,818	516,818
2022-2026	1,940,000	634,928	2,574,928
2027-2031	2,255,000	324,075	2,579,075
2032-2034	1,005,000	30,375	1,035,375
Total	<u>\$ 6,920,000</u>	<u>\$ 1,847,834</u>	<u>\$ 8,767,834</u>

The bonds maturing on or after October 1, 2023 are subject to optional redemption on any date on or after October 1, 2022, without premium.

2014 Lease Revenue Bonds (Pacific View Property and Moonlight Beach Lifeguard Tower)

On November 26, 2014, the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued its 2014 Lease Revenue Bonds, Series A tax-exempt (Pacific View Property) and Series B taxable (Moonlight Beach Lifeguard Tower) in the amounts of \$3,095,000 and \$10,365,000, respectively, to provide funds for the purpose of financing the acquisition of a property known as the Pacific View Property and for improving the Moonlight Beach Lifeguard Tower. The bonds consist of \$3,350,000 of serial bonds and \$10,110,000 of term bonds. The serial bonds mature annually through 2030 in installments ranging from \$65,000 to \$245,000. The term bonds mature through 2045 and are subject to mandatory sinking requirements. Interest is due and payable semi-annually at rates ranging from 2.00% to 3.50%. The bonds were issued at a discount, which is being amortized over the life of the bonds on a straight-line basis in the government-wide financial statements. The bonds are subject to federal arbitrage requirements.

The annual debt service requirements for the 2014 Lease Revenue Bonds, Series A Moonlight Beach Tower bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 65,000	\$ 101,181	\$ 166,181
2018	65,000	99,881	164,881
2019	70,000	98,531	168,531
2020	70,000	97,131	167,131
2021	70,000	97,131	167,131
2022-2026	400,000	435,406	835,406
2027-2031	470,000	370,491	840,491
2032-2036	550,000	285,488	835,488
2037-2041	650,000	177,756	827,756
2042-2045	620,000	47,813	667,813
Total	<u>\$ 3,030,000</u>	<u>\$ 1,810,809</u>	<u>\$ 4,840,809</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

2014 Lease Revenue Bonds (Pacific View Property and Moonlight Beach Lifeguard Tower)
(Continued)

The annual debt service requirements for the 2014 Lease Revenue Bonds, Series B Pacific View Property bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 200,000	\$ 442,628	\$ 642,628
2018	205,000	440,190	645,190
2019	205,000	436,603	641,603
2020	210,000	432,033	642,033
2021	215,000	426,556	641,556
2022-2026	1,195,000	2,023,841	3,218,841
2027-2031	1,450,000	1,766,841	3,216,841
2032-2036	1,820,000	1,395,188	3,215,188
2037-2041	2,330,000	887,000	3,217,000
2042-2045	2,335,000	240,875	2,575,875
Total	<u>\$ 10,165,000</u>	<u>\$ 8,491,755</u>	<u>\$ 18,656,755</u>

2015 Library Refunding Bonds

On September 1, 2015, the Encinitas Public Financing Authority issued \$15,645,000 of 2015 Lease Revenue Refunding Bonds to defease and refund on a current basis, all of the outstanding 2006 Library Bonds. The Bonds consist of serial bonds maturing from 2016 through 2036 in annual installments of \$480,000 to \$1,025,000. Interest is due and payable semi-annually at rates ranging from 2.5% to 5.0%. Annual debt service is approximately \$1,065,000 through 2036. The bonds are subject to federal arbitrage requirements. The aggregate debt service payments of the new debt are \$3,252,589 less than the old debt. The issuance of the new debt and refunding of the old debt resulted in an economic gain (the difference between the net present value of the old debt and new debt service payments) of approximately \$1,547,162.

The annual debt service requirements for the 2015 Library Refunding Bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 480,000	\$ 579,931	\$ 1,059,931
2018	505,000	557,706	1,062,706
2019	530,000	531,831	1,061,831
2020	555,000	504,706	1,059,706
2021	580,000	476,331	1,056,331
2022-2026	3,355,000	1,918,931	5,273,931
2027-2031	3,980,000	1,267,481	5,247,481
2032-2036	4,635,000	594,131	5,229,131
2037	1,025,000	18,578	1,043,578
Total	<u>\$ 15,645,000</u>	<u>\$ 6,449,626</u>	<u>\$ 22,094,626</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

B. Business-Type Activities

2011 CSD Note Payable to San Elijo Joint Powers Authority (SEJPA)

On December 1, 2011, the City, on behalf of its members (the Cardiff Sanitary Division and the City of Solana Beach) refinanced all of its outstanding debt, including its 2003 refunding revenue bonds and a loan from the State of California. Information on the bond issuance itself is available through the SEJPA administrative offices. CSD is responsible, via a Third Amended and Restated Loan Agreement, for the repayment of \$4,341,362 of the total borrowing amount of \$9,235,000 (or approximately 47%.) Annual debt service is approximately \$690,000 through fiscal year 2019, with smaller repayments due in 2020 and 2021. The average rate on the borrowing is approximately 2.0%. The bonds were issued at a premium, which is being amortized over the life of the bonds on a straight-line basis. The issue also resulted in deferred refunding costs, which are also being amortized over the life of the bonds on a straight-line basis.

CSD has pledged its *net revenues* to pay for this outstanding obligation. *Net revenues* are defined as gross revenues less operations and maintenance costs, excluding depreciation, amortization and other non-cash type charges. CSD has covenanted to budget for *net revenues* each fiscal year of at least 110% of annual debt service. Total principal and interest remaining to be paid on the 2011 Note Payable as of June 30, 2016 is \$2,203,912. During the year ended June 30, 2016, principal and interest paid on the 2011 Note Payable was \$691,225 and net revenue was \$2,457,166, or 355% of annual debt service. Management of CSD believes it is in compliance with these covenants for fiscal year 2016.

The annual debt service requirements for the 2011 CSD Note Payable to San Elijo Joint Powers Authority outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 612,192	\$ 79,889	\$ 692,081
2018	640,352	55,402	695,754
2019	663,845	29,788	693,633
2020	57,500	3,234	60,734
2021	60,000	1,710	61,710
Total	<u>\$ 2,033,889</u>	<u>\$ 170,023</u>	<u>\$ 2,203,912</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

B. Business-Type Activities (Continued)

2007 SDWD Note Payable to R.E. Badger Water Facilities Financing Authority (WFFA)

On November 20, 2007, the WFFA, on behalf of its members (the Santa Fe Irrigation District and the San Dieguito Water District) issued \$20,685,000 of 2007 Water Revenue Refunding Bonds while concurrently redeeming all of its outstanding 1999 Water Revenue Bonds. Information on the bond issuance itself is available through the WFFA administrative offices. SDWD is responsible, via an Amended and Restated Loan Agreement, for the repayment of \$7,705,000 of the total borrowing. Principal is due and payable annually in amounts ranging from \$335,000 to \$620,000. Interest is due and payable semi-annually at rates ranging from 3.5% to 4.5%. Annual debt service is approximately \$630,000 through fiscal year 2028.

The annual debt service requirements for the 2007 SDWD Note Payable to R.E. Badger Water Facilities Financing Authority outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 440,000	\$ 191,244	\$ 631,244
2018	455,000	171,619	626,619
2019	475,000	152,919	627,919
2020	490,000	133,619	623,619
2021	525,000	111,465	636,465
2022-2025	2,330,000	210,304	2,540,304
Total	<u>\$ 4,715,000</u>	<u>\$ 971,170</u>	<u>\$ 5,686,170</u>

Pledged Revenues

SDWD has pledged its *net revenues* to pay the debt service on these two obligations. *Net revenues* are defined as gross revenues less operations and maintenance costs, excluding depreciation, amortization and other non-cash type charges. Total principal and interest outstanding of the above mentioned debts as of June 30, 2016, is \$7,890,082. During the year ended June 30, 2016 principal and interest paid was \$1,317,369 and net revenue was \$4,331,948, or 309% of annual debt service. SDWD has covenanted to budget for *net revenues* each fiscal year of at least 115% of combined annual debt service. SDWD's management believes it is in compliance with these covenants for fiscal year 2016.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

B. Business-Type Activities (Continued)

2004 Encinitas Housing Authority (EHA) Note Payable

In 2004, the EHA secured a note payable with a financial institution of \$1,905,338 to partially fund the acquisition of 16 affordable housing units. The note is secured only by the rental income generated by the housing units. Principal and interest is due and payable monthly. Annual principal installments range from \$52,417 in 2014 to \$74,562 in 2034. The note bears interest at 90% of the ten-year US Treasury note, adjustable every six years. The EHA is solely responsible for repayment on this note.

The annual debt service requirements for the 2004 Encinitas Housing Authority Note Payable outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 56,059	\$ 44,206	\$ 100,265
2018	57,976	42,289	100,265
2019	59,958	40,307	100,265
2020	61,904	38,361	100,265
2021	64,125	36,140	100,265
2022-2026	354,972	146,352	501,324
2027-2031	419,989	81,336	501,325
2032-2034	256,427	12,796	269,223
Total	<u>\$ 1,331,410</u>	<u>\$ 441,787</u>	<u>\$ 1,773,197</u>

2014 SDWD Water Revenue Refunding Bonds

On September 18, 2014, SDWD issued \$5,870,000 of Water Revenue Refunding Bonds, Series 2014, to defease and refund on a current basis, all of the outstanding 2004 Water Revenue Refunding Bonds. The Bonds consist of serial bonds maturing from 2016 through 2024 in annual installments of \$570,000 to \$755,000. Interest is due and payable semi-annually at rates ranging from 3.0% to 4.0%. Annual debt service is approximately \$780,000 through 2024. The bonds are subject to federal arbitrage requirements. The aggregate debt service payments of the new debt are \$2,012,280 less than the old debt. The issuance of the new debt and refunding of the old debt resulted in an economic gain (the difference between the net present value of the old debt and new debt service payments) of approximately \$780,873.

The annual debt service requirements for the 2014 SDWD Water Refunding Bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 585,000	\$ 185,075	\$ 770,075
2018	605,000	167,225	772,225
2019	625,000	148,775	773,775
2020	645,000	126,500	771,500
2021	665,000	100,300	765,300
2022-2025	2,175,000	132,900	2,307,900
Total	<u>\$ 5,300,000</u>	<u>\$ 860,775</u>	<u>\$ 6,160,775</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 10 – Interfund Receivables, Payable and Transfers

A. Due To and From Other Funds

Individual interfund receivables and payables at June 30, 2016, were as follows:

	Due from Other Funds	Due to Other Funds
Govermental Funds:		
General Fund	\$ 2,516,638	\$ -
Capital Improvements Capital Projects Fund	8,200,603	-
Nonmajor Governmental Funds	-	10,021,780
Internal Service Funds	-	629,851
Enterprise Funds:		
Nonmajor Affordable Housing Enterprise Fund	-	65,610
Total	<u>\$ 10,717,241</u>	<u>\$ 10,717,241</u>

The amounts due to the General Fund are all short-term borrowings in anticipation of grant revenue not yet received or for debt service payments.

The amounts due to the Capital Improvements Capital Projects fund represent grant revenues due from other funds.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 10 – Interfund Receivables, Payable and Transfers (Continued)

B. Transfers In and Out

Transfers in and out between funds for the year ended June 30, 2016, were as follows:

	Transfers Out					
	General Fund	Capital Improvement Capital Projects	Nonmajor Governmental Funds	Nonmajor Recreation	Internal Service Funds	Total All Funds
Transfers In						
Major Governmental Funds:						
General Fund	\$ -	\$ -	\$ 1,056,453	\$ 462,721	\$ -	\$ 1,519,174
Capital Improvement Capital Project Fund	17,003,668	445,559	20,198,316	-	-	37,647,543
Nonmajor Governmental Funds	5,383,529	-	-	-	-	5,383,529
Nonmajor Affordable Housing Enterprise Fund	63,609	-	-	-	-	63,609
Internal Service Funds	1,397,257	-	29,053	-	113,000	1,539,310
Total	\$ 23,848,063	\$ 445,559	\$ 21,283,822	\$ 462,721	\$ 113,000	\$ 46,153,165

Transfers in to the General Fund consist of funds from two of the City's development impact fee funds for qualified costs incurred, or to be incurred in the future years, by the General Fund for the construction of public facilities. In addition, the City now accounts for all street maintenance expenditures in the Streets Division budget unit within the General Fund, and transfers all State Gasoline Tax operating revenues from the Infrastructure Improvements special revenue fund to the General Fund.

Transfers in to the Capital Improvement Capital Projects Fund represent funds from other governmental funds for capital expenditures.

Transfers in to the Special Revenue funds represent the General Fund subsidy for the Senior Nutrition Program and the General Fund contribution to the Coastal Zone Management fund, which is included in the Grants and Housing special revenue fund.

Transfers in to the Debt Service funds represent the amounts being transferred to the City's general debt service fund and the Encinitas Public Financing Authority debt service fund to pay for the City's various debt service obligations.

Transfers in to the Internal Service Funds represent the City's annual contribution from the General Fund to the Risk Management fund. The contribution is not mandated and is established by the City Council during the annual budget process.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 11 – Fund Balance and Net Position Classifications

The City classifies fund balances, as shown on the *Balance Sheet - Governmental Funds* as of June 30, 2016 as follows:

	Major Funds			
	General Fund	Capital Improvements Capital Projects Fund	Other Governmental Funds	Totals
Nonspendable:				
Inventory and prepaid items	\$ 227,781	\$ -	\$ 287,756	\$ 515,537
Other assets	332,518	-	-	332,518
Computer loans	29,125	-	-	29,125
Long-term receivable	520,000	-	-	520,000
Total nonspendable	1,109,424	-	287,756	1,397,180
Restricted:				
Street maintenance and improvements	-	-	85,252	85,252
Cable Franchise PEG funds	-	-	175,020	175,020
Environmental initiatives	-	-	1,869,253	1,869,253
Affordable housing	-	-	1,309,543	1,309,543
Donations	-	-	128,690	128,690
Parkland and open space	-	-	2,080,419	2,080,419
Traffic mitigation	-	-	1,361,916	1,361,916
Flood control	-	-	332,131	332,131
Lighting and landscaping assessments	-	-	1,967,800	1,967,800
Law enforcement	-	-	124,406	124,406
Sand management	-	-	689,190	689,190
Debt service	-	-	2,286,436	2,286,436
Other	-	-	111,331	111,331
Total restricted	-	-	12,521,387	12,521,387
Committed:				
Capital projects	-	1,626,219	-	1,626,219
Total committed	-	1,626,219	-	1,626,219
Assigned:				
Capital projects	-	24,776,682	-	24,776,682
Total assigned	-	24,776,682	-	24,776,682
Unassigned	31,775,120	-	(8,215,735)	23,559,385
Total Fund Balances	\$ 32,884,544	\$ 26,402,901	\$ 4,593,408	\$ 63,880,853

City of Encinitas
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 11 – Fund Balance and Net Position Classifications (Continued)

Categorization of Reserves under Adopted City Policies

All unassigned amounts in the City's General Fund are considered reserves under internal City policies. The City maintains three separate and distinct reserves:

- 1) **Contingency Reserve** – represents funds that are set-aside for use only in exceptional circumstances such as catastrophic events that could negatively impact the financial condition of the City. Funding represents 20% of the next year's operating expenditures, and no drawdowns have ever been executed on this reserve. City Policy requires a 4/5 vote of the City Council to authorize draws on this reserve. The amount of the contingency reserve as of June 30, 2016 was \$11,822,489.
- 2) **Budget Stabilization Reserve** – was established in 2007 to help mitigate potential fluctuations in operating revenues, or to fund unanticipated operating expenditures. Funding levels are mandated at 2% to 5% of the next year's budgeted operating revenues. Any changes to the level of funding for this reserve also require a 4/5 vote of the City Council. In practice, this reserve has been funded within the established range since 2007, and changes are made during the annual budget process. The amount of the budget stabilization reserve as of June 30, 2016 was \$1,357,873.
- 3) **General Undesignated Reserve** – this reserve represents any remaining unassigned fund balance after funding levels have been established for (1) and (2) above. These funds may be allocated in any manner the City Council designates. The amount of the general undesignated reserve as of June 30, 2016 was \$18,594,758.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 12 – Risk Management

A. City of Encinitas - Risk Management and Insurance Programs

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has a proactive in-house risk management program, which combines risk mitigation initiatives with a self-insurance program and excess coverage policies with outside providers.

The City maintains a self-insurance fund to finance and account for its self-insured risks of loss. The Risk Management fund is accounted for as an Internal Service fund. It is supported by interfund charges for workers compensation coverage, unemployment insurance, and contributions from CSD, ESD and the City. The Risk Management fund strives to maintain an adequate net position, over time, to cover all known and reported claims, as well as an adequate reserve for incurred but not reported (IBNR) claims.

The City is self-insured for liability claims and losses up to \$500,000 per occurrence, and for worker's compensation claims and losses up to \$350,000 per occurrence.

The City is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA) which covers any liability claims or losses above the \$500,000 self-insured level. SANDPIPA is a separate legal entity formed by the participating municipalities to provide pooled excess liability insurance coverage to its members. The members do not hold any ownership stake in SANDPIPA and have no claims to revenue or assets upon withdrawal, at which time the purchase of tail coverage is required. SANDPIPA is governed by a Board of Directors, who determines policy and necessary funding levels, including retroactive adjustments for over-or under-funding, which is reflected as adjustments to current year premiums. The City is covered for losses between \$500,000 and \$2,500,000 by the SANDPIPA reserve pool. The members share the risk of claims in excess of reserves. For claims incurred after July 1, 1992, member expenses are included in the self-insurance reserve for purposes of calculating pooled coverage. Excess liability insurance coverage is provided for losses between \$2,500,000 and \$47,000,000 via excess insurers.

The City is a member of the Local Agency Workers Compensation Excess (LAWCX), a California Joint Powers Insurance Authority. LAWCX provides coverage for claims between \$350,000 and \$5,000,000. Excess worker's compensation coverage between \$5,000,000 and statutory limits is provided through contract reinsurance. City departments contribute premiums to the self-insurance fund based on annual rates set for each work class.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 12 – Risk Management (Continued)

A. City of Encinitas - Risk Management and Insurance Programs (Continued)

Changes in the balances of claims payable for liability and workers compensation during the past two years are as follows:

	Year Ended June 30, 2016	Year Ended June 30, 2015
Claims payable, beginning of year	\$ 1,193,289	\$ 607,546
Estimated incurred claims, net	1,430,314	972,064
Claims payments or closures	(1,034,383)	(386,321)
Claim payable, end of year	<u>\$ 1,589,220</u>	<u>\$ 1,193,289</u>

B. San Dieguito Water District (SDWD) - Risk Management and Insurance Programs

Risk management programs and support for SDWD are provided by the City of Encinitas Risk Management Department, for which SDWD pays the City an annual fee (charge for those services.)

SDWD is a member of the Association of California Water Agencies - Joint Powers Insurance Authority (JPIA), which provides coverage for general liability, property and casualty, and workers' compensation. As of June 30, 2016, in the opinion of the District's management and general counsel, there were no material claims which would require accrual in the accompanying financial statements. Management has determined, based on modest self-insurance retention levels and favorable claims experience, that no self-insurance liabilities were necessary. SDWD has no outstanding claims as of June 30, 2016, and did not pay any claims during the fiscal year.

Note 13 – Commitments and Contingencies

A. Lawsuits

Numerous claims and suits have been filed against the City in the normal course of conducting City business. Based upon information received from the City Attorney and the self-insurance administrator, the estimated liability under such claims would be adequately covered by the deposits paid to SANDPIPA or LAWCCX for self-insurance and insurance coverage (See Note 12).

B. Grants

Amounts received or receivable from federal and state granting agencies are subject to audit and adjustment by grantor agencies. While no matters of noncompliance were disclosed by the audit of the financial statements or Single Audit of the Federal grant programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 13 – Commitments and Contingencies (Continued)

C. Construction Commitments

As of June 30, 2016, the City had remaining contractual commitments totaling nearly \$2.9 million for capital projects related to its governmental and business-type activities. The more significant capital commitments include approximately \$409,000 related to monitoring and assessment of the Carlsbad Municipal Water Authority, \$536,000 related to the Olivenhain Trunk Sewer Design project, \$303,000 related to the Montgomery Avenue At-Grade Pedestrian Design project, \$586,000 related to the North Coast Highway 101 Streetscape Design project, \$262,000 related to the Annual Street Overlay project, and \$200,000 related to the City-wide Sewer Rehab Design project.

Note 14 – California Public Employees' Retirement System

A. Summary

Aggregate Net Pension Liability

Aggregate net pension liability is reported in the accompanying Statement of Net Position as follows:

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - City	\$ 20,300,216	\$ -
CalPERS Miscellaneous Plan - SDWD	-	5,019,493
CalPERS Safety Plan	14,576,416	-
Total	<u>\$ 34,876,632</u>	<u>\$ 5,019,493</u>

Deferred Outflows of Resources

Deferred outflows of resources are reported in the accompanying Statement of Net Position as follows:

Deferred Pension Contributions Made after the Measurement Date

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - City	\$ 2,927,539	\$ -
CalPERS Miscellaneous Plan - SDWD	-	598,690
CalPERS Safety Plan	1,609,491	-
Total	<u>\$ 4,537,030</u>	<u>\$ 598,690</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

A. Summary (Continued)

Deferred Outflows of Resources (Continued)

Difference between Expected and Actual Experience

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - City	\$ -	\$ -
CalPERS Miscellaneous Plan - SDWD	-	17,389
CalPERS Safety Plan	-	-
Total	<u>\$ -</u>	<u>\$ 17,389</u>

Deferred Change in Plan Proportion

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - City	\$ -	\$ -
CalPERS Miscellaneous Plan - SDWD	-	224,552
CalPERS Safety Plan	-	-
Total	<u>\$ -</u>	<u>\$ 224,552</u>

Deferred Inflows of Resources

Deferred inflows of resources are reported in the accompanying Statement of Net Position as follows:

Difference Between Projected and Actual Earnings on Pension Plan Investments

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - City	\$ 360,398	\$ -
CalPERS Miscellaneous Plan - SDWD	-	82,471
CalPERS Safety Plan	383,127	-
Total	<u>\$ 743,525</u>	<u>\$ 82,471</u>

Difference between Expected and Actual Experience

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - City	\$ 90,464	\$ -
CalPERS Miscellaneous Plan - SDWD	-	-
CalPERS Safety Plan	164,363	-
Total	<u>\$ 254,827</u>	<u>\$ -</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

A. Summary (Continued)

Deferred Inflows of Resources (Continued)

Changes in Assumptions

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - City	\$ 1,169,826	\$ -
CalPERS Miscellaneous Plan - SDWD	-	164,511
CalPERS Safety Plan	755,964	-
Total	<u>\$ 1,925,790</u>	<u>\$ 164,511</u>

Change in Plan Proportions

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - SDWD	\$ -	\$ -
CalPERS Safety Plan	1,799,335	-
Total	<u>\$ 1,799,335</u>	<u>\$ -</u>

Difference between Employer Contributions and the Proportionate Share of Contributions

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - SDWD	\$ -	\$ 40,455
CalPERS Safety Plan	720,785	-
Total	<u>\$ 720,785</u>	<u>\$ 40,455</u>

Pension Expense

Pension expenses are included in the accompanying Statement of Revenues, Expenses, and Changes in Net Position as follows:

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - City	\$ 1,807,304	\$ -
CalPERS Miscellaneous Plan - SDWD	-	647,683
CalPERS Safety Plan	1,266,490	-
Total	<u>\$ 3,073,794</u>	<u>\$ 647,683</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District)

The City has the following California Public Employees’ Retirement Plans:

1. The Miscellaneous Plan of the City of Encinitas (Miscellaneous Plan)
2. The Safety Plan of the City of Encinitas (Safety Plan)
 - a. Fire Plan of the City of Encinitas
 - b. Lifeguard Plan of the City of Encinitas

Plan Descriptions

Miscellaneous Plan

The City of Encinitas has entered into separate defined benefit pension plans covering miscellaneous and safety employees with the California Public Employees’ Retirement System (CalPERS). CalPERS is an agent multiple-employer public employee defined benefit pension plan. The plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plans are administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees’ Retirement Law. The City selects optional benefit provisions from the benefit menu by contract and adopts those benefits through local ordinances. A full description of the pension plans regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2015 Annual Actuarial Valuation Report. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under “Forms and Publications.”

Safety Plan

The *Safety Plan* is a cost-sharing multiple employer defined benefit plan in which the City participates with other public agencies that each have fewer than 100 active members and share the same benefit formula and includes both fire and lifeguard employees and retirees. The Safety Plan is administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Safety Plan are established by State statutes within the Public Employee’s Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees' Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Benefits Provided

The City's *Miscellaneous Plan* is an agent multiple-employer Plan that is part of the Public Agency's portion of CalPERS. The *Miscellaneous Plan* provides employees hired before October 13, 2012 with a Tier 1 benefit equal to 2.7% at 55 years of age, calculated based on the single highest year of qualifying compensation. As of October 13, 2012, the City Council imposed new terms and conditions on the miscellaneous employees which created a new benefit formula for employees hired after the effective date of the change (the "Tier 2 miscellaneous plan".) Employees hired under the Tier 2 miscellaneous plan receive a lower benefit formula, referred to as the 2% at 60 year of age formula. In addition, legislation enacted by the State of California applying to all local units of government, referred to as the Public Employees' Pension Reform Act (PEPRA) which became effective on January 1, 2013, created yet another benefit formula for new hires with no experience or prior service credit with CalPERS. In the case of the City, this will constitute a "Tier 3 miscellaneous plan" which provides a retirement benefit, referred to as the 2% at 62 years of age formula. The actual retirement benefit for Tier 2 and Tier 3 miscellaneous employees will be calculated using the average of the highest 36 consecutive months of qualifying compensation.

The City's *Safety Plan* provides Fire Department employees hired before June 23, 2012 with a Tier 1 benefit equal to 3.0% at 55 years of age, calculated based on the single highest year of qualifying compensation. Effective June 23, 2012, the Encinitas Firefighters Association executed a new four year Memorandum of Understanding (MOU) with the City that provides for modifications to the pension benefit formula for employees hired on or after the effective date (the "Tier 2 fire safety plan".) The 3.0% at 55 year of age formula is maintained, but the actual retirement benefit will be calculated using the average of the highest 36 consecutive months of qualifying compensation. In addition, the PEPRA legislation, created yet another benefit formula for new hires with no experience or prior service credit with CalPERS. In the case of the City, this will constitute a "Tier 3 fire safety plan" which provides a retirement benefit, referred to as the 2.7% at 57 years of age formula. This plan also utilizes the mandated method of calculation based on the average of the highest 36 consecutive months of qualifying compensation.

The City's *Safety Plan* also provides lifeguard employees hired before October 13, 2012 with a Tier 1 benefit equal to 3.0% at 55 years of age, calculated based on the single highest year of qualifying compensation. The lifeguards have Tier 2 and Tier 3 (PEPRA) plans which are identical to the *Fire Plan* described above. For the measurement period July 1, 2014 through June 30, 2054, Tier 2 employees were grouped with Tier 1 employees because there was no separate Tier 2 actuarial study performed at the June 30, 2014 valuation date.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Employees Covered by Benefit Terms

At June 30, 2016, the following employees were covered by the benefit terms for the City’s plans:

	<u>City Miscellaneous</u>	<u>City Safety</u>
Active employees	159	58
Inactive employees or beneficiaries currently receiving benefits	132	72
Inactive employees entitled to, but not yet receiving benefits	82	42
Total	<u>373</u>	<u>172</u>

Contributions

City Miscellaneous Plan

Employee Contributions

Active City Tier 1 miscellaneous members are required to contribute 8% of their annual covered salary (the "employee contribution"). Effective October 13, 2012, all City Tier 1 miscellaneous members contribute the full 8%, which is credited to their individual accounts. Members receiving the Tier 2 or Tier 3 benefits are required to contribute 7% of their annual covered salary. The employee contribution requirements are established by State statute.

Employer Contributions

The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (the "employer contributions"). The employer contribution rate for fiscal year 2015-2016 was 20.676% for miscellaneous members. The employer contribution rates are calculated and established annually by CalPERS, based on the actuarial methods and assumptions as adopted by the CalPERS Board of Administration.

For the measurement year ended June 30, 2015, contributions were:

Contributions - employees	\$ 776,061
Contributions - employer	2,077,263

City Safety Plan

Active fire and lifeguard members are required to contribute 9% of their annual covered salary (the "employee contribution"). The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (the "employer contributions"). The employer contribution rates for fiscal year 2015-2016 ranged from 11.777% to 31.056% for fire members and from 10.845% to 19.954% for lifeguard members. The employer contribution rates are calculated and established annually by CalPERS, based on the actuarial methods and assumptions adopted by the CalPERS Board of Administration.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Contributions (Continued)

City Safety Plan (Continued)

For the year ended June 30, 2015, the plan’s proportionate share of aggregate employer contributions made for the Safety Plan was as follows:

	Safety Plan
Contributions - employer	\$ 1,251,594

Net Pension Liability

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes inflation.
Mortality Rate Table	Derived using CalPERS’ Membership Data for all Funds. The mortality table used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS’ website under “Forms and Publications.”

Change of Assumption

In accordance with GASB 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.5% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expenses.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent, which is net of administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.50 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Discount Rate (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11 + ²
Global equity	50.00%	5.25%	5.71%
Global fixed income	17.00%	0.99%	2.43%
Inflation sensitive	4.00%	0.45%	3.36%
Private equity	14.00%	6.83%	6.95%
Real estate	11.00%	4.50%	5.13%
Infrastructure and forestland	0.00%	4.50%	5.09%
Liquidity	4.00%	-0.55%	-1.05%

¹ An expected inflation of 2.5% was used for this period.

² An expected inflation of 3.0% was used for this period.

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

The following presents the net pension liability of the Miscellaneous Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65%) or 1 percentage point higher (8.65%) than the current rate:

Plan's Net Pension Liability/(Asset)				
	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)	
City Miscellaneous	\$ 32,997,803	\$ 20,300,216	\$ 9,856,995	
City Safety	23,371,000	14,576,416	7,365,018	

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Changes in the Net Pension Liability

The following tables show the changes in the net pension liability recognized over the measurement period for the City Miscellaneous Plan:

	Miscellaneous Plan		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2014 (Valuation Date)	\$ 84,925,420	\$ 67,193,378	\$ 17,732,042
Changes Recognized for the Measurement Period:			
Service Cost	2,261,277	-	2,261,277
Interest on the total pension liability	6,333,421	-	6,333,421
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(126,649)	-	(126,649)
Changes of assumptions	(1,637,757)	-	(1,637,757)
Plan to plan resource movement	-	126,193	(126,193)
Contributions from the employer	-	2,077,263	(2,077,263)
Contributions from employees	-	776,061	(776,061)
Net investment income, net of administrative expense	-	1,359,388	(1,359,388)
Benefit payments, including refunds of employee contributions	(3,003,676)	(3,003,676)	-
Administrative expense	-	(76,787)	76,787
Net Changes during July 1, 2014 to June 30, 2015	\$ 3,826,616	\$ 1,258,442	\$ 2,568,174
Balance at June 30, 2015 (Measurement Date)	\$ 88,752,036	\$ 68,451,820	\$ 20,300,216

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of the Safety Plan is as follows:

	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability/(Asset)
Balance at: 6/30/14 (Valuation date)	\$ 77,006,084	\$ 62,697,310	\$ 14,308,774
Balance at: 6/30/15 (Measurement date)	80,116,793	65,540,377	14,576,416
Net changes during 2014-2015	3,110,709	2,843,067	267,642

The City’s net pension liability for the Safety Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Changes in the Net Pension Liability (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2014). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (“TPL”) determines the net pension liability (“NPL”) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

The City’s proportionate share of the net pension liability for the Safety Plan as of June 30, 2015 was as follows:

	Safety Plan
Proportion June 30, 2015	<hr/> 0.35376%

Pension Plan Fiduciary Net Position

Detailed information about the Miscellaneous and Safety Plans’ fiduciary net position is available in the separately issued CalPERS financial report.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension

For the year ended June 30, 2016, the City recognized pension expense of \$1,807,304 for the Miscellaneous Plan and \$1,266,490 for the Safety Plan.

At June 30, 2016, the City reported deferred outflows resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan		Safety Plan		Total	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Difference between expected and actual experience	\$ -	\$ (90,464)	\$ -	\$ (164,363)	\$ -	\$ (254,827)
Changes of assumptions	-	(1,169,826)	-	(755,964)	-	(1,925,790)
Net difference between projected and actual earning on pension plan investments	-	(360,398)	-	(383,127)	-	(743,525)
Difference between employer's actual contributions and proportionate share of contributions	-	-	-	(720,785)	-	(720,785)
Adjustments due to difference in proportions	-	-	-	(1,799,335)	-	(1,799,335)
Total	\$ -	\$ (1,620,688)	\$ -	\$ (3,823,574)	\$ -	\$ (5,444,262)

The \$4,537,030 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	Deferred Outflows/ (Inflows) of Resources Miscellaneous Plan	Deferred Outflows/ (Inflows) of Resources Safety Plan	Deferred Outflows/ (Inflows) of Resources Total
2016	\$ (872,892)	\$ (1,482,091)	\$ (2,354,983)
2017	(872,892)	(1,499,519)	(2,372,411)
2018	(620,835)	(1,312,277)	(1,933,112)
2019	745,931	470,313	1,216,244
2020	-	-	-
Thereafter	-	-	-

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees' Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan)

Plan Description

The *SDWD Plan* is a cost-sharing multiple employer defined benefit plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries, in which the City participates with other public agencies that each have fewer than 100 active members and share the same benefit formula. The Plan is administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statutes within the Public Employee's Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Benefits Provided

The *SDWD Plan* provides employees hired before October 13, 2012 with a Tier 1 benefit equal to 2.7% at 55 years of age, calculated based on the single highest year of qualifying compensation. As of October 13, 2012, the Board of Directors imposed new terms and conditions which created a new benefit formula for employees hired after the effective date of the change (the "Tier 2 Plan"). Employees hired under the Tier 2 Plan receive a lower benefit formula, referred to as the 2% at 60 years of age formula. In addition, PEPR created yet another benefit formula for new hires with no experience or prior service credit with CalPERS. In the case of the District, this will constitute a "Tier 3 Plan" which provides a retirement benefit, referred to as the 2% at 62 years of age formula. The actual retirement benefit for Tier 2 and Tier 3 employees will be calculated using the average of the highest 36 consecutive months of qualifying compensation.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Employees Covered by Benefit Terms

At June 30, 2016, the following employees were covered by the benefit terms for the SDWD plan:

	SDWD Plan
Active employees	23
Inactive employees or beneficiaries currently receiving benefits	32
Inactive employees entitled to, but not yet receiving benefits	5
Total	<u>60</u>

Contributions

Active members in the Tier 1 Plan are required to contribute 8% of their annual covered salary (the "employee contribution"). Effective October 13, 2012, all Tier 1 members contribute the full 8%, which is credited to their individual accounts. Members receiving the Tier 2 or Tier 3 benefits are required to contribute 7% and 6.25% of their annual covered salary, respectively. The employee contribution requirements are established by State statute.

SDWD is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (the "employer contributions"). The employer contribution rate for fiscal year 2015-2016 ranged from 6.223% to 25.636%. The employer contribution rates are calculated and established annually by CalPERS, based on the actuarial methods and assumptions as adopted by the CalPERS Board of Administration.

For the year ended June 30, 2016, the SDWD Plan’s proportionate share of aggregate employer contributions made for each plan was as follows:

	SDWD Plan
Contributions - employer	<u>\$ 356,509</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of the SDWD Plan as follows:

	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability/(Asset)
Balance at: 6/30/14 (Valuation date)	\$ 22,268,743	\$ 18,489,458	\$ 3,779,285
Balance at: 6/30/15 (Measurement date)	21,378,148	16,358,655	5,019,493
Net changes during 2014-2015	(890,595)	(2,130,803)	1,240,208

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The City’s net pension liability for the SDWD Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2014). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (“TPL”) determines the net pension liability (“NPL”) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2014 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources to Pensions (Continued)

The City’s proportionate share of the net pension liability for the SDWD Plan as of June 30, 2015 was as follows:

	SDWD Plan
Proportion June 30, 2015	<u>0.0018296%</u>

For the year ended June 30, 2016, the City recognized pension expense of \$647,683 for the SDWD Plan. At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	\$ 598,690	\$ -
Difference between expected and actual experience	17,389	-
Changes of assumptions	-	(164,511)
Net difference between projected and actual earnings on pension plan investments	-	(82,471)
Difference between employer’s actual contributions and proportionate share of contributions	-	(40,455)
Adjustments due to difference in proportions	224,552	-
Total	<u>\$ 840,631</u>	<u>\$ (287,437)</u>

The \$598,690 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	
2016	\$ 564,703
2017	(42,631)
2018	(74,297)
2019	105,419
2020	-
Thereafter	-

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table	Derived using CalPERS’ Membership Data for all Funds. The mortality table used was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS’ website under “Forms and Publications.”

Change of Assumption

In accordance with GASB 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.5% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expenses.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent, which is net of administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees' Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Discount Rate (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11 + ²
Global equity	50.00%	5.25%	5.71%
Global fixed income	17.00%	0.99%	2.43%
Inflation sensitive	4.00%	0.45%	3.36%
Private equity	14.00%	6.83%	6.95%
Real estate	11.00%	4.50%	5.13%
Infrastructure and forestland	0.00%	4.50%	5.09%
Liquidity	4.00%	-0.55%	-1.05%

¹ An expected inflation of 2.5% was used for this period.

² An expected inflation of 3.0% was used for this period.

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

The following presents the City's proportionate share of the net pension liability for each SDWD Plan, calculated using the discount rate for each SDWD Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

Plan's Net Pension Liability/(Asset)				
	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)	
SDWD Plan	\$ 8,418,040	\$ 5,019,493	\$ 2,213,598	

Pension Plan Fiduciary Net Position

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

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 15 – Other Postemployment Benefits (OPEB)

The City of Encinitas and the San Dieguito Water District maintain separate plans to provide for post-retirement health care benefits. An actuarial report is prepared every two years to update plan information and assumptions (when required). The latest actuarial valuation was prepared for June 30, 2015, and applies to fiscal years 2015-16 and 2016-17.

A. City of Encinitas Retiree Health Plan

Plan Description

The City provides postretirement health care benefits through the Public Employees Medical and Hospital Care Act (PEMHCA), which is a health benefit plan administered by CalPERS, to eligible employees who retire directly from the City. The City pays the cost for lifetime retiree and dependent medical benefits (average premium for CalPERS health plans available in San Diego County) for fire department employees hired before March 16, 1995. Other City retirees receive the PEMHCA minimum benefit, as determined by CalPERS. The City does not provide a retiree contribution for dental, vision, or life insurance benefits. The City's OPEB plan does not issue a separate stand-alone report.

The City has elected to join the *California Employers' Retiree Benefit Trust* (the "Trust") in accordance with GASB Statement No. 45, which provides a means to fund the annual OPEB costs, referred to as the *Annual Required Contribution* (ARC). The City makes an annual contribution to the Trust, pays benefits either directly to retirees or through PEMHCA during the year, and then seeks reimbursement for these "pay-as-you-go expenses" from the Trust.

Funding Policy and Actuarial Methods and Assumptions

It is the City's policy to fully fund the ARC each fiscal year. The actual contributions of the City to the Trust are established by action of the City Council. The contribution requirements were established via an actuarial valuation of the City's Retiree Healthcare Plan as of June 30, 2015, performed in conformity with the requirements of GASB Statement No. 45.

The following key assumptions were utilized in developing the June 30, 2015 actuarial valuation:

1. The actuarial cost method used to determine the benefit obligations is the Entry Age Normal cost method.
2. The ARC is comprised of the present value of benefits in the current fiscal year (normal cost with interest) plus a 26-year amortization (on a level-percentage of basis) of the unfunded actuarial accrued liability.
3. The valuation reflects updated census and premium information, as well as changes to the demographic tables, reflecting the recent experience study published by CalPERS.
4. The investment rate of return assumption is 7.28%.
5. The expected future medical price inflation trend ranges from 5.0 to 7.5%.
6. Core inflation rate of 3.0%.
7. Payroll increases of 3.0% per annum, in aggregate.
8. Projected salary increases are based on merit increase data from the most recent CalPERS Pension Plan Study using the average pay increase based on the employee's date of hire.
9. Participation levels for safety personnel eligible for lifetime medical benefits is assumed to be 100%, while participation levels for miscellaneous employees who receive the CalPERS minimum required contribution is 50%, based on experience.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 15 – Other Postemployment Benefits (OPEB) (Continued)

A. City of Encinitas Retiree Health Plan (Continued)

Annual Required Contribution (ARC) and OPEB Cost Summary

The ARC for fiscal year 2016 of approximately \$560,000 represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liability over a maximum of 30 years. The City contributed the ARC to the Trust and received reimbursement for actual pay-as-you-expenses incurred during the year.

The City's annual OPEB costs, the percentage of annual OPEB cost contributed, and the resulting net OPEB obligation for the preceding three years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 785,000	100%	\$ -
June 30, 2015	544,000	100%	-
June 30, 2016	560,000	100%	-

Funded Status and Funding Progress

The following table summarizes the funding status of the City's Retiree Health Plan from most recent actuarial valuations:

Actuarial Valuation Date	Actuarial Assets Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Estimated Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
June 30, 2015	\$ 2,915,458	\$ 12,060,155	\$ 9,144,697	24.17%	\$ 18,533,738	49.34%

B. San Dieguito Water District – Retiree Health Plan

The San Dieguito Water District maintains a separate plan to provide for post-retirement health care benefits. An actuarial report is prepared every two years to update plan information and assumptions (when required). The latest actuarial valuation was prepared for June 30, 2015, and applies to fiscal years 2015-16 and 2016-17.

Plan Description

SDWD provides postretirement health care benefits through the Public Employees Medical and Hospital Care Act (PEMHCA), which is a health benefit plan administered by CalPERS, to eligible employees who retire directly from SDWD. Retirees receive the PEMHCA minimum benefit, as determined by CalPERS. SDWD does not provide a retiree contribution for dental, vision, or life insurance benefits. SDWD's OPEB plan does not issue a separate stand-alone report.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 15 – Other Postemployment Benefits (OPEB) (Continued)

B. San Dieguito Water District – Retiree Health Plan (Continued)

Plan Description (Continued)

SDWD has elected to join the *California Employers' Retiree Benefit Trust* (the "Trust") in accordance with GASB Statement No. 45, which provides a means to fund the annual OPEB costs, referred to as the *Annual Required Contribution* (ARC). SDWD makes its annual contribution to the Trust, pays benefits either directly to retirees or through PEMHCA during the year, and then seeks reimbursement for these "pay-as-you-go expenses" from the Trust.

Funding Policy and Actuarial Methods and Assumption

It is SDWD's policy to fully fund the ARC each fiscal year. The actual contributions of SDWD to the Trust are established by action of the Board of Directors. The contribution requirements were established via an actuarial valuation of the SDWD's Retiree Healthcare Plan as of June 30, 2015, performed in conformity with the requirements of GASB Statement No. 45.

The following key assumptions were utilized in developing the June 30, 2013 actuarial valuation:

1. The actuarial cost method used to determine the benefit obligations is the Entry Age Normal cost method.
2. The ARC is comprised of the present value of benefits in the current fiscal year (normal cost with interest) plus a 26-year amortization (on a level-percentage of basis) of the unfunded actuarial accrued liability.
3. The valuation reflects updated census and premium information, as well as changes to the demographic tables, reflecting the recent experience study published by CalPERS.
4. The investment return assumption by the Trust is 7.28%.
5. The expected future medical price inflation trend ranges from 5.0 to 7.5%.
6. Core inflation rate of 3.0%.
7. Payroll increases of 3.0% per annum, in aggregate.
8. Projected salary increases are based on merit increase data from the most recent CalPERS Pension Plan Study using the average pay increase based on the employee's date of hire.
9. Participation levels for safety personnel eligible for lifetime medical benefits is assumed to be 100%, while participation levels for miscellaneous employees who receive the CalPERS minimum required contribution is 50%, based on experience.

Annual Required Contribution (ARC) and OPEB Cost Summary

The ARC for fiscal year 2016 of \$28,794 represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liability over a maximum of 30 years. SDWD contributed the ARC to the Trust and received reimbursement for actual pay-as-you-expenses incurred during the year.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 15 – Other Postemployment Benefits (OPEB) (Continued)

B. San Dieguito Water District – Retiree Health Plan (Continued)

Annual Required Contribution (ARC) and OPEB Cost Summary (Continued)

SDWD's annual OPEB costs, the percentage of annual OPEB cost contributed, and the resulting net OPEB obligation for the preceding three years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 31,000	100%	\$ -
June 30, 2015	29,000	100%	-
June 30, 2016	28,794	100%	-

Funded Status and Funding Progress

The following table summarizes the funding status of SDWD's Retiree Health Plan from most recent actuarial valuations. The latest information available on the funding status comes from the actuarial valuation dated June 30, 2015, projected to June 30, 2016.

Actuarial Valuation Date	Actuarial Assets Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Estimated Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
June 30, 2015	\$ 111,363	\$ 484,247	\$ 372,884	23.00%	\$ 1,767,898	21.09%

General Information regarding Actuarial Valuations Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

The Schedule of Funding Progress for the City and SDWD retiree health care plans are presented as Required Supplementary Information following the Notes to the Basic Financial Statements. These schedules show multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 16 – Encinitas Ranch Golf Authority

The Encinitas Ranch Golf Authority (the “Golf Authority”) is a joint powers authority, formed by the City and SDWD in 1995 to finance, own, and operate an 18-hole golf course (the “Golf Course”) within the City. The Golf Course was constructed in connection with the development of the Encinitas Ranch master-planned community (the “Ranch”). The Ranch is a mixed-use community of residential, commercial and agricultural development within the City. As a condition to the development of the Ranch, the Caritas Company (the “Developer”), agreed to dedicate land for and construct the Golf Course improvements. The Golf Course opened to the public on March 1, 1998, and is managed and operated under a contract arrangement with a private company.

The Golf Authority is governed by a five-member Board of Directors, the membership of which is specified in the 1994 Encinitas Ranch Development Agreement. It is a self-sustaining golf course operation and receives no financial support from the City or SDWD. In future years, depending on the net revenues from golf operations, the City may benefit financially from the operations.

However, this is unlikely until at least 2030, when the Golf Course bonded debt is expected to be paid off. The debts and obligations of the Golf Authority are not the debts and obligations of the City or SDWD. Separate audited financial statements of the Golf Authority are available at the City's administrative office.

Note 17 – Special Assessment Debt

A. City of Encinitas - Community Facilities District (CFD) #1: Encinitas Ranch Community

During fiscal year 2013-2014, the City, on behalf of the residents and businesses of the CFD #1, refunded all of the outstanding bonds of the 2004 Special Tax Bonds, Series A, via a current refunding transaction. The CFD #1 issued \$32,265,000 par value of 2012 Special Tax Refunding Bonds (Encinitas Ranch Public Improvements), at lower interest rates, while maintaining the same general terms and conditions, including the final maturity date of September 1, 2030. The transaction will save the taxpayers an average of \$170,000 in annual debt service, or about 6% of the average annual debt service of the prior bonds.

As of June 30, 2016, the outstanding balance on the 2012 Special Tax Refunding Bonds was \$28,350,000. The City acts solely as an agent for CFD #1. The City has no duty or obligation to pay any liabilities or potential liabilities of the district. Neither the full faith and credit, nor the taxing power of the City or any other City related agency, is pledged to the repayment of these 2012 Special Tax Refunding Bonds. Therefore, such bonds are not considered to be a liability of the City and are not included in the accompanying basic financial statements.

B. City of Encinitas – Assessment District 93-1: Requeza Street/Bracero Road

During fiscal year 1997-1998, the City, acting as the agent for the Requeza Assessment District (“District”), issued \$1,356,400 of limited obligation bonds to finance and pay for infrastructure improvements to the District. The bonds were issued in two series.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 17 – Special Assessment Debt (Continued)

B. City of Encinitas – Assessment District 93-1: Requeza Street/Bracero Road (Continued)

Series A:

The Series A bonds were issued as tax-exempt obligations totaling \$945,000 principal which were sold to the public. The bonds mature serially through 2017 and are being repaid by special assessments paid by the landowners. The remaining bonds have an average interest rate of 6.9%. At June 30, 2016, the outstanding balance was paid in full.

Series B:

The Series B bonds were issued as taxable obligations totaling \$411,000 principal and were sold directly to the City of Encinitas. The Series B bonds have since been fully repaid.

City of Encinitas – Duties and Responsibilities

The City acts as the agent for both of these Assessment Districts, collecting the assessments and paying the Districts' bills, as well as other administrative duties. The City has no duty or obligation to pay any liabilities or potential liabilities of the Districts. Neither the full faith and credit, nor the taxing power of the City or any other City related agency, is pledged in connection with these bond issues. Therefore, such bonds are not considered to be a liability of the City and are not included in the accompanying basic financial statements.

For the Fiscal Year

2015 - 2016

COMPREHENSIVE ANNUAL FINANCIAL REPORT



CITY OF SOLANA BEACH
635 SOUTH HIGHWAY 101
SOLANA BEACH, CA 92075

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CITY OF SOLANA BEACH
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2016

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CITY OF SOLANA BEACH

FAX (858) 792-6513 / (858) 755-1782

635 SOUTH HIGHWAY 101 • SOLANA BEACH • CALIFORNIA 92075-2215 • (858) 720-2400

December 20, 2016

To the Honorable Mayor, Members of the City Council, and Citizens of Solana Beach:

It is with great pleasure that we present to you the City of Solana Beach (City) Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2016.

This year's report was prepared by the Finance Department in conformity with Generally Accepted Accounting Principles (GAAP) and has been audited in accordance with Generally Accepted Auditing Standards (GAAS) by a firm of licensed Certified Public Accountants. The report consists of management representations concerning the finances of the City. Consequently, responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included.

The CAFR includes the financial activity for all funds of the City. The City provides a wide range of services including planning; public works; engineering; maintenance of streets, parks and public facilities; community services and recreation; fire and marine safety; sanitation; and general administrative activities. Contracted services include building services through a third party consultant, law enforcement with the San Diego County Sheriff and animal control with the County of San Diego.

Internal Controls

The management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of State, County, and Federal financial resources, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. The internal control structure is subject to periodic evaluation by the management of the City.

Annual Audit

Lance, Soll and Lunghard, LLC, appointed by the City Council, has audited the City's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2016, are free of material misstatement. As part of the City's annual audit, reviews are made to determine the adequacy of the internal control structure as well as to determine that the City has complied with applicable laws and regulations.

The results of the City's annual audit for the fiscal year ended June 30, 2016, provided no instances of material weaknesses in the internal control structure and no violations of applicable laws and regulations. The independent auditor concluded there was a basis for rendering an unmodified opinion and the City's financial statements are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Management's Discussion and Analysis (MDA)

This letter of transmittal is designed to complement the MDA and should be read in conjunction with it. The MDA provides "financial highlights" and interprets the financial reports by analyzing trends and by explaining changes, fluctuations, and variances in the financial data. In addition, the MDA is intended to disclose any known significant events or decisions that affect the financial condition of the City. The City's MDA can be found immediately following the report of the independent auditors.

Government Profile

The City of Solana Beach was incorporated on July 1, 1986, under the general laws of the State of California and is home to a population of 13,494 residents per the State of California Department of Finance. Included within the City's financial statements is the financial information of the Solana Beach Public Facilities Corporation. The City is considered the primary government and the Public Facilities Corporation is a component unit. Additionally, since the governing boards of the City and the component unit are the same, the financial statements of the City and the component unit are blended.

The Solana Beach Public Facilities Corporation was incorporated on July 25, 1990, as a nonprofit public benefit corporation duly organized and existing under the Nonprofit Public Benefit Corporation Law. Its purpose is to benefit the City by providing financing for the planning, development, acquisition, construction, improvement, extension, repair, and renovation of public works projects, public facilities, furnishings, and equipment for use by the City.

The City of Solana Beach, a coastal community, encompasses approximately 3.4 square miles and is located twenty-one miles north of the City of San Diego's downtown district. It is bordered to the North and South by the cities of Encinitas and Del Mar, respectively; to the East by the County San Diego; to the southeast by the City of San Diego; and by the Pacific Ocean to the West.

The City is a general law city that operates under the Council-Manager form of government. The City Council (Council) is comprised of five members elected at large for staggered four-year terms of office. The Mayor and Deputy Mayor are selected by the Council from among its members to serve one-year terms. The Council acts as the legislative and policy-making body of the City, enacting all laws and directing such actions as required providing for the general welfare of the community.

The City Manager, appointed by the Council, serves as the Chief Executive Officer and is responsible to the Council for the proper administration of all City affairs and for the implementation of all policies established by the Council. The City Attorney is the only other position appointed by the Council. All other department heads and employees are appointed by the City Manager.

Commissions play an important role in the governmental structure of Solana Beach. They provide many opportunities for citizens to participate in the affairs of the City. These Advisory Commissions assist in the performance of studies and the issuance of recommendations on various matters of concern to the Council.

The Advisory Commissions are the following:

- Budget & Finance Commission
- Climate Action Commission
- Parks & Recreation Commission
- Public Arts Commission
- View Assessment Commission

Budgetary Process and Controls

The process of adopting a budget for the City is generally a six-month process beginning in late December and ending in June when the Council adopts the budget and appropriates funds necessary for the City to provide services to its residents.

The process is all-inclusive as department directors work with the City Manager and representatives of the Finance Department to discuss departmental requests relative to the City's available resources.

The City's overall objectives and goals, along with the economic outlook, serve as a platform for the proposed budget that is distributed to the Council, and the Budget and Finance Commission, for preliminary review and analysis in preparation of public workshops and hearings. The public workshops and hearings are held to facilitate discussions of items contained within the proposed budget and to allow the citizenry to participate in the budget process.

In addition to internal controls, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Council. Activities of the General, Special Revenue, Debt Service, and Capital Projects Funds are included in the annual appropriated budget.

The budget is arranged by fund, function, and department and is presented to the Council by the City Manager. The budget is then adopted annually by the Council prior to the beginning of the financial year and serves as the foundation for the City's financial planning and control. Department directors may make transfers of appropriations within their own budget units' departments with City Manager approval. The City budget is reviewed and is periodically adjusted at the middle of the fiscal year and at the end of the fiscal year. These adjustments are approved by the Council.

The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. The adopted budget for Fiscal Year 2015/16 was prepared in accordance with Generally Accepted Accounting Principles.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Economic Condition and Outlook

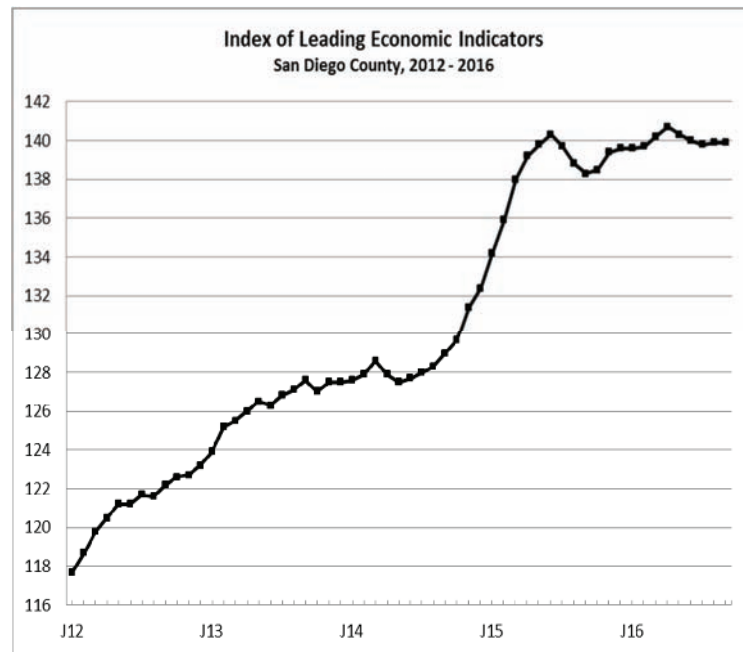
Solana Beach is home to citizens who enjoy the benefits of a coastal community atmosphere as well as a close proximity to the City of San Diego. The local beaches are a big attraction to both residents and non-residents. The City is comprised mainly of single-family homes and condominiums with some retail, light industrial, and service entities providing a tax base for the City.

As a suburban community, Solana Beach's economic base is linked primarily to the economy of the greater San Diego region. In particular, the greater San Diego economic base sustains the City's residential and industrial facilities. The local economy is primarily based on small to medium sized retail establishments and specialty stores selling general merchandise, furniture, arts and crafts, clothing, food, and gasoline. Such local economic generators as vacation tourism support a significant portion of the City's commercial base.

In regards to San Diego's local economy, the University of San Diego's Index of Leading Economic Indicators (Index) has continued to increase since March 2009 when it bottomed out from its peak in April 2006. The Index reports on local economic components such as building permits issued, initial claims for unemployment, stock prices on the San Diego Stock Exchange Index, consumer confidence, and help wanted advertising.

After declining for 35 straight months, beginning in April 2006 at 143.8 and dropping to 100.7 by March 2009, the Index has climbed steadily since that time reaching a high of 140.7 set in April 2016. September's reading of 139.9 is at approximately the same level as February 2016. The Index had a short surge early in the year, but then slumped during the summer leaving the Index unchanged for the past two months.

The USD Index for the period January 2012 to September 2016 is shown on the following chart:



Professor Alan Gin of the School of Business at the University of San Diego, and the author of the Index, predicts that the local economy will remain positive through the first months of 2017 but with a rate of growth slower than in previous months.

Initial claims for unemployment have increased in six of the last nine months and help wanted advertising fell for the sixth consecutive month, two labor market components that are still struggling. Despite these declines, the seasonally adjusted local unemployment rate fell to 4.7 percent in September, a decrease from 4.8 percent in July and from 4.8 percent in September 2015. The local economy, through the first three quarters of 2016, saw employment up by around 35,000 jobs compared to the same period in 2015 with the biggest gains in health care, leisure and hospitality, and education.

It is projected that the forecast for the new year will result in an additional 30,000 jobs for 2017, and while the projection is fairly solid, is not expected to result in a sizeable reduction in the local unemployment rate.

The Index also saw a drop in building permits in September, which has fallen in six of the last seven months. However, because of the strong increase at the beginning of 2016, authorized residential units are still running ahead by around 28% through the third quarter as compared to the same period last year. Additionally, through the third quarter, single-family units authorized were down 24% while multi-family units authorized were up over 60%.

One positive index is in consumer confidence – the increase in September was the best monthly gain in a year and a half.

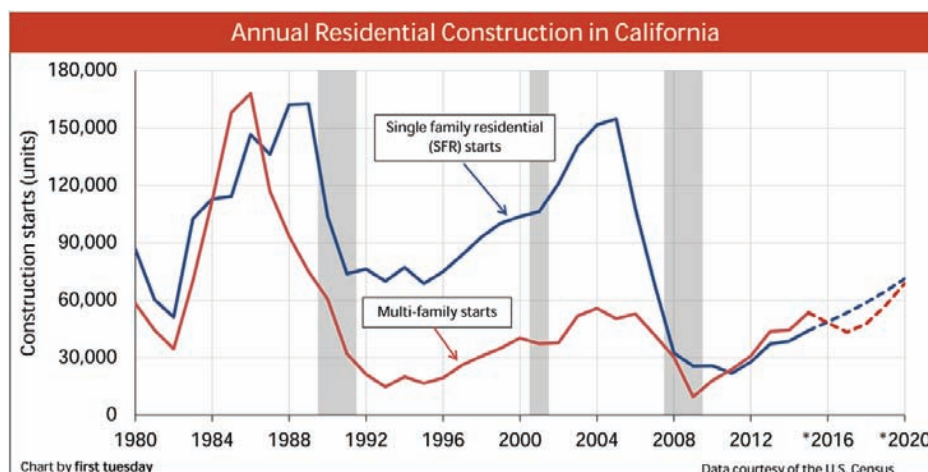
The local economy has benefited overall from improvements in the national and state economies, but some of the local indicators are possibly following national trends. The national Index of Leading Economic Indicators grew in 2016 at a 2.9 percent annual rate in the third quarter as compared to rates of only 1.4 and 0.8 percent annual rates in the second quarter and first quarter, respectively. Per Wells Fargo's United States Economic Forecast report, the rate of growth is expected to drop in the fourth quarter to 1.9 for an overall projected Compounded Gross Domestic Product annual growth rate for 2016 of 1.5 percent. Looking forward to the next two years, the rate of annual growth is expected to remain stable at 2.1 percent in 2017 and 2018.

For the State of California, the job market is expected to grow at a healthy rate during the remainder of 2016, but at a slower rate over the next two years. This projection was included as part of the University of California at Los Angeles's Anderson School of Management (UCLA Anderson Forecast) economic forecast for September 2016.

The UCLA Anderson Forecast also estimates that the growth of state employment will rise by 2 percent this year, slowing to 1.7 percent in 2017 and 1.1 percent in 2018. The state's unemployment rate, now just above 5 percent, means the state is close to full employment, which means that nearly everyone who wants a job has one.

While there will be continued job growth and lower unemployment over the next few years in California, this will not necessarily be advantageous for the state as compared to the rest of the country. Due to the absence of affordable housing in California, the state cannot continue to grow at the same rate it has in recent years unless more people can be added to the workplace. But the lack of housing makes that a difficult proposition since new housing needs to be built otherwise population growth and economic growth will be limited.

The following chart as published by First Tuesday Journal, a resource used by the California real estate industry, provides a perspective regarding the situation with residential construction from the 1980's through the end of this decade:



On June 27, 2016, Governor Brown signed a \$170.9-billion budget for the 2016/17 fiscal year. The state budget includes a \$122.5-billion general fund, a \$7.1 billion or 6.1% increase, as compared to the budget passed in June 2015. The new budget ends a cap on welfare benefits for families that have more children, boosts funding for K-12, preschool, and higher education, and makes more money available for higher rates for child care providers. This was the first time since 1982, during Brown's second term, that the governor has made no vetoes to reduce individual spending items in the budget plan.

Some key issues remain unresolved such as finding sustainable funding for transportation needs and public healthcare. One of the more pressing long-term financial issues is how to pay for healthcare for retired state workers. The cost is estimated at \$71.8 billion more than officials have set aside, making it one of the biggest drags on California finances.

Proposition 2, passed by the voters in 2014, requires the state to set aside at least 1.5% of its revenues each year to pay down debts and build a rainy day fund. This budget allocates \$3-billion to the reserve, adding to the \$3.7-billion that was already in the fund for a total of \$6.7-billion. Another \$3.6-billion is also slated towards retiring a portion of the state's debt.

Long-Term Financial Planning

Solana Beach's conservative fiscal policies have helped the City build and maintain a strong reserve when needed and management will continue to hold costs in line with available resources.

General Fund property taxes have been, and are expected to be, the highest revenue generator for the City. Sales tax is the City's second largest revenue source. During Fiscal Year (FY) 2015/16, property taxes increased by \$382,726, or 6.1%, to \$6,683,638 as compared to FY 2014/15, while sales tax, including triple-flip revenues, increased by \$446,902, or 15.9%, to \$3,255,105. Beginning in January 2016, the triple flip revenue swapping was discontinued, and the City began to receive its full 1% sales tax allocation. As part of the wrap-up of the triple-flip, the City received a close-out payment of \$381,741.

Overall, the City's General Fund revenues increased by \$1,693,025, or 10.8%, from \$15,702,830 in FY 2014/15 to \$17,395,845 in FY 2015/16.

For Fiscal Year 2016/17, budgeted property taxes are expected to increase as compared to actual amounts received for the prior fiscal year while sales tax is projected to decrease slightly. Property tax is expected to increase to \$6,911,500, or by 3.4%, and sales tax is projected to decrease to \$3,184,600, or by 2.2%. This decrease in sales tax is primarily due to the wind-down of the triple flip in which the onetime closeout distribution of sales tax was distributed through the County of San Diego in FY 2015/16.

Total General Fund revenues, net of internal service charges, are budgeted at \$16,512,500. It is the City's goal not to rely on General Fund reserves to operate the City annually. The General Fund budget for FY 2016/17 was adopted on June 8, 2016, with a projected \$13,000 surplus and a subsequent first quarter year budget adjustment increased the projected surplus to \$220,600.

The City has taken steps to help maintain its fiscal sustainability over the next years by:

1. Negotiating a five-year contract beginning in July 2012 with the San Diego Sheriff's Department to provide law enforcement services with increases from year to year projected to be approximately 3.25% (negotiations for a new contract are underway).
2. Completing the Highway 101 Streetscape/Traffic Calming project that has already lead to, and will continue to lead to, business revitalization and improved sales tax revenue along the Highway 101 corridor.
3. Amending a Fire Department Management Services Cooperative Agreement with the Cities of Del Mar and Encinitas that continues to provide a cost effective option to eliminate redundancy and increase levels of service by sharing common functions of organizational direction and control, supervision of operations, training, fire prevention, administrative and fiscal management, and disaster preparedness.
4. Maintaining 17% of operating expenditures, including debt service, as a reserve in the General Fund to be used in the case of significant financial or other emergency.
5. Implementing additional cost sharing of the employer's share of retirement costs with its Miscellaneous and Marine Safety employee associations. The goal of the increased cost share is to try to reach a 50% normal cost share between the employee and employer for retirement costs. This allows the City to reduce its pension costs. The City is currently in negotiations with the Solana Beach Firefighters Association and, at this time, there is no employer's contribution cost share agreement in place.
6. Establishing an irrevocable Section 115 trust with Public Agency Retirement Services (PARS) in a "Post-Employment Benefits Trust Program" (Trust). The Trust is a combination trust that allows pre-funding of both unfunded Pension and Other Post Employment Benefit (OPEB) obligations. The City's estimated total obligation at June 30, 2016 is \$9,455,905 for pension and \$1,732,450 for OPEB for a total of \$11,188,355.

At its meeting on November 15, 2016, the City Council authorized the funding of the Trust with an initial deposit of \$500,000 for pension and \$135,000 for OPEB for a total of \$635,000 towards the unfunded liabilities. This amount was transferred to the PARS Trust during FY2015/16.

At its September 14, 2016 Council meeting, the City Council approved funding the trusts with an additional \$300,000 of the projected FY 2015/16 General Fund surplus, as well implementing an allocation method whereby non-General Fund funds would contribute a proportionate share of monies to the trusts using the same formula as that used to allocate the PERS Side Fund payment among the City's funds.

These steps will result in the Pension and OPEB trusts being funded in the amounts of \$816,209 and \$220,376, respectively, for a combined total of \$1,036,585.

Relevant Financial Policies

The City of Solana Beach has financial policies that help guide it during the preparation of the annual budget.

One such policy is the 17% reserve requirement discussed in the previous section. This policy, as in the adoption of the FY 2015/16 Budget, is one that has been continuously adhered to by Council.

The Asset Replacement Reserve Fund is used to provide for the replacement of the City's existing equipment, vehicles, computers, and furnishings and the City's financial policy is to annually budget funds to this Reserve. During the Fiscal Year 2015/16 budget process, the Council again ensured that funds were appropriated to maintain adequate reserves in the Asset Replacement Fund.

Additionally, beginning with the budget cycle for Fiscal Year 2014/15, the City established an infrastructure replacement reserve to ensure that funds are available in the future for the replacement of buildings and improvements. Through Fiscal Year 2016/17, the Council has approved \$400,000 to this reserve fund.

Cash Management Policies and Practices

Cash resources of the individual funds are combined to form a pool of cash and investments. Cash temporarily idle during the year was invested primarily with Chandler Asset Management and also with the Local Agency Investment Fund (LAIF) consistent with the City's Investment Policy.

The City's longstanding Investment Policy was amended by the Council on February 10, 2016, and will provide the City more flexibility to invest its excess funds to provide safety to ensure the preservation of capital in the portfolio, provide sufficient liquidity for cash needs, and to realize a market rate of return consistent with the investment program while staying within the requirements of California Government Code Section 53601.

The City's Investment Policy is designed to maximize the productive use of assets entrusted to its care and to invest and manage those funds wisely and prudently. Criteria for selecting investments and the order of priority are: (1) safety (2) liquidity and (3) yield. The basic premise underlying the City's Investment Policy is to ensure that money is safe, always available, and earning the highest and best returns.

Investment income includes appreciation/depreciation in the fair value of investments. The total investment income for all funds for the fiscal year was \$280,250, an increase of \$159,409 over the prior fiscal year's amount of \$120,841.

Major Projects and Financial Planning

Solana Beach Pump Station Rehabilitation

This project is to make recommended upgrades, replacements and add emergency overflow storage to the Solana Beach Pump Station per the 2000 Sanitary Sewer Master Plan, along with recommendations from the San Elijo Joint Powers Association (SEJPA). This station pumps approximately 92% of the City's sewage through a force main under the San Elijo Lagoon to the San Elijo Joint Powers Authority (SEJPA) water reclamation facility on Manchester Avenue. The SEJPA maintains the pump station, which was originally constructed in 1966. Since then, the pump station was upgraded in 1982 when significant improvements were made.

Dudek, the City's consultant, completed the final design of all recommended improvements to the pump station, including a feasibility study, to convey a portion of the City of San Diego's sewage near Flower Hill Mall and the City of Del Mar's sewage to the SEJPA. The City has recently entered into an agreement with the City of Del Mar to transport the majority of their flows through the City's sewer infrastructure, including the pump station, to the SEJPA water reclamation facility. Increasing flows to SEJPA would improve its efficiency and provide increased revenue.

Recycled Waterline Pipeline Extension

For several years, the City has been researching the possibility of extending the recycled waterline to the west to serve both City and private landscape areas. Due to unrelated construction activities in the same area, this project was combined with two other projects being constructed by the City of Del Mar and advertised for construction bids. A construction contract was approved in November 2016. All work on this initial phase of the recycled waterline extension is expected to be complete by the end of January 2017.

Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Solana Beach for its CAFR for the fiscal year ended June 30, 2015. This was the thirteenth year in the past fourteen years that the City has received this award. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Reports must satisfy both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements.

The preparation of the Comprehensive Annual Financial Report in accordance with the GASB 34 financial reporting model was made possible by the dedicated work of the Finance Department staff. Each member of the staff, Sandra Lewis, Aina Grant, Catherine Wong, and Kyle Koszewnik has our sincere appreciation for their contributions made in the preparation of this report. We would also like to thank the Mayor and Council for their continued support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



Gregory Wade
City Manager

Respectfully submitted,



Marie Marron Berkuti
Finance Manager/Treasurer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Solana Beach
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

**CITY OF SOLANA BEACH
FISCAL YEAR 2015/16
DIRECTORY OF OFFICIALS AND ADVISORY BODIES**

CITY COUNCIL

David A. Zito, Mayor
Mike Nichols, Deputy Mayor
Lesa Heebner, Council Member
Peter Zahn, Council Member
Ginger Marshall, Council Member

TERM EXPIRES

December 2016
December 2018
December 2016
December 2016
December 2018

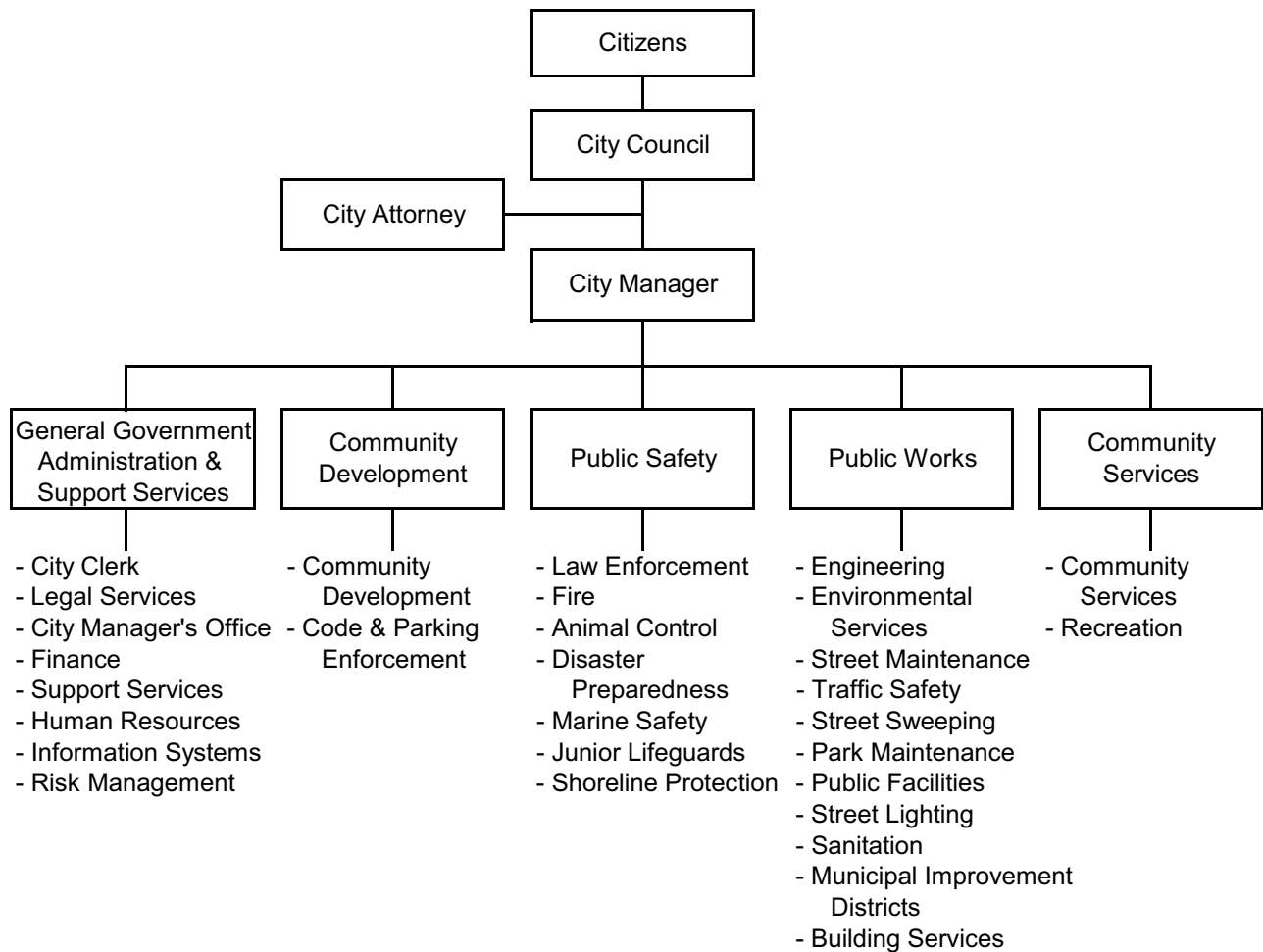
ADVISORY COMMISSIONS

Budget & Finance Commission
Climate Action Commission
Parks & Recreation Commission
Public Arts Commission
View Assessment Commission

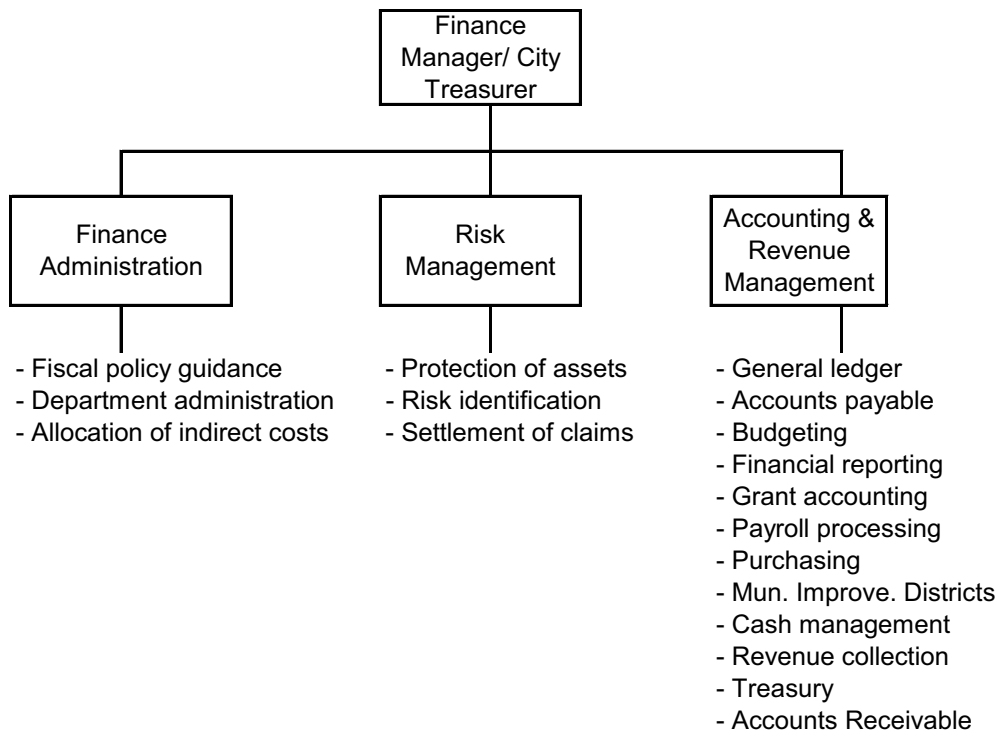
APPOINTED OFFICIALS AND DEPARTMENT DIRECTORS

Gregory Wade	City Manager
Dan King	Assistant City Manager
Mohammed Sammak	Director of Public Works/City Engineer
Bill Chopyk	Director of Community Development
Angela Ivey	City Clerk
Johanna Canlas	City Attorney
Marie Marron Berkuti	Finance Manager/Treasurer

CITY OF SOLANA BEACH
CITY GOVERNMENT
ORGANIZATIONAL CHART
FISCAL YEAR 2015/2016



CITY OF SOLANA BEACH
FINANCE DEPARTMENT
ORGANIZATIONAL CHART
FISCAL YEAR 2015/2016



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Solana Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Solana Beach, California, (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



To the Honorable Mayor and Members of the City Council
City of Solana Beach, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Solana Beach California, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules for the general fund, Transnet Fund, and Affordable Housing Grant Fund, and the schedule of proportionate share of the net pension liability and the schedule of plan contributions, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Year Comparative Information

The financial statements include (partial or summarized) prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2015, from which such partial information was derived.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.



To the Honorable Mayor and Members of the City Council
City of Solana Beach, California

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Lance, Soll & Luythard, LLP

Brea, California
December 20, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Solana Beach (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016 (Fiscal Year (FY) 2016). It should be read in conjunction with the accompanying transmittal letter beginning on page i and the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The City's net position increased to \$72,727, or by \$1,859, as a result of FY2016 operations.
- During the year, the City's taxes, other governmental revenues, and business activity revenues exceed expenses by \$1,859.
- Governmental net position equaled \$37,422.
- The total revenues from all sources were \$26,377.
- The total cost of all City programs was \$24,518.
- The General Fund reported an excess of revenues over expenditures and other financing sources and uses by \$1,657.
- The General Fund's actual resources received exceeded the final revenue budget by \$1,095 while actual expenditures were \$775 less than final budget before other financing sources and uses.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are:

- (1) Government-wide financial statements, which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the City as a whole.
- (2) Fund financial statements describe how City services are financed in the short term as well as what resources are available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.
- (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the City's overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are accounted for regardless of when cash is received or paid.

These two statements report the City's net position and changes thereto. Net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to assess accurately the overall health of the City.

The Statement of Net Position and the Statement of Activities present information about the following:

- **Governmental activities** - All of the City's basic services are considered governmental activities, including general government, community development, public safety, public works, and community services. Property taxes, transient occupancy taxes, sales taxes, and franchise fees finance most of these activities.
- **Proprietary activities/Business type activities** - The City charges a fee to customers to cover all or most of the cost of the services provided. The City's Sanitation system is reported in this category.
- **Component units** - The City's governmental activities include the blending of the City of Solana Beach Public Facilities Corporation, a separate legal entity. Although legally separate, this "component unit" is important because the City is financially accountable for the corporation. A separate component unit financial statement was not issued for the Solana Beach Public Facilities Corporation since it has had no transactions, nor any assets, liabilities or equity over the past three fiscal years.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds that aid in the administration of resources for particular purposes or to meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two kinds of funds, governmental and proprietary, use different accounting approaches:

- **Governmental funds** - Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of

Activities) and governmental *funds* through the Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements.

- *Proprietary funds* - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or *fiduciary*, for certain amounts held on behalf of developers, property owners, and others. These fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Assets and Liabilities. The City is responsible for ensuring that the assets are used for their intended purposes. Therefore, fiduciary activities are excluded from the City's other financial statements because the assets cannot be used to finance operations.

After the date of the dissolution of the Solana Beach Redevelopment Agency (RDA) on February 1, 2012, the assets and liabilities of the former redevelopment agency were transferred to the Successor Agency of the former Solana Beach RDA (Successor Agency) and are reported in a fiduciary fund (private-purpose trust fund).

THE CITY AS A WHOLE

Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business activities.

Table 1
City of Solana Beach Net Position
(in Thousands)

	Governmental Activities		Business Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 23,331	\$ 20,506	\$ 33,026	\$ 33,523	\$ 56,357	\$ 54,029
Capital assets, net	<u>38,078</u>	<u>39,673</u>	<u>12,876</u>	<u>12,122</u>	<u>50,954</u>	<u>51,795</u>
Total assets	61,409	60,179	45,902	45,645	107,311	105,824
Deferred Outflows	1,521	966	431	454	1,952	1,420
Liabilities:						
Long-term debt outstanding	8,029	7,549	10,369	11,299	18,398	18,848
Other liabilities	<u>16,326</u>	<u>13,822</u>	<u>606</u>	<u>1,130</u>	<u>16,932</u>	<u>14,952</u>
Total liabilities	24,355	21,371	10,975	12,429	35,330	33,800
Deferred Inflows	1,153	2,464	53	112	1,206	2,576
Net position:						
Net investment in capital assets	30,366	32,416	5,594	6,798	35,960	39,214
Restricted	5,825	4,980	-	-	5,825	4,980
Unrestricted	<u>1,231</u>	<u>(86)</u>	<u>29,711</u>	<u>26,760</u>	<u>30,942</u>	<u>26,674</u>
Total net position	\$ 37,422	\$ 37,310	\$ 35,305	\$ 33,558	\$ 72,727	\$ 70,868

The City's combined net position for the fiscal year ended June 30, 2016 was \$72,727. The City has chosen to account for its sanitation operations in an enterprise fund, which is shown as Business Activities on Table 1. The City's net position for governmental activities increased from \$37,310 to \$37,422. The following is an explanation of the governmental activity changes between fiscal years as shown in Table 1:

- Current and other assets increased \$2,825 or 13.8% primarily because of the increased cash position for governmental funds due to the lower than anticipated spending in capital projects and the establishment of a an irrevocable trust for pension liabilities in the amount of \$509.

Additionally, monies borrowed from the Sanitation Fund of \$3,133 used to pay off the City's PERS Side Fund in FY2011 is reported as a negative Internal Balance amount in the asset section of the balance sheet for government activities and this amount decreased by \$447 for the payment to the Sanitation Fund for FY2016. The remaining balance at the end of FY2016 for the amount owed to the Sanitation Fund is \$1,139.

- Deferred outflows of \$1,521 are a result of the implementation of GASB 68 and are related to contributions made after the actuarial measurement date for the net pension liability.

- Capital assets decreased \$1,595 (net of \$4,447 depreciation and disposition) as detailed in Table 4. The San Andres Drive Traffic Calming and Highway 101–Plaza Area projects were completed resulting in an increase to Improvements of \$680. A new fire engine was purchased for the Fire Department resulting in an increase to Vehicles of \$615. The City also had construction activities for the annual street pavement program and Americans with Disabilities (ADA) projects and ongoing storm drain repairs. In FY2016, the City did a comprehensive inventory of equipment listed as fixed assets resulting in dispositions totaling \$707.
- Governmental long-term debt increased \$480 due to the addition of \$618 for a capital lease used to purchase the new fire engine along with reductions due to routine principal payments made on existing debt principal. See Table 5 for additional detail.
- Deferred inflows of \$1,153 are a result of the implementation of GASB 68 and are related to unrecognized actuarial gains and losses for the net pension liability.
- Other liabilities increased \$2,504 primarily due to an increase in net pension liability of \$1,764. The City began recording its net pension liability in Fiscal Year (FY) 2015 as a result of implementing GASB 68. Increases were also recorded in development related unearned revenue and deposits payable of \$244 and \$494, respectively and net other post-employment benefit liability of \$149.
- Net investment in capital assets decreased \$2,050 primarily due to the addition of Improvements and Vehicles totaling \$2,261 less depreciation and disposition costs of \$4,447.
- Restricted net position increased \$845 due to the establishment of an irrevocable trust for pension liabilities in the amount of \$509 and less than anticipated spending in capital projects.
- As a result of the above activities, unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, increased \$1,317 from \$(86) to \$1,231 at June 3, 2016.

Governmental Activities

The cost of all Governmental activities in FY2016 was \$20,949 as shown on Tables 2 and 2.1. Of this cost, \$2,288 was paid for by those who directly benefited from the programs; \$1,676 was subsidized by grants received from other governmental organizations for both capital and operating activities; and \$17,097 was financed through general City revenues. Overall governmental program revenues, including intergovernmental aid and fees for services were \$3,964. Items of significance within Table 2 are:

Revenues:

- Charges for services increased by 20% as compared to FY2015 primarily as a result of increased revenues received for development related activities.
- Operating and Capital grants and contributions increased by a net \$307 over the prior fiscal year amount due to an increase in various public safety and public works grants and contributions received or recognized in FY2016 as compared to FY2015.
- Property taxes and other taxes increased by approximately 7.1% or \$1,064 due to improved property valuations as a result of real estate sales in the City, increased transient occupancy tax revenue and a one-time payment for sales tax as a result of the wind-down of the “triple-flip” revenue swapping process (a series of revenue swapping procedures created by Revenue & Taxation Code Section 6201.5).

- Other general revenues decreased by \$54 as compared to the prior fiscal year primarily due to a decrease in developer pass-through receipts.

Expenses:

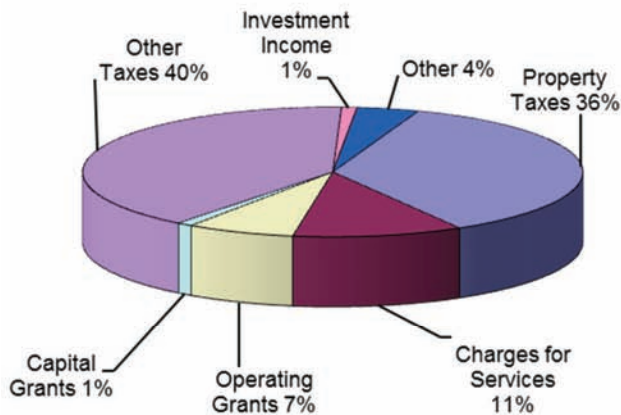
- General Government expenditures increased in FY2016 by 18% or \$600 from the prior fiscal year primarily due to the establishment of an irrevocable trust for pension liabilities.
- Public Safety increased by 9% or \$721 due to an increase in Fire Department overtime and a 3% increase in the San Diego County Sheriff's contract.
- Community Development increased by 8% or \$97 as compared to the last fiscal year due to increased costs related to expedited planning reviews paid for by developers.

Table 2
City of Solana Beach Changes in Net Position
(in Thousands)

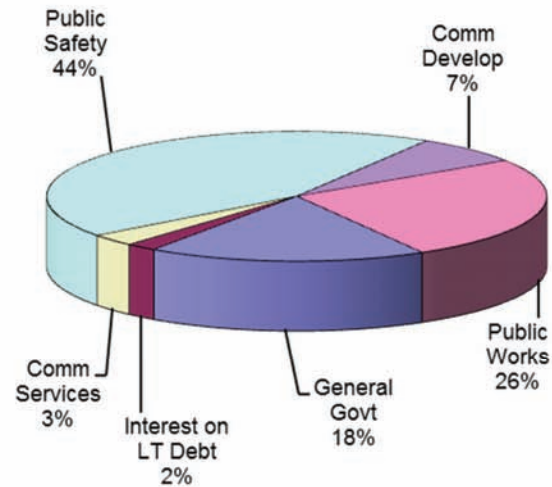
	Governmental Activities		Business Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 2,288	\$ 1,903	\$ 5,152	\$ 4,949	\$ 7,440	\$ 6,852
Operating grants and contributions	1,516	1,316	-	-	1,516	1,316
Capital grants and contributions	160	53	-	-	160	53
General revenues:						
Property taxes	7,706	7,247	-	-	7,706	7,247
Other taxes	8,394	7,789	-	-	8,394	7,789
Other	997	1,051	164	101	1,161	1,152
Total revenues	<u>21,061</u>	<u>19,359</u>	<u>5,316</u>	<u>5,050</u>	<u>26,377</u>	<u>24,409</u>
Expenses:						
General government	3,944	3,344	-	-	3,944	3,344
Public safety	9,162	8,441	-	-	9,162	8,441
Public works	5,439	5,181	-	-	5,439	5,181
Community development	1,378	1,281	-	-	1,378	1,281
Community services	628	623	-	-	628	623
Interest and fiscal charges	398	388	-	-	398	388
Sanitation	-	-	3,569	4,566	3,569	4,566
Total expenses	<u>20,949</u>	<u>19,258</u>	<u>3,569</u>	<u>4,566</u>	<u>24,518</u>	<u>23,824</u>
Increase/(decrease) in net position	112	101	1,747	484	1,859	585
Net position - July 1	37,310	46,152	33,558	33,480	70,868	79,632
Net position restatement	-	(8,943)	-	(406)	-	(9,349)
Net position - June 30	<u>\$ 37,422</u>	<u>\$ 37,310</u>	<u>\$ 35,305</u>	<u>\$ 33,558</u>	<u>\$ 72,727</u>	<u>\$ 70,868</u>

Fiscal Year 2016
Governmental Activities
(Graphic representation of Table 2 in percentages)

Sources of Revenue



Program Expenses



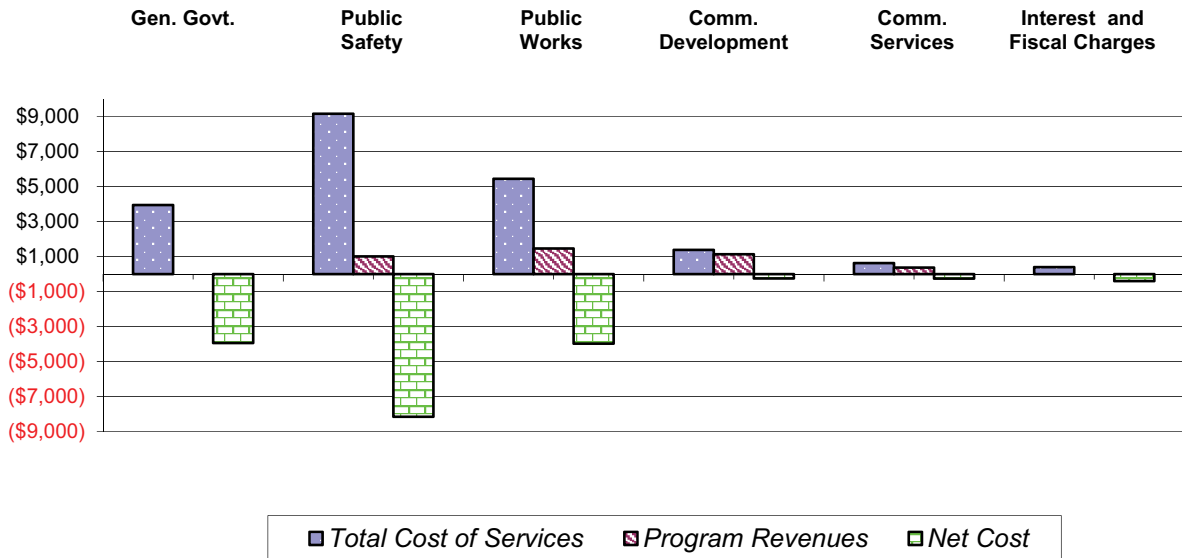
Net Cost of Governmental Activities

The City's programs include General Government, Public Safety, Public Works, Community Development, and Community Services. Each programs' net cost (total cost less revenues generated by the activities) is presented on Table 2.1. The net cost shows the extent to which the City's general taxes support each of the City's programs.

Table 2.1
Net Cost of Governmental Activities
(in Thousands)

	Total Cost of Services		Program Revenues		Net Cost of Services	
	2016	2015	2016	2015	2016	2015
General government	\$ 3,944	\$ 3,344	\$ -	\$ -	\$ (3,944)	\$ (3,344)
Public safety	9,162	8,441	1,009	803	(8,153)	(7,638)
Public works	5,439	5,181	1,462	1,159	(3,977)	(4,022)
Community development	1,378	1,281	1,128	962	(250)	(319)
Community services	628	623	365	348	(263)	(275)
Interest on long-term debt	398	388	-	-	(398)	(388)
Totals	\$ 20,949	\$ 19,258	\$ 3,964	\$ 3,272	\$ (16,985)	\$ (15,986)

**Total Cost of Services, Program Revenues & Net Cost
Governmental Activities**
(in Thousands)



Total resources available during the year to finance governmental operations were \$58,371 consisting of a net position at July 1, 2015 of \$37,310, program revenues of \$3,964, and general revenues of \$17,097. Total governmental activities during the year were \$20,949, and as a result, net position increased by \$112 to \$37,422.

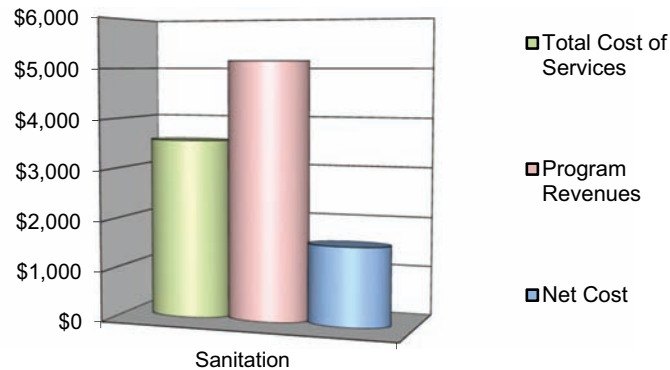
Business Type Activities

Net position of the Proprietary Fund (Business Type activities) at June 30, 2016 as reflected in Table 1 was \$35,304. As shown in Table 3, amounts paid by users of the system and other operating revenue were \$5,152 while the cost of providing all Proprietary (Business Type) activities in FY2016 was \$3,569 resulting in a net gain of \$1,583. With the addition of non-operating revenues of \$164, assets increased by \$1,747 or 5.2%.

Table 3
Net Cost of Business Activities
(in Thousands)

	Total Cost of Services		Program Revenue		Net Cost of Services	
	2016	2015	2016	2015	2016	2015
Sanitation	\$ 3,569	\$ 4,566	\$ 5,152	\$ 4,949	\$ 1,583	\$ 383

Fiscal Year 2016
Total Cost of Services, Program Revenues & Net Cost
Business Activities (in thousands)



General Fund Budgetary Highlights

The final expenditures for the City's General Fund at year-end were \$775 less than actual appropriations prior to other financing uses. The budget to actual variance in appropriations was principally due to 1) conservative estimates at mid-year by management; 2) expenditures for asset replacement appropriations being delayed to next fiscal year; and 3) lower than expected damage claim payments for self insurance and workers compensation.

Actual revenues were \$1,095 greater than the final budget. Budget amendments and supplemental appropriations were made during the normal course of business to increase appropriations for unanticipated expenditures after adoption of the original budget. Significant supplemental appropriations were:

- \$935 to establish trusts for Pension and Other Post-Employment Benefits (OPEB) liabilities in the amounts of \$736 and 199, respectively, with Public Agency Retirement Services (PARS).
- \$300 for transfers out for the establishment of a reserve in the City CIP fund for the La Colonia Park Skate Park.
- \$103 for transfers out to the City CIP fund for the Traffic Impact Fee Study project.
- \$100 for Fire department overtime.
- \$85 for a Neighborhood Reinvestment Grant received from the County of San Diego for recreational facilities.
- \$81 for increased salaries and benefits as the result of a new memorandum of understanding with the City's firefighters.
- \$52 for increased salaries and benefits due to staffing changes in the Planning Department.
- \$40 for increased costs for repairs at various public facilities in the City.

Significant budgetary variations between certain departments' final amended budget versus actual for the General Fund were:

- Manager: costs for the City Manager's professional services and contingency expenditure accounts were \$85 lower than anticipated in FY2016.
- Finance: property tax administration costs paid to the County of San Diego and amounts due to CalPERS for GASB 68 reports were higher than expected.
- Support Services: payments for damage claims from the City's self insurance and workers compensation funds were significantly lower than expected.
- Marine Safety: during the fiscal year, the City experienced warmer than expected weather and marine safety seasonal employees worked more hours than budgeted to provide lifeguard coverage on the beach.
- Fire: overtime was higher than expected due to vacancies during the fiscal year.
- Street and other public works: savings were realized in professional services due to lower than anticipated use for outside contractors in environmental services, street maintenance, traffic safety, and park maintenance.
- Engineering: this budget unit included \$78 in salaries for unexpended CIP budget personnel that were charged against the Engineering budget.
- Personnel and Planning: a number of staff vacancies occurred in these departments resulting in lower than anticipated salaries and benefit costs.
- Building Services: increased revenues in plan check fees, 75% of which go to the City's on-call building plan check consultant, resulted in actual expenditures exceeding the budgeted amount.
- Capital Outlay: amounts were budgeted for Planning department software that was to be purchased in FY2016. These expenditures were delayed until the following fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital assets include equipment, buildings, land, park facilities, and roads.

At June 30, 2016, net capital assets of the governmental activities totaled \$38,078 and the net capital assets of the business-type activities totaled \$12,876. Depreciation on capital assets is recognized in the government-wide financial statements. (See Table 4 and Note 4 to the financial statements.)

The City's five-year Capital Improvement Plan projects to spend \$11,763 through FY2021. Over the next five years, funding will come from current fund balances and revenues such as Gas Tax and TransNet. Significant projects are the Stevens/Valley Avenue Corridor Improvements, rebuilding the Solana Beach Pump Station, La Colonia Park Skate Park, Seascape Sur staircase repair, and ongoing pavement management, traffic calming, and storm drain and sewer pipeline improvements and replacement projects.

Table 4
City of Solana Beach Capital Assets at Year-End
(Net of Depreciation)
(In Thousands)

	Governmental Activities		Business Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,538	\$ 2,538	\$ 112	\$ 112	\$ 2,650	\$ 2,650
Buildings & Improvements	11,030	11,470	10,768	10,780	21,798	22,250
Equipment & Vehicles	1,443	1,048	-	-	1,443	1,048
Infrastructure	22,058	23,346	-	-	22,058	23,346
Work in Progress	1,009	1,271	1,996	1,230	3,005	2,501
	<u>\$ 38,078</u>	<u>\$ 39,673</u>	<u>\$ 12,876</u>	<u>\$ 12,122</u>	<u>\$ 50,954</u>	<u>\$ 51,795</u>

Debt

At year-end, the City had \$8,029 in governmental type debt and \$10,368 in proprietary debt (including premium on debt issuance) totaling \$18,397. This debt is a liability of the government and amounts to \$1,363 per capita.

See Table 5 and Note 5 to the financial statements for detailed descriptions.

Table 5
City of Solana Beach Outstanding Debt at Year-End
(In Thousands)

	Governmental Activities		Business Activities		Total	
	2016	2015	2016	2015	2016	2015
Refunding lease	\$ 941	\$ 1,055	\$ -	\$ -	\$ 941	\$ 1,055
Capital leases	1,278	710	-	-	1,278	710
JPA loan payable-2011			2,286	2,958	2,286	2,958
Sewer revenue bond	-	-	8,025	8,260	8,025	8,260
TransNet bond	5,500	5,500	-	-	5,500	5,500
Bond premiums	-	-	28	56	28	56
Bond discounts	(7)	(8)	-	-	(7)	(8)
Compensated absences	317	292	29	25	346	317
	<u>\$ 8,029</u>	<u>\$ 7,549</u>	<u>\$ 10,368</u>	<u>\$ 11,299</u>	<u>\$ 18,397</u>	<u>\$ 18,848</u>

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for FY2016, the focus of the City Council and management was to adopt a balanced budget and promote fiscal sustainability. Budget decisions were made with the understanding that, although the current economic climate was continuing to show improvement, the City's growth rate for certain revenues was still uneven and that the rate of any expenditure cost increase needed to be closely evaluated and monitored. The challenge given these circumstances was to prepare a budget that held costs in line while continuing to provide high quality services and to move forward implementing the City's five-year capital improvement plan.

The result was that at the time of the budget adoption, no new programs or services were added to the FY2016 budget. Departments were asked to prepare budgets with no change in their materials, supplies, and services categories and any requests for new monies needed to be justified. Salary increases of 1.5% and cafeteria benefits increases of 5% were provided to marine safety and miscellaneous regular employees, as called for in their memorandums of understanding (MOUs) with the City and unrepresented regular employees receiving the same increases. Negotiations are still ongoing with the City's fire department employee association for a new MOU.

The adopted budget reflected a projected \$13,000 surplus in the General Fund and a subsequent first quarter year budget adjustment increased the projected surplus to \$220,600

While fiscal sustainability included focusing on the expenditure side of the budget, in the coming fiscal year, City staff will be tasked with developing increased revenue sources to help broaden the revenue base needed by the City for its short and long-term needs.

Overall, the budget anticipates that local tax revenues to the City next year will increase based upon the economic activity in the California economy, including property taxes, which are projected to increase in FY2017 by 3.9% with transient occupancy tax expected to increase by 7%. Sales tax is expected to decrease slightly by 1.5%. Overall, the General Fund adopted operating expenditures for FY2017 are budgeted to increase approximately 7.2% as compared to the previous fiscal year's adopted budget. The CIP budget was set to be \$6,568 for the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's fiduciary responsibility for the funds it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department, at the City of Solana Beach, 635 South Highway 101, Solana Beach, California 92075 or online: <http://www.ci.solana-beach.ca.us>.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF SOLANA BEACH

STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current Assets:			
Cash and investments	\$ 22,139,756	\$ 11,786,031	\$ 33,925,787
Receivables:			
Accounts, net	279,012	268,320	547,332
Taxes	1,184,455	2	1,184,457
Interest	67,579	14,754	82,333
Prepaid costs	7,471	32,197	39,668
Due from other governments	282,999	-	282,999
Total Current Assets	23,961,272	12,101,304	36,062,576
Noncurrent Assets:			
Restricted assets:			
Cash and investments with fiscal agent	508,897	594,936	1,103,833
Investment in joint venture	-	19,190,619	19,190,619
Internal balances	(1,139,045)	1,139,045	-
Capital assets not being depreciated	3,546,430	2,108,289	5,654,719
Capital assets, net of depreciation	34,531,253	10,768,131	45,299,384
Total Noncurrent Assets	37,447,535	33,801,020	71,248,555
Total Assets	61,408,807	45,902,324	107,311,131
Deferred Outflows of Resources:			
Deferred charge on refunding	-	343,235	343,235
Deferred pension related items	1,521,071	88,513	1,609,584
Total Deferred Outflows of Resources	1,521,071	431,748	1,952,819
Liabilities:			
Current Liabilities:			
Accounts payable	1,082,481	15,496	1,097,977
Accrued liabilities	385,873	16,710	402,583
Accrued interest	19,784	145,189	164,973
Unearned revenue	437,358	-	437,358
Claims payable - due within one year	150,637	-	150,637
Compensated absences - due within one year	236,034	17,707	253,741
Long-term debt - due within one year	288,487	937,808	1,226,295
Total Current Liabilities	2,600,654	1,132,910	3,733,564
Noncurrent Liabilities:			
Deposits payable	2,418,049	-	2,418,049
Net other post employment benefit liability	1,732,450	-	1,732,450
Claims payable - due in more than one year	1,072,105	-	1,072,105
Compensated absences - due in more than one year	81,324	11,608	92,932
Net pension liability	9,026,678	429,227	9,455,905
Long-term debt - due in more than one year	7,423,485	9,401,597	16,825,082
Total Noncurrent Liabilities	21,754,091	9,842,432	31,596,523
Total Liabilities	24,354,745	10,975,342	35,330,087
Deferred Inflows of Resources:			
Deferred pension related items	1,152,898	53,186	1,206,084
Total Deferred Inflows of Resources	1,152,898	53,186	1,206,084
Net Position:			
Net investment in capital assets	30,365,711	5,594,350	35,960,061
Restricted for:			
Redevelopment activities	3,531,810	-	3,531,810
Public safety	270,590	-	270,590
Parks and recreation	159,412	-	159,412
Capital projects	1,330,058	-	1,330,058
Debt service	24,828	-	24,828
Pensions	508,897	-	508,897
Unrestricted	1,230,929	29,711,194	30,942,123
Total Net Position	\$ 37,422,235	\$ 35,305,544	\$ 72,727,779

CITY OF SOLANA BEACH

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Contributions and Grants	Contributions and Grants
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 3,944,303	\$ -	\$ -	\$ -
Public safety	9,162,345	578,282	270,152	160,372
Community development	1,378,130	928,065	200,388	-
Community services	627,748	365,289	-	-
Public works	5,438,407	416,524	1,045,301	-
Interest on long-term debt	398,408	-	-	-
Total Governmental Activities	20,949,341	2,288,160	1,515,841	160,372
Business-Type Activities:				
Sanitation Fund	3,568,901	5,151,671	-	-
Total Business-Type Activities	3,568,901	5,151,671	-	-
Total Primary Government	\$ 24,518,242	\$ 7,439,831	\$ 1,515,841	\$ 160,372
General Revenues:				
Taxes:				
Property taxes, levied for general purpose				
Sales taxes				
Transient occupancy taxes				
Franchise taxes				
Other taxes				
Use of money and property				
Other				
Total General Revenues				
Change in Net Position				
Net Position at Beginning of Year				
Net Position at End of Year				

Net (Expenses) Revenues and Changes in Net Position Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (3,944,303)	\$ -	\$ (3,944,303)
(8,153,539)	-	(8,153,539)
(249,677)	-	(249,677)
(262,459)	-	(262,459)
(3,976,582)	-	(3,976,582)
(398,408)	-	(398,408)
(16,984,968)	-	(16,984,968)
-	1,582,770	1,582,770
-	1,582,770	1,582,770
(16,984,968)	1,582,770	(15,402,198)
7,705,956	-	7,705,956
3,255,104	-	3,255,104
1,605,685	-	1,605,685
736,042	-	736,042
2,797,559	-	2,797,559
261,466	115,321	376,787
735,521	49,090	784,611
17,097,333	164,411	17,261,744
112,365	1,747,181	1,859,546
37,309,870	33,558,363	70,868,233
\$ 37,422,235	\$ 35,305,544	\$ 72,727,779

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements
Proprietary Fund Financial Statements
Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF SOLANA BEACH

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016
(With comparative totals for June 30, 2015)

	Special Revenue Funds			Other Governmental Funds	Total Governmental Funds	
	General	TransNet	Affordable Housing Grant		2016	2015
Assets:						
Cash and investments	\$ 15,144,831	\$ 43,896	\$ 262,162	\$ 6,688,867	\$ 22,139,756	\$ 20,723,633
Receivables:						
Accounts	261,087	-	-	17,925	279,012	271,974
Taxes	1,175,260	-	-	9,195	1,184,455	669,185
Accrued interest	57,928	21	343	9,287	67,579	12,257
Prepaid costs	7,471	-	-	-	7,471	9,382
Due from other governments	149,228	-	-	133,771	282,999	289,735
Due from other funds	221,431	-	-	-	221,431	222,737
Restricted assets:						
Cash and investments with fiscal agents	508,897	-	-	-	508,897	-
Total Assets	\$ 17,526,133	\$ 43,917	\$ 262,505	\$ 6,859,045	\$ 24,691,600	\$ 22,314,568
Liabilities, Deferred Inflows of Resources and Fund Balances:						
Liabilities:						
Accounts payable	\$ 733,082	\$ -	\$ 101,188	\$ 248,211	\$ 1,082,481	\$ 1,356,114
Accrued liabilities	271,766	-	-	114,107	385,873	294,570
Unearned revenues	8,700	-	-	428,658	437,358	193,700
Deposits payable	2,348,248	-	-	69,801	2,418,049	1,924,728
Due to other funds	-	-	-	221,431	221,431	222,737
Advances from other funds	1,139,045	-	-	-	1,139,045	1,586,247
Total Liabilities	4,500,841	-	101,188	1,082,208	5,684,237	5,578,096
Deferred Inflows of Resources:						
Unavailable revenues	-	-	-	-	-	12,343
Total Deferred Inflows of Resources	-	-	-	-	-	12,343
Fund Balances:						
Nonspendable	7,471	-	-	-	7,471	9,382
Restricted	508,897	43,917	161,317	5,111,464	5,825,595	4,979,850
Committed	787,790	-	-	-	787,790	454,048
Assigned	5,520,890	-	-	849,917	6,370,807	5,913,168
Unassigned	6,200,244	-	-	(184,544)	6,015,700	5,367,681
Total Fund Balances	13,025,292	43,917	161,317	5,776,837	19,007,363	16,724,129
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 17,526,133	\$ 43,917	\$ 262,505	\$ 6,859,045	\$ 24,691,600	\$ 22,314,568

CITY OF SOLANA BEACH

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Fund balances of governmental funds \$ 19,007,363

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets net of depreciation have not been included as financial resources in governmental fund activity:

Capital assets	\$ 93,952,070	
Accumulated depreciation	(55,874,387)	38,077,683

Deferred outflows related to contributions made after the actuarial measurement date for the net pension liability:

Miscellaneous Plans' contributions made subsequent to measurement date	343,613	
Miscellaneous Plans' difference between expected and actual experiences	18,754	
Miscellaneous Plans' adjustment due to differences in proportions	349,710	
Safety Plans' contributions made subsequent to measurement date	619,022	
Safety Plans' adjustment due to differences in proportions	189,972	1,521,071

Long-term debt and compensated absences that have not been included in the governmental fund activity:

Notes payable	(5,500,000)	
Lease revenue bond - ABAG	(940,600)	
Unamortized bond discount	6,777	
Capital lease obligations	(1,278,149)	
Claims and judgments	(1,222,742)	
Compensated absences	(317,358)	(9,252,072)

Governmental funds report all pension contributions as expenditures, however in the statement of net position any excesses or deficiencies in contributions in relation to the proportionate share of contributions are recorded as a asset or liability.

Miscellaneous Plans' portion of net pension liability	(3,121,377)	
Safety Plans' net pension liability	(5,905,301)	(9,026,678)

Governmental funds report all Other Post Employment Benefits (OPEB) contributions as expenditures, however in the statement of net position any excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as a asset or liability.

(1,732,450)

Accrued interest payable for the current portion of interest due on Bonds has not been reported in the governmental funds.

(19,784)

Deferred inflows related to unrecognized actuarial gains and losses for the net pension liability:

Miscellaneous Plans' changes in assumptions	(177,429)	
Miscellaneous Plans' net difference between projected and actual earnings on plan investments	(88,947)	
Miscellaneous Plans' adjustment due to differences in proportions	(17,105)	
Miscellaneous Plan's change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	(105,078)	
Safety Plans' changes in assumptions	(313,036)	
Safety Plans' difference between expected and actual experiences	(68,061)	
Safety Plans' Net difference between projected and actual earnings on plan investments	(158,649)	
Safety Plans' adjustment due to differences in proportions	(10,716)	
Safety Plans' change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	(213,877)	(1,152,898)

Net Position of governmental activities

\$ 37,422,235

CITY OF SOLANA BEACH

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016
(With comparative totals for the year ended June 30, 2015)

	Special Revenue Funds			Other Governmental Funds	Total Governmental Funds	
	General	TransNet	Affordable Housing Grant		2016	2015
Revenues:						
Taxes and assessments	\$ 12,957,448	\$ -	\$ -	\$ 1,761,781	\$ 14,719,229	\$ 13,727,132
Licenses, permits and fees	471,581	-	-	-	471,581	461,687
Intergovernmental	1,802,620	684,105	-	582,948	3,069,673	2,674,057
Charges for services	844,947	-	-	468,711	1,313,658	1,001,943
Use of money and property	228,811	123	1,135	31,397	261,466	136,763
Fines and forfeitures	502,921	-	-	-	502,921	392,683
Other revenues	587,522	19,566	-	128,433	735,521	961,755
Total Revenues	17,395,850	703,794	1,135	2,973,270	21,074,049	19,356,020
Expenditures:						
Current:						
General government	3,500,291	-	-	152	3,500,443	3,215,971
Public safety	8,176,467	-	-	736,275	8,912,742	8,308,182
Public works	1,647,072	-	-	816,370	2,463,442	2,282,134
Community development	943,773	-	104,982	332,179	1,380,934	1,291,073
Community services	252,198	-	-	26,283	278,481	267,110
Capital outlay	778,680	386,412	-	1,025,224	2,190,316	1,836,872
Debt service:						
Principal retirement	-	-	-	161,086	161,086	155,930
Interest and fiscal charges	-	325,105	-	58,025	383,130	388,523
Total Expenditures	15,298,481	711,517	104,982	3,155,594	19,270,574	17,745,795
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,097,369	(7,723)	(103,847)	(182,324)	1,803,475	1,610,225
Other Financing Sources (Uses):						
Transfers in	-	-	-	1,043,400	1,043,400	446,865
Transfers out	(920,000)	-	-	(123,400)	(1,043,400)	(446,865)
Contributions to OPEB Trust Fund	(135,000)	-	-	-	(135,000)	-
Debt issued	614,759	-	-	-	614,759	-
Total Other Financing Sources (Uses)	(440,241)	-	-	920,000	479,759	-
Net Change in Fund Balances	\$ 1,657,128	\$ (7,723)	\$ (103,847)	\$ 737,676	\$ 2,283,234	\$ 1,610,225
Fund Balances:						
Beginning of year	\$ 11,368,164	\$ 51,640	\$ 265,164	\$ 5,039,161	\$ 16,724,129	\$ 15,113,904
Net change in fund balances	1,657,128	(7,723)	(103,847)	737,676	2,283,234	1,610,225
End of Year	\$ 13,025,292	\$ 43,917	\$ 161,317	\$ 5,776,837	\$ 19,007,363	\$ 16,724,129

CITY OF SOLANA BEACH

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net change in fund balances - total governmental funds \$ 2,283,234

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 2,194,361	
Depreciation	(3,724,296)	
Disposal of capital assets	<u>(65,549)</u>	(1,595,484)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Issuance of 2016 truck lease	(614,759)	
Principal repayments:		
Lease revenue bond - ABAG	114,800	
Capital lease	46,286	
Amortization of bond premiums/discounts	(968)	
Changes in claims and judgments liabilities	(21,000)	
Changes in compensated absences	<u>(25,756)</u>	(501,397)

Pension obligation expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

102,129

Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period.

(14,310)

Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB as expenditures, however in the statement of activities only the ARC is an expense.

(149,464)

Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.

(12,343)

Change in net position of governmental activities

\$ 112,365

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PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF SOLANA BEACH

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2016

(With comparative totals for June 30, 2015)

	Sanitation Fund	
	2016	2015
Assets:		
Current:		
Cash and investments	\$ 11,786,031	\$ 10,281,652
Receivables:		
Accounts	268,320	24,245
Taxes	2	-
Interest	14,754	5,901
Prepaid costs	32,197	34,413
Total Current Assets	12,101,304	10,346,211
Noncurrent:		
Cash and investments with fiscal agent	594,936	2,580,536
Advances to other funds	1,139,045	1,586,247
Investment in joint venture	19,190,619	19,009,204
Capital Assets:		
Non-depreciable	2,108,289	1,342,123
Depreciable, net	10,768,131	10,780,345
Total Noncurrent Assets	33,801,020	35,298,455
Total Assets	45,902,324	45,644,666
Deferred Outflows of Resources:		
Deferred pension related items	88,513	42,302
Deferred charge on refunding	343,235	411,882
Total Deferred Outflows of Resources	431,748	454,184
Total Assets and Deferred Outflows	\$ 46,334,072	\$ 46,098,850
Liabilities, Deferred Inflows, and Net Position:		
Liabilities:		
Current:		
Accounts payable	\$ 15,496	\$ 633,260
Accrued liabilities	16,710	12,294
Interest payable	145,189	154,841
Compensated absences, due within one year	17,707	19,410
Long-term debt, due within one year	937,808	906,470
Total Current Liabilities	1,132,910	1,726,275
Noncurrent:		
Compensated absences, due in more than one year	11,608	5,607
Long-term debt, due in more than one year	9,401,597	10,367,413
Net Pension Liability	429,227	329,413
Total Noncurrent Liabilities	9,842,432	10,702,433
Total Liabilities	10,975,342	12,428,708
Deferred Inflows of Resources:		
Deferred pension related items	53,186	111,779
Total Deferred Inflows of Resources	53,186	111,779
Net Position:		
Net investment in capital assets	5,594,350	6,798,584
Unrestricted	29,711,194	26,759,779
Total Net Position	35,305,544	33,558,363
Total Liabilities, Deferred Inflows, and Net Position	\$ 46,334,072	\$ 46,098,850

CITY OF SOLANA BEACH

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016
(With comparative totals for June 30, 2015)

	Sanitation Fund	
	2016	2015
Operating Revenues:		
Charges for services	\$ 5,151,671	\$ 4,949,069
Other	49,090	28,939
Total Operating Revenues	5,200,761	4,978,008
Operating Expenses:		
Cost of sales and services	1,973,000	2,038,919
Administration	428,031	348,826
Depreciation	352,650	352,645
Total Operating Expenses	2,753,681	2,740,390
Operating Income (Loss)	2,447,080	2,237,618
Nonoperating Revenues (Expenses):		
Interest income	115,321	71,973
Interest expense	(454,872)	(483,257)
Amortization of bond premium/discount & refunding charge	(42,853)	(49,923)
Amortization of investment premium	(10,945)	(10,945)
Share in joint venture net gain(loss)/capital contribution	(306,550)	(1,281,842)
Total Nonoperating Revenues (Expenses)	(699,899)	(1,753,994)
Changes in Net Position	1,747,181	483,624
Net Position:		
Beginning of Fiscal Year, as previously reported	33,558,363	33,480,351
Restatements	-	(405,612)
Beginning of Fiscal Year, as restated	33,558,363	33,074,739
End of Fiscal Year	\$ 35,305,544	\$ 33,558,363

CITY OF SOLANA BEACH

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

(With comparative totals for June 30, 2015)

	Sanitation Fund	
	2016	2015
Cash Flows from Operating Activities:		
Cash received from customers and users	\$ 4,907,596	\$ 4,942,832
Cash paid to suppliers for goods and services	(2,588,548)	(1,560,283)
Cash paid to employees for services	(424,307)	(360,738)
Other	49,090	28,939
Net Cash Provided by Operating Activities	1,943,831	3,050,750
Cash Flows from Non-Capital Financing Activities:		
Repayment received from other funds	447,202	421,918
Net Cash Provided by Non-Capital Financing Activities	447,202	421,918
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(1,106,602)	(649,024)
Principal paid on capital debt	(906,470)	(880,634)
Interest paid on capital debt	(466,738)	(494,841)
Net Cash Used in Capital and Related Financing Activities	(2,479,810)	(2,024,499)
Cash Flows from Investing Activities:		
Interest received	(392,444)	(337,444)
Net Cash Used in Investing Activities	(392,444)	(337,444)
Net Increase (Decrease) in Cash and Cash Equivalents	(481,221)	1,110,725
Cash and Cash Equivalents at Beginning of Year	12,862,188	11,751,463
Cash and Cash Equivalents at End of Year	\$ 12,380,967	\$ 12,862,188
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 2,447,080	\$ 2,237,618
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:		
Depreciation	352,650	352,645
(Increase) decrease in accounts receivable	(244,075)	(6,237)
(Increase) decrease in prepaid expense	2,216	2,215
Increase in deferred outflows from pensions	(46,211)	(42,302)
Increase (decrease) in accounts payable	(617,764)	476,421
Increase (decrease) in accrued liabilities	4,416	(902)
Increase (decrease) in net pension liability	99,814	(76,199)
Increase (decrease) in compensated absences	4,298	(4,288)
Increase in deferred inflows from pensions	(58,593)	111,779
Total Adjustments	(503,249)	813,132
Net Cash Provided by Operating Activities	\$ 1,943,831	\$ 3,050,750
Non-Cash Investing, Capital, and Financing Activities:		
Amortization of bonds premium/discount	\$ (78,110)	\$ (77,708)
Gain/(loss) on investment in joint venture	(306,550)	(1,281,842)

See Notes to Financial Statements

FIDUCIARY FUND FINANCIAL STATEMENTS

CITY OF SOLANA BEACH

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2016
 (With comparative totals for June 30, 2015)

	Agency Funds		OPEB Trust Fund		Private-Purpose Trust Fund Successor Agency of the Former RDA	
	2016	2015	2016	2015	2016	2015
Assets:						
Cash and investments	\$ 488,999	\$ 478,241	\$ 137,402	\$ -	\$ 372,514	\$ 454,635
Receivables:						
Accounts	266	140	-	-	-	-
Taxes	1,779	2,018	-	-	-	-
Restricted assets:						
Cash and investments with fiscal agents	-	-	-	-	235,840	235,815
Total Assets	\$ 491,044	\$ 480,399	\$ 137,402	\$ -	608,354	690,450
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	4,618	4,912
Accrued liabilities	-	-	-	-	9,673	7,683
Accrued interest	-	-	-	-	12,008	12,327
Due to City	-	-	-	-	-	115,665
Due to bondholders	491,044	480,399	-	-	-	-
Long-term liabilities:						
Due in one year	-	-	-	-	90,000	85,000
Due in more than one year	-	-	-	-	2,820,000	2,910,000
Total Liabilities	\$ 491,044	\$ 480,399	-	-	2,936,299	3,135,587
Net Position:						
Held in trust for other purposes			137,402	-	(2,327,945)	(2,445,137)
Total Net Position			\$ 137,402	\$ -	\$ (2,327,945)	\$ (2,445,137)

CITY OF SOLANA BEACH

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2016
 (With comparative totals for June 30, 2015)

	OPEB Trust Fund		Private-Purpose Trust Fund Successor Agency of the Former RDA	
	2016	2015	2016	2015
Additions:				
Taxes	-	-	521,503	626,272
Interest and change in fair value of investments	2,402	-	28	25
Contributions from City	135,000	-	-	-
Total Additions	137,402	-	521,531	626,297
Deductions:				
Administrative expenses	-	-	255,805	249,312
Interest expense	-	-	148,534	152,814
Total Deductions	-	-	404,339	402,126
Changes in Net Position	137,402	-	117,192	224,171
Net Position - Beginning of the Year	-	-	(2,445,137)	(2,669,308)
Net Position - End of the Year	\$ 137,402	\$ -	\$ (2,327,945)	\$ (2,445,137)

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NOTES TO BASIC FINANCIAL STATEMENTS

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I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Summary of Significant Accounting Policies

The basic financial statements of the City of Solana Beach, California (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") as applied to governmental agencies. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

a. Financial Reporting Entity

The City was formed July 1, 1986 after an election held June 3, 1986 in the proposed incorporated area. The City's incorporation involved a reorganization consisting primarily of the incorporation of the City of Solana Beach; the detachment of territory from the Cardiff Sanitation District and annexation of the same territory to the Solana Beach Sanitation District; the establishment of the Solana Fire Protection District and Solana Beach Sanitation District as subsidiary districts of the City; and the establishment of five improvement districts of the City, which coincided with five previously existing county service areas (CSAs). The City merged the Fire District into the City by dissolving the District and creating a separate Fire Department within the City's General Fund effective January 1, 1988. Effective July 1, 1990, the Solana Beach Sanitation District was dissolved and is now a department of the City.

The Solana Beach Public Facilities Corporation (Corporation) was incorporated on July 25, 1990 as a nonprofit public benefit corporation duly organized and existing under the Nonprofit Public Benefit Corporation Law. Its purpose is to benefit the City by providing financing for the planning, development, acquisition, construction, improvement, extension, repair, and renovation of public works projects, public facilities, furnishings, and equipment for use by the City. The Corporation does not issue separate financial statements. The City's basic financial statements have the Corporation included using the blended method since the governing bodies of the component unit is substantially the same as the governing body of the City. The Corporation provides services entirely to the City.

b. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of Governmental and Business-Type Activities for the City, the primary government, accompanied by a total column. Fiduciary activities of the City are not included in these statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

The Government-Wide Financial Statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets and related infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to, Due from other funds
- Advances to, Advances from other funds
- Transfers in, Transfers out

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales taxes, franchise taxes, gas taxes, transient occupancy taxes, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unavailable revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unavailable revenue is removed from the balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences.

The City reports the following major governmental fund:

General Fund accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government which are not accounted for in the other funds. In Solana Beach, these services include general government, public safety, public works, community development, and community services.

Affordable Housing Grant Special Revenue Fund accounts for resources related to affordable housing grants and successor housing activities.

TransNet Special Revenue Fund accounts for revenues received and expenditures made related to transportation development, transit and related studies. Funding is provided to the City as a secondary recipient under agreement with the County of San Diego and with San Diego Association of Governments (SANDAG).

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows for all proprietary funds.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Operating revenues, such as charges for services, in the proprietary funds are those revenues that are generated from exchange transactions as the primary operations of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. All other revenues, such as subsidies, taxes, and investment earnings, which result from non-exchange transactions or ancillary activities are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the following major proprietary fund:

Sanitation Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs of providing sewage and wastewater treatment services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Position and a Statement of Changes in Net Position. The City's fiduciary funds include agency funds, an OPEB trust fund and one private-purpose trust fund. Agency funds are used to account for collections received from special assessment districts and their disbursement to bondholders. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Spending of agency fund resources is controlled primarily through legal agreements and applicable State and Federal laws. Agency funds are reported using the accrual basis of accounting.

The Private-Purpose Trust Fund is used to account for the assets and liabilities of the former redevelopment agency and the allocated revenue to pay estimated installment payments of enforceable obligations until the obligations of the former redevelopment agency are paid in full and assets have been liquidated.

The Pension and Private purpose trust fund funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

c. Cash, Cash Equivalents and Investments

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

The cash flow statements require presentation of "cash and cash equivalents". For the purpose of the statement of cash flows, the City considers all proprietary fund pooled cash and investments as "cash and cash equivalents", as such funds are available to the various funds as needed.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled *Local Agency Investment Fund* (LAIF) which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as to change in interest rates.

d. Restricted Cash and Investments

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects.

e. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair value on the date donated. City policy has set the capitalization threshold for reporting infrastructure and all other capital assets at \$1,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings and improvements	20-50 years
Equipment	3-25 years
Infrastructure - sewer lines	40-50 years
Infrastructure - other	20-60 years

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include roads and streets, curbs, gutters and sidewalks, street lights, signs and signals, park equipment, and storm drains. The appropriate operating department maintains information regarding the infrastructure assets.

Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City commissioned an appraisal of City owned infrastructure and property that determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition.

Original costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

f. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The City has two items that qualify for reporting in this category. One is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second is the deferred outflows relating to the net pension obligation reported in the government-wide statement of net position and proprietary statement of net position. These outflows are the results of contributions made after the measurement period, which are expensed in the following year, and of adjustments due to difference in proportions. These amounts are deferred and amortized over the expected average remaining service life time.

In addition to liabilities, the statement of financial position or governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has an item that qualifies for reporting in this category which are deferred inflows related to the pensions reported in the government-wide statement of net position and proprietary statement of net position. These inflows are the result of the net difference between projected and actual earnings on pension plan investments, differences between employer's contributions and proportionate share of contributions, and adjustment due to differences in proportions. These amounts are deferred and amortized straight-line over a five year period or the expected average remaining service life time.

g. Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

h. Compensated Absences

Government-Wide Financial Statements

For governmental activities, compensated absences are recorded as incurred and the related expenses and liabilities are reported.

Fund Financial Statements

In governmental funds, compensated absences are recorded as expenditures in the years paid, as it is the City's policy to liquidate any unpaid vacation or sick leave at June 30 from future resources, rather than currently available financial resources. Accordingly, the entire unpaid liability for the governmental funds is recorded in the government-wide financial statements, as these amounts will be liquidated from future resources. In the proprietary fund, compensated absences are expensed in the period they are earned, and the unpaid liability is recorded as a long-term liability of the fund.

i. Pensions

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

j. Net Position

In the Government-Wide and Proprietary Fund Financial Statements, net position are classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that was issued for the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that do not meet the definition of "net investment in capital assets" or "restricted net position."

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

k. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

I. Fund Balances

In the Governmental Fund Financial Statements, fund balances are classified in the following categories:

Nonspendable – Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body, and that remain binding unless removed in the same manner. The City Council is considered the highest authority for the City. The formal action required to establish, modify, or rescind a fund balance commitment is through a resolution.

Assigned – Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized through a resolution the City Manager and the Director of Finance for that purpose.

Unassigned – This category is for any balances that have no restrictions placed upon them.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balances first, then unrestricted fund balances as they are needed.

m. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 1: Summary of Significant Accounting Policies (Continued)

When expenditures are incurred for purposes where only unrestricted fund balances are available, the Agency uses the unrestricted resources in the following order: committed, assigned, and unassigned.

n. Property Taxes

Property taxes are levied on July 1 and are payable in two installments: December 10 and February 10 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of San Diego, California (County) bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when received in cash except at year end when they are accrued pursuant to the modified accrual basis of accounting. The City recognizes as revenues at June 30 available taxes or those collected within 60 days. The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The City receives a share of this basic levy.

o. Use of Estimates

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

p. Effect of New Accounting Standards

During the fiscal year ended June 30, 2016, the City implemented the following Governmental Accounting Standards Board (GASB) standards:

GASB Statement No. 72 – Fair Value Measurement and Application- effective after June 15, 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes, and provides guidance for applying fair value to certain investments.

q. Budgets

The Boating & Waterways Fund and the Miscellaneous Grants Fund did not adopt a budget. Therefore, no budgetary comparison schedule is presented as supplementary information.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 2: Cash and Investments

The following is a summary of pooled cash and investments and restricted cash and investments at June 30, 2016:

	Government-Wide Statement of Net Position			Fiduciary Funds Statement of Net Position	Total
	Governmental Activities	Business-Type Activities	Total		
Cash and investments	\$ 22,139,756	\$ 11,786,031	\$ 33,925,787	\$ 998,915	\$ 34,924,702
Cash and investments with fiscal agent held by fiscal agents	508,897	594,936	1,103,833	235,840	1,339,673
Total	<u>\$ 22,648,653</u>	<u>\$ 12,380,967</u>	<u>\$ 35,029,620</u>	<u>\$ 1,234,755</u>	<u>\$ 36,264,375</u>

Cash and investments consisted of the following at June 30, 2016:

Cash:	
Cash on hand	\$ 900
Demand deposits	3,228,742
Total cash	<u>3,229,642</u>
Investments:	
Local Agency Investment Fund	5,482,305
Investments	27,552,428
Total investments	<u>33,034,733</u>
Total cash and investments	<u>\$ 36,264,375</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 2: Cash and Investments (Continued)

a. Cash Deposits

The carrying amounts of the City's cash deposits were \$3,228,742 at June 30, 2016. Bank balances were \$3,659,134 at that date. The total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name is discussed below. The \$430,392 difference represents outstanding checks and other reconciling items.

The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2016, none of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. For investments identified herein as held by fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the City.

b. Investments

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

The following table identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. The City has no investments held by bond trustee.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 2: Cash and Investments (Continued)

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment in One Issuer
Local agency bonds	Yes	5 years	None	None
U.S. Treasury bills	Yes	None	60%	None
U.S. Treasury notes	Yes	5 years	40%	None
U.S. agency securities	Yes	5 years	20%	None
Banker's acceptances	Yes	180 days	10%	None
Commercial paper	Yes	180 days	10%	10%
Negotiable certificates of deposit	Yes	5 years	30%	5%
Repurchase agreements	Yes	1 year	None	None
Passbook savings demand deposits	Yes	5 years	None	None
Reverse-repurchase agreements	No	92 days	20% of base value	None
Medium-term notes	Yes	5 years	30%	5%
Mutual funds	Yes	5 years	20%	None
Money market mutual funds	Yes	5 years	20%	None
Asset backed security	Yes	5 years	20%	5%
Supranational	Yes	5 years	30%	5%

* Based on state law or investment policy requirements, whichever is more restrictive.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by fiscal agent are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury obligations	None	None	None
U.S. agency securities	None	None	None
Banker's acceptances	360 days	None	None
Commercial paper	270 days	None	None
Money market mutual funds	90 days	None	None
Investment contracts	None	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

c. External Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

The fair value of the City's investment in LAIF is reported at amounts based on the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 2: Cash and Investments (Continued)

The City's investments with LAIF at June 30, 2016, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- Structured Notes - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables.

d. Risk Disclosures

Interest Rate Risk

Interest rate risk is the risk that the market value of investments in the portfolio will fall due to changes in market interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages this risk by investing its operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools to ensure liquidity and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

	Fair Value	Remaining Investment Maturities		
		12 Months Or Less	13 to 24 Months	25 to 60 Months
Investments:				
Local Agency Investment Fund	\$ 5,482,305	\$ 5,482,305	\$ -	\$ -
US Treasury	5,457,295	711,936	3,240,355	1,505,004
Federal Farm Credit Bank	4,875,292	297,950	3,837,086	740,256
Federal Home Loan Bank	2,983,698	959,989	1,916,492	107,217
Federal Home Loan Mortgage Corp.	2,771,778	-	1,759,706	1,012,072
Federal National Mortgage Assoc.	1,838,442	287,620	1,550,822	-
Negotiable CDs	499,935	499,935	-	-
Medium Term Notes	5,681,549	1,960,952	3,414,480	306,117
Commercial Paper	947,494	947,494	-	-
Asset Backed Security	256,507	-	-	256,507
Money Market	755,847	755,847	-	-
Mutual Funds	1,484,591	1,484,591	-	-
Total Investments	<u>\$ 33,034,733</u>	<u>\$ 13,388,619</u>	<u>\$ 15,718,941</u>	<u>\$ 3,927,173</u>

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 2: Cash and Investments (Continued)

Credit Risk

Credit Risk is the risk of loss due to failure of the security issuer. The risk can be identified through the rating assigned by a nationally recognized statistical rating organization to the issuers of securities. The City minimizes this risk by investing only in investment types allowed for municipalities by the Government Code as listed on the City's investment policy and investing only in instruments that are most credit worthy. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of June 30, 2016, for each investment type.

Investment Type	Total as of June 30, 2016	Minimum Legal Rating	AAA	AA - AA-	A - A+	A-1- A-1+	A-1 - A-3	Not Rated
Local Agency Investment Fund	\$ 5,482,305	N/A	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,482,305
US Treasury	5,457,295	N/A	-	5,457,295	-	-	-	-
Federal Farm Credit Bank	4,875,292	N/A	-	4,577,342	-	297,950	-	-
Federal Home Loan Bank	2,983,698	N/A	-	2,635,132	-	348,566	-	-
Federal Home Loan Mortgage Corp.	2,771,778	N/A	-	2,771,778	-	-	-	-
Federal National Mortgage Assoc.	1,838,442	N/A	-	1,838,442	-	-	-	-
Medium Term Notes	5,681,549	A	-	2,576,263	3,105,286	-	-	-
Commercial Paper	947,494	N/A	-	-	-	-	947,494	-
Negotiable CDs	499,935	A-1	-	-	-	499,935	-	-
Asset Backed Security	256,507	AA	130,594	-	-	-	-	125,913
Money Market Mutual Funds	755,847	AAA	755,847	-	-	-	-	-
Mutual Funds	1,484,591	AAA	1,484,591	-	-	-	-	-
Total Investments	<u>\$ 33,034,733</u>		<u>\$ 2,371,032</u>	<u>\$ 19,856,252</u>	<u>\$ 3,105,286</u>	<u>\$ 1,146,450</u>	<u>\$ 947,494</u>	<u>\$ 5,608,218</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The City had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments.

Issuer	Investment Type	Reported Amount	
Federal Farm Credit Bank	Federal agency securities	\$ 4,875,292	15%
Federal Home Loan Bank	Federal agency securities	2,983,698	9%
Federal Home Loan Mortgage Corp.	Federal agency securities	2,771,778	8%
Federal National Mortgage Assoc.	Federal agency securities	1,838,442	6%

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 2: Cash and Investments (Continued)

Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of June 30, 2016:

Investment Type	Totals	Level		
		1	2	3
Local Agency Investment Fund (LAIF)	\$ 5,482,305	\$ -	\$ 5,482,305	\$ -
U.S. Treasury Securities	5,457,295	-	5,457,295	-
Federal Agency	12,469,210	-	12,469,210	-
Medium Term Notes	5,681,549	-	5,681,549	-
Commercial Paper	947,494	-	947,494	-
Negotiable CDs	499,935	-	499,935	-
Asset Backed Securities	256,507	-	256,507	-
Money Market	755,847	-	755,847	-
Mutual Funds	1,484,591	-	1,484,591	-
Total Investments	<u>\$ 33,034,733</u>	<u>\$ -</u>	<u>\$ 33,034,733</u>	<u>\$ -</u>

Deposits and Federal Agency Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Local Agency Investment Funds, Certificates of Deposit, any local agency, and Registered Treasury Notes or Bonds of any other 49 States are classified in Level 2 of the fair value hierarchy are value using specified fair market value factors.

Note 3: Interfund Transactions

Due From and To Other Funds

At June 30, 2016, the City had the following short-term interfund receivables and payables:

	Due to other funds	Due from other funds
		General Fund
Non-major Governmental Funds	\$	221,431
Total	\$	<u>221,431</u>

Due from/to other funds balances arise from the advance payments by the City's General Fund for debt service payments and projects expenditures which are reimbursable through various Federal and State Grant Programs.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 3: Interfund Transactions (Continued)

Advances From and To Other Funds

As of June 30, 2016, the City had the following long-term interfund receivables and payables:

	<u>Advance from other funds</u>
	<u>General Fund</u>
<u>Advance to other funds</u>	
Sanitation Fund	<u>\$ 1,139,045</u>

The Sanitation Fund advanced funds to the General Fund for payment of the PERS side-fund. For further information see Note 10.

Interfund Transfers

For the year ended June 30, 2016, the City had the following transfers:

	<u>Transfers In</u>
	<u>Non-Major Governmental Funds</u>
<u>Transfers Out</u>	
General Fund	\$ 920,000
Non-major governmental funds	123,400
	<u>\$ 1,043,400</u>

The most significant interfund transfers were from the General Fund to the City Capital Projects Fund for the City's construction project costs. With the non-major funds, transfers were made to various special revenue funds to public service and public works related costs, as well as debt service principal and interest payments on capital leases. During the fiscal year ended June 30, 2016, there were no significant interfund transfers that were not expected, budgeted for, unusual, nor of a non-routine nature.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 4: Capital Assets

The following is a summary of changes in capital assets for governmental activities for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Governmental Activities:					
<i>Non-Depreciable Assets:</i>					
Land	\$ 2,537,440	\$ -	\$ -	\$ -	\$ 2,537,440
Construction in progress	1,271,551	1,472,996	65,549	(1,670,008)	1,008,990
Total non-depreciable assets	3,808,991	1,472,996	65,549	(1,670,008)	3,546,430
<i>Depreciable Assets:</i>					
Buildings	6,016,915	-	-	-	6,016,915
Improvements	11,539,999	-	-	67,848	11,607,847
Equipment	2,591,637	62,737	706,905	-	1,947,469
Vehicles	2,001,659	658,628	16,001	-	2,644,286
Infrastructure	66,586,963	-	-	1,602,160	68,189,123
Total depreciable assets	88,737,173	721,365	722,906	1,670,008	90,405,640
<i>Less accumulated depreciation:</i>					
Buildings	(2,516,318)	(120,792)	-	-	(2,637,110)
Improvements	(3,570,626)	(387,364)	-	-	(3,957,990)
Equipment	(2,283,522)	(133,110)	(706,905)	-	(1,709,727)
Vehicles	(1,261,512)	(193,272)	(16,001)	-	(1,438,783)
Infrastructure	(43,241,019)	(2,889,758)	-	-	(46,130,777)
Total accumulated depreciation	(52,872,997)	(3,724,296)	(722,906)	-	(55,874,387)
Total depreciable assets, net	35,864,176	(3,002,931)	-	1,670,008	34,531,253
Total capital assets, net	\$ 39,673,167	\$ (1,529,935)	\$ 65,549	\$ -	\$ 38,077,683

Governmental activities depreciation expense for capital assets for the year ended June 30, 2016, is as follows:

General Government	\$ 141,434
Public Safety	308,784
Public Works	2,921,630
Community Development	1,132
Community Services	351,316
Total depreciation expenses	<u>\$ 3,724,296</u>

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 4: Capital Assets (Continued)

	Balance July 1, 2015	Transfers	Additions	Deletions	Balance June 30, 2016
Business-Type Activities					
<i>Non-Depreciable Assets:</i>					
Land	\$ 111,706	\$ -	\$ -	\$ -	\$ 111,706
Construction in progress	1,230,417	(340,436)	1,106,602	-	1,996,583
Total non-depreciable assets	1,342,123	(340,436)	1,106,602	-	2,108,289
<i>Depreciable Assets:</i>					
Building and improvements	16,223,141	-	-	-	16,223,141
Equipment	498,061	340,436	-	-	838,497
Total depreciable assets	16,721,202	340,436	-	-	17,061,638
<i>Less accumulated depreciation:</i>					
Building and improvements	(5,443,060)	-	(352,386)	-	(5,795,446)
Equipment	(497,797)	-	(264)	-	(498,061)
Total accumulated depreciation	(5,940,857)	-	(352,650)	-	(6,293,507)
Total depreciable assets, net	10,780,345	340,436	(352,650)	-	10,768,131
Total capital assets, net	\$ 12,122,468	\$ -	\$ 753,952	\$ -	\$ 12,876,420

Business-type activities depreciation expense for capital assets for the year ended June 30, 2016, is \$352,650.

Note 5: Long-Term Obligations

Governmental Activities Long-Term Debt

The following is a summary of changes in governmental activities long-term debt for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
Refunding Lease - ABAG	\$ 1,055,400	\$ -	\$ 114,800	\$ 940,600	\$ 123,400
Municipal Finance Capital Lease	709,676	-	46,286	663,390	47,897
2016 Municipal Finance Fire Truck Lease	-	614,759	-	614,759	117,190
Limited Tax Bonds 2010A Series	5,500,000	-	-	5,500,000	-
Compensated Absences	291,602	242,634	216,878	317,358	236,034
	<u>\$ 7,556,678</u>	<u>\$ 857,393</u>	<u>\$ 377,964</u>	8,036,107	<u>\$ 524,521</u>
		unamortized discount		(6,777)	
		Total		<u>\$ 8,029,330</u>	

Lease Revenue Bonds – ABAG

On January 10, 2002, the City issued \$3,465,000 of Series 2002 ABAG Lease Revenue Bonds to advance refund \$2,185,000 of the outstanding Certificates of Participation, Series 1992, and \$1,125,000 of the outstanding Certificates of Participation, Series 1995, establish a reserve account for the bonds, and to pay the cost of issuing the bonds.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 5: Long-Term Obligations (Continued)

\$3,504,499 of the 2002 series proceeds were used to purchase U.S. Government securities to advance refund the 1992 and 1995 series. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 and 1995 series. As a result, the 1992 and 1995 series certificates of participation are considered to be defeased and the liability for the 1992 and 1995 series has been removed from the Government-wide Statement of Net Position.

On November 1, 2011, the City entered into a refunding lease agreement with Municipal Financial Corporation in the amount of \$1,388,300 to current refund the outstanding balance of the ABAG Lease Revenue Bonds, Series 2002 and to take advantage of historically low interest rates. The average savings are approximately \$21,258 per fiscal year with the net present value savings equal to \$185,245. The lease matures on December 1, 2022. Principal payments are due December 1st of each year with semi-annual interest rate at 3.40%. The debt requirements due under the terms of the lease as of June 30, 2016, are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 123,400	\$ 29,883	\$ 153,283
2018	126,800	25,629	152,429
2019	129,800	21,267	151,067
2020	137,600	16,721	154,321
2021	135,300	12,082	147,382
2022-2023	287,700	9,821	297,521
Total	<u>\$ 940,600</u>	<u>\$ 115,403</u>	<u>\$ 1,056,003</u>

Capital Lease Obligations

Energy Efficiency/Conservation Upgrades

On May 9, 2012, the City entered into a capital lease with Municipal Finance Corporation for various energy efficiency/conservation upgrades at City facilities. The lease was executed in the amount of \$818,696. Rental payments are due in thirty-one semi-annual payments of \$35,187 and include interest at the rate of 3.45%. The City also executed an acquisition fund agreement with Deutsche Bank National Trust Company for distribution of the funds. The debt requirements due under the terms of the lease as of June 30, 2016, are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 47,897	\$ 22,477	\$ 70,374
2018	49,563	20,811	70,374
2019	51,288	19,086	70,374
2020	53,073	17,301	70,374
2021	54,920	15,455	70,375
2022-2026	304,629	47,241	351,870
2027-2028	102,020	3,540	105,560
Total	<u>\$ 663,390</u>	<u>\$ 145,911</u>	<u>\$ 809,301</u>

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 5: Long-Term Obligations (Continued)

Fire Truck Lease

In 2016, the City entered into a capital lease with Municipal Finance Corporation for for a fire truck at the cost of \$614,759. Rental payments are due in annual installments of \$131,944 which includes interest at the rate of 2.40% per annum. Payments are due July of each year. The debt requirements due under the terms of the lease as of June 30, 2016, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 117,190	\$ 14,754	\$ 131,944
2018	120,003	11,941	131,944
2019	122,883	9,061	131,944
2020	125,831	6,113	131,944
2021	128,852	3,092	131,944
Total	<u>\$ 614,759</u>	<u>\$ 44,961</u>	<u>\$ 659,720</u>

San Diego County Regional Transportation Commission Sales Tax Revenue Bonds

On October 28, 2010, the San Diego Association of Governments (SANDAG), acting as the San Diego County Regional Transportation Commission, issued \$338,960,000 Taxable Build America Bonds 2010 Series A (Limited Tax Bonds). SANDAG is responsible for the administration of programs under the TransNet Extension ordinance, Proposition A, which sets forth the permitted uses for revenues from a half cent transactions and use tax in San Diego County (TransNet Extension Program). In fiscal year ended June 2015, the City borrowed \$5,500,000 from the TransNet debt financing program for the Highway 101 Streetscaping/Traffic Calming Project and other projects eligible under the terms of the debt financing and applicable SANDAG policies and approved projects. The debt requirements due under the terms of the bonds as of June 30, 2016, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 325,105	\$ 325,105
2018	-	325,105	325,105
2019	-	325,105	325,105
2020	-	325,105	325,105
2021	-	325,105	325,105
2022-2026	-	1,625,525	1,625,525
2027-2031	-	1,625,525	1,625,525
2032-2036	-	1,625,525	1,625,525
2037-2041	1,567,452	1,521,388	3,088,840
2042-2046	2,816,793	841,808	3,658,601
2047-2048	1,115,755	94,674	1,210,429
Total	<u>\$ 5,500,000</u>	<u>\$ 8,959,970</u>	<u>\$ 14,459,970</u>

Compensated Absences

Compensated absences at June 30, 2016, amounted to \$317,358. This liability is expected to be paid from future resources from the General Fund.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 5: Long-Term Obligations (Continued)

Business-type Activities Long-Term Debt

The following is a summary of changes in business-type activities long-term debt for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
JPA Loan Payable - 2011	\$ 2,957,581	\$ -	\$ 671,470	\$ 2,286,111	\$ 692,808
Sewer Revenue Bond- 2006	8,260,000	-	235,000	8,025,000	245,000
Compensated Absences	25,017	19,409	15,111	29,315	17,707
	<u>\$ 11,242,598</u>	<u>\$ 19,409</u>	<u>\$ 921,581</u>	<u>10,340,426</u>	<u>\$ 955,515</u>
		Unamortized premium/(discount)		28,294	
			Total	<u>\$ 10,368,720</u>	

San Elijo JPA Loan Payable - 2011

On March 1, 2012, the San Elijo Joint Powers Authority issued the 2012 Refunding Revenue Bonds to refund on a current basis the 2003 Refunding Revenue Bonds and prepaid a note to the California Energy Commission. Each local agency entered into a Third Amended and Restated Loan Agreement as of January 1, 2012 to assist in the financing of the Local Agencies' respective share of the Bonds. The City of Encinitas and the City of Solana Beach will be paying approximately 52% and 48% of total debt service on the bonds, respectively.

The amended loan matures on March 1, 2021. The interest rates on the bonds range from 2.00% to 4.00% per year. The City of Solana Beach's portion of annual principal installments range from \$25,000 to \$751,155.

The annual debt service requirements for the City of Solana Beach are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 692,808	\$ 89,978	\$ 782,786
2018	724,648	62,266	786,914
2019	751,155	33,280	784,435
2020	57,500	3,234	60,734
2021	60,000	1,710	61,710
Total	<u>\$ 2,286,111</u>	<u>\$ 190,468</u>	<u>\$ 2,476,579</u>

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 5: Long-Term Obligations (Continued)

In compliance with bond issuance covenants, specifically Appendix F Section 4(c) of the \$18,640,000 San Elijo Joint Powers Authority, 2011 Refunding Revenue Bonds, the City is including this table showing debt service coverage for the fiscal year of at least 1.10 times (i) the loan installments coming due and payable during the fiscal year, (ii) all payments required with respect to parity debt, and (iii) amount required to replenish the Reserve Fund as required by the indenture.

	Fiscal Year 2015-16
Revenues:	
Operating revenues	\$ 5,151,671
Other operating	49,090
Non-operating	115,321
Gross revenues	<u>5,316,082</u>
Expenses	<u>3,568,901</u>
Net Income	<u>1,747,181</u>
Add back:	
Interest expense	454,872
Depreciation	352,650
Amortization of bond premium/discount & refunding	42,853
Amortization of investment in JPA	<u>10,945</u>
Net revenues available for debt service	<u>\$ 2,608,501</u>
2011 Refunding Revenue bonds debt service:	
Principal repayment	\$ 671,470
Interest charges	110,122
Total debt service	<u>\$ 781,592</u>
Coverage ratio	<u>3.3</u>

2006 Subordinate Wastewater Revenue Bonds

On January 18, 2007, the City, acting as the Solana Beach Public Financing Authority, issued \$9,825,000 of Series 2006 Subordinate Wastewater Revenue Bonds to finance certain capital improvements to the Wastewater System. These bonds have a 30 year maturity with principal payments ranging from \$130,000 to \$565,000 with the final maturity paid on March 1, 2037. Interest on the bonds is payable semi-annually March 1 and September 1 commencing on September 1, 2007. Interest rates range from 3.42% to 4.45%. Total principal and interest remaining on the bonds was \$12,402,359 as of June 30, 2016.

The Bonds are paid solely from, and secured by a pledge of, installment payments and moneys in the funds and account held under the indenture. The installment payments are special limited obligations of the City payable solely from and secured by a pledge of and first lien on residual net revenues of the Wastewater System. Residual net revenues consist of revenues derived from the Wastewater System and remaining after the payment of operating and maintenance expense and debt service on the JPA Loan Payable.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 5: Long-Term Obligations (Continued)

The annual debt service requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 245,000	\$ 345,588	\$ 590,588
2018	255,000	335,788	590,788
2019	265,000	325,588	590,588
2020	275,000	314,988	589,988
2021	285,000	303,713	588,713
2022-2026	1,630,000	1,326,756	2,956,756
2027-2031	2,015,000	940,406	2,955,406
2032-2036	2,490,000	459,813	2,949,813
2037	565,000	24,719	589,719
Total	<u>\$ 8,025,000</u>	<u>\$ 4,377,359</u>	<u>\$ 12,402,359</u>

The City covenants under the 2006 Subordinate Wastewater Revenue Bond Installment Sale Agreement require while the Bonds remain outstanding and to the extent permitted by law, the City will fix, prescribe and collect rates and charges which will be at least sufficient to yield during each fiscal year Residual Net Revenues equal to one hundred twenty percent (120%) of Debt Service.

This bond issue is subordinate to the San Elijo JPA Refunding Revenue Bonds Issue.

Using net revenues available for debt service of \$2,608,501, the 2006 Subordinate Wastewater Revenue bonds debt service coverage requirement for fiscal year ended June 30, 2016, is calculated as follows:

	<u>Fiscal Year 2015-16</u>
Net revenues available for debt service	\$ 2,608,501
Less: 2011 Refunding Revenue bonds debt service	<u>781,592</u>
Net revenues available for 2006 Sewer Revenue Bonds debt service	<u>\$ 1,826,909</u>
2006 Sewer Revenue bonds debt service	
Principal repayment	\$ 235,000
Interest charges	<u>354,400</u>
Total debt service	<u>\$ 589,400</u>
Coverage ratio	<u>3.1</u>

Compensated Absences

Compensated absences for business-type activities as of June 30, 2016, amounted to \$29,315. This liability is expected to be paid from future resources from the Sanitation Fund.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 5: Long-Term Obligations (Continued)

Non-City Obligations – Special Assessment Debt

Bonds issued to finance public improvement projects in certain assessment districts are liabilities of the property owners and are secured by liens against the assessed property. The City acts as an agent for collection of principal and interest payments by the property owners and remittance of such monies to the bondholders.

The City has no obligation or duty to pay any delinquency out of any available funds of the City. Neither the faith, credit, nor the taxing power of the City is pledged to the payment of the bonds. Therefore, none of the following obligations are included in the accompanying basic financial statements.

Undergrounding Districts

During July 2006, the Solana Beach Public Financing Authority issued Assessment District Revenue Bonds totaling \$2,112,000 (less bond issuance costs of \$244,393) to finance the undergrounding of utility lines for the Barbara/Granados Avenue Utility Undergrounding District and the Pacific Avenue/East and West Circle Drive Utility Underground Assessment District. In July 2008, the City of Solana Beach issued \$480,000 (less bond issuance costs of \$87,775) to finance the undergrounding of utility lines on Marsolan Avenue. The outstanding bonds as of June 30, 2016, were \$2,145,000.

South Solana Sewer District

In November 2006, the Solana Beach Public Financing Authority issued Limited Obligation Improvement Bonds totaling \$570,000 (less bond issuance costs of \$5,742) to finance the construction of sewer improvements to connect 51 properties of the South Solana Beach Sewer District assessment district to the City's sewer system. The outstanding bonds as of June 30, 2016, were \$480,000.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 6: Risk Management

General Liability Insurance

Beginning October 1, 2004, the City became fully self-insured with respect to General Liability. The City has a Self-Insured Retention (SIR) of \$100,000 per claim and additional coverage above its SIR with CSAC Excess Insurance Authority (EIA) to \$5 million per claim; there is an additional \$45 million of reinsurance above CSAC-EIA coverage bringing the total coverage to over \$50 million per claim, up to the \$25 million. The CSAC-EIA is ranked as the second largest public entity risk pool and the largest property and casualty pool in the nation.

Workers' Compensation

Beginning October 1, 2004, the City became fully self-insured with respect to Workers' Compensation. The City has a Self-Insured Retention (SIR) of \$125,000 per claim and additional coverage above its SIR with CSAC Excess Insurance Authority (EIA) to \$5 million per claim; there is an additional \$45 million of reinsurance above CSAC-EIA coverage bringing the total coverage to over \$50 million per claim, up to the statutory workers' compensation limits set by the State of California. The CSAC-EIA is ranked as the second largest public entity risk pool and the largest property and casualty pool in the nation.

The workers' compensation and general liability claims payable of \$1,222,742 reported at June 30, 2016, includes all claims for which information prior to the issuance of the financial statements indicates that it was probable that a liability had been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage in the prior year. Changes in the claims liability amounts were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2013-2014	\$ 1,216,600	\$ 398,806	\$ (190,913)	\$ 1,424,493
2014-2015	1,424,493	(86,405)	(136,346)	1,201,742
2015-2016	1,201,742	169,050	(148,050)	1,222,742

The City also maintains insurance coverage in the following specific areas: real and personal property damage, boiler and machinery, special events, cyber liability, and pollution.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 6: Risk Management (Continued)

The latest financial information of the CSAC Excess Insurance Authority for fiscal year ended June 30, 2016, is as follows:

Total assets	<u>\$ 642,949,175</u>
Total liabilities	<u>\$ 530,542,530</u>
Total net position	<u>\$ 112,406,645</u>
Total revenues	<u>\$ 621,242,391</u>
Total expenses	<u>\$ 619,703,360</u>
Expenses over revenues	<u>\$ 1,539,031</u>

Note 7: City Employees Retirement Plan - Pension Plans

a. PERS – Public Employees Retirement System

1. General Information about the Pension Plans

Plan Descriptions

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

- i. Miscellaneous Plan
- ii. Miscellaneous Second Tier Plan
- iii. Miscellaneous PEPR Plan
- iv. Safety Fire First Tier Plan
- v. Safety Fire Second Tier Plan
- vi. Safety Fire PEPR Plan
- vii. Safety Lifeguard Plan
- viii. Safety Other PEPR Plan

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 7: City Employees Retirement Plan - Pension Plans (Continued)

Below is a summary of the plans' provisions and benefits in effect at June 30, 2016, for which the City of Solana Beach has contracted:

Major Benefit Options	Miscellaneous	Miscellaneous Second Tier	Miscellaneous PEPRA	Safety Fire First Tier	Safety Fire Second Tier	Safety PEPRA	Safety Lifeguard First Tier	PEPRA Other Safety
Hire Date	Prior to January 1, 2010	January 1, 2010 but prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2010	On or after January 1, 2010	On or after January 1, 2013	On or after January 1, 2010	On or after January 1, 2013
Benefit Provision								
Benefit Formula	2.5% @ 55	2.0% @ 60	2.0% @ 62	3.0% @ 50	2.0% @ 50	2.7% @ 57	3.0% @ 50	2.7% @ 57
Social Security	no	no	no	no	no	no	no	no
Full/Modified	full	full	full	full	full	full	full	full
Benefit vesting schedule	5 yrs service	5 yrs service	5 yrs service	5 yrs service	5 yrs service	5 yrs service	5 yrs service	5 yrs service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50-63	50-63	52-67	50	50-55	50-57	50-55	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.0% to 2.5%	3%	2.4% to 3.0%	2% to 2.7%	1.426% to 2.0%	2.0% to 2.7%
Required employer contribution rates	15.701%	8.005%	6.250%	27.849%	20.083%	11.500%	27.849%	11.500%
Required employee contribution rates	8.000%	7.000%	6.250%	9.000%	9.000%	11.500%	9.000%	11.500%

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contributions recognized as a reduction to the net pension liability was \$850,348.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 7: City Employees Retirement Plan - Pension Plans (Continued)

2. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City of Solana Beach reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 3,546,352.00
Miscellaneous Second Tier	5,321
Miscellaneous PEPRA	(1,069)
Total Miscellaneous Plans	<u>\$ 3,550,604</u>
Safety Fire First Tier	\$ 5,397,730
Safety Fire Second Tier	(2,440)
Safety Fire PEPRA	(883)
Safety Lifeguard	513,960
Safety Other PEPRA	(3,066)
Total Safety Plans	<u>\$ 5,905,301</u>

The City of Solana Beach's net pension liability for each Plan is measured as the proportionate share of the net pension liability of \$9,455,905. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015, was as follows:

Proportions as a percentage of the CalPERS Miscellaneous risk pool:

	Miscellaneous	Miscellaneous Second Tier	Miscellaneous PEPRA
Proportion - June 30, 2014	0.10688%	0.00040%	0.00001%
Proportion - June 30, 2015	0.12927%	0.00019%	0.00004%
Change - Increase (Decrease)	20.95315%	-52.74878%	341.33701%

Proportions as a percentage of the CalPERS Safety risk pool:

	Safety Fire First Tier	Safety Fire Second Tier	Safety Fire PEPRA	Safety Lifeguard First Tier	Safety Other PEPRA
Proportion - June 30, 2014	0.11958%	0.00002%	0.00000%	0.01209%	0.00003%
Proportion - June 30, 2015	0.13100%	0.00006%	0.00002%	0.01247%	0.00007%
Change - Increase (Decrease)	9.55452%	277.61512%	443.61983%	3.14812%	128.91751%

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 7: City Employees Retirement Plan - Pension Plans (Continued)

For the year ended June 30, 2016, the City of Solana Beach recognized reductions in net pension liability of \$405,174. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>Miscellaneous Plans</u>		
Pension contributions subsequent to measurement date	\$ 385,634	\$ -
Changes in assumptions	-	199,358
Difference between expected and actual experiences	21,072	-
Net differences between projected and actual earnings on plan investments	-	99,941
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	123,227
Adjustment due to differences in proportions	393,884	19,219
Total	<u>\$ 800,590</u>	<u>\$ 441,745</u>
<u>Safety Plans</u>		
Pension contributions subsequent to measurement date	\$ 619,022	\$ -
Changes in assumptions	-	313,036
Difference between expected and actual experiences	-	68,061
Net differences between projected and actual earnings on plan investments	-	158,649
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	213,877
Adjustment due to differences in proportions	189,972	10,716
Total	<u>\$ 808,994</u>	<u>\$ 764,339</u>
<u>Total Plans</u>		
Pension contributions subsequent to measurement date	\$ 1,004,656	\$ -
Changes in assumptions	-	512,394
Difference between expected and actual experiences	21,072	68,061
Net differences between projected and actual earnings on plan investments	-	258,590
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	337,104
Adjustment due to differences in proportions	583,856	29,935
Total	<u>\$ 1,609,584</u>	<u>\$ 1,206,084</u>

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 7: City Employees Retirement Plan - Pension Plans (Continued)

\$1,004,656 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Outflows/ (Inflows) of Resources
2017	\$ (320,494)
2018	(318,001)
2019	(285,161)
2020	322,500

Actuarial Assumptions

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014, total pension liability. The June 30, 2014 and the June 30, 2015, total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method Actuarial Assumptions	Entry Age Normal Cost Method
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	3.3% - 14.2% (1)
Investment Rate of Return	7.50% (2)
Mortality Rate Table (3)	Derived using CalPERS' Membership Data for all Funds

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

(2) Net of Pension Plan Investment and Administrative Expenses; includes Inflation

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

All other actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 7: City Employees Retirement Plan - Pension Plans (Continued)

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Change of Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 7: City Employees Retirement Plan - Pension Plans (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (1)	Real Return Years 11+ (2)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

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

The following presents the City's proportionate share of the net pension liability/(asset) of the Plan, calculated using the discount rate for each Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.50 percent) or 1% point higher (8.50 percent) than the current rate:

Plan's Net Pension Liability/(Assets)	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Miscellaneous Plans	\$ 5,809,792	\$ 3,550,604	\$ 1,685,381
Safety Plans	9,651,668	5,905,301	2,833,348
Total	\$ 15,461,460	\$ 9,455,905	\$ 4,518,729

Pension Plan Fiduciary Net Position

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

Note 8: Other Post-Employment Benefits

Plan Description

The City of Solana Beach Retiree Healthcare Plan ("Plan") is a single employer defined benefit healthcare plan administered by the City. The Plan provides healthcare benefits to eligible retirees and their dependents through the California Public Employees' Retirement System healthcare program (PEMHCA). Benefit provisions are established and may be amended through agreements and memorandums of understanding between the City, its non-represented employees and the unions representing City employees. The Retiree Healthcare Plan does not issue a financial report.

The City provides the PEMHCA minimum benefit (\$125 per month for 2016) but no less than \$325 per month for employees retired before January 1, 2007 and \$290 per month for employees hired before January 1, 2007.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 8: Other Post-Employment Benefits (Continued)

Funding Policy

The contribution requirements of the Plan participants and the City are established by and may be amended by the City pursuant to agreements with its non-represented employees and the unions representing City employees. The City contributed approximately \$131,536 during the 2016 fiscal year on a pay-as-you-go basis for current benefit payments and contributed \$135,000 to an irrevocable trust in the current year. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's Net OPEB obligation:

Annual Required Contribution (ARC)	\$ 485,000
Interest on Net OPEB Obligation	63,000
Adjustment to ARC	<u>(132,000)</u>
Annual OPEB Cost (Expenses)	416,000
Contribution Made	<u>(266,536)</u>
Increase in Net OPEB Obligation	149,464
Net OPEB Obligation	
Beginning of year	<u>1,582,986</u>
End of year	<u><u>\$ 1,732,450</u></u>

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2016 and the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Actual Contributions	Percentage Contribution	Increase in Net OPEB Obligation	Net OPEB Obligation
2013-2014	413,384	110,119	26.4%	303,265	1,316,265
2014-2015	394,000	127,279	32.3%	266,721	1,582,986
2015-2016	416,000	266,536	64.1%	149,464	1,732,450

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 8: Other Post-Employment Benefits (Continued)

Funded Status and Funding Progress

The most recent schedule of funding progress is presented below:

Actuarial Valuation Date	Actuarial Asset Value (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded Actuarial Liability as Percentage of Covered Payroll [(B-A)/C]
6/30/2006	\$ -	\$ 1,706,000	\$ 1,706,000	0.0%	\$ 3,348,000	51.0%
6/30/2009	-	2,330,000	2,330,000	0.0%	4,243,000	54.9%
6/30/2012	-	2,940,000	2,940,000	0.0%	3,900,000	75.4%

Most Recent Actuarial Valuation

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

Actuarial Methods and Assumptions

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

For the June 30, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses) and a 3% general inflation assumption. The City's benefit cap for active employees hired before January 1, 2007 was assumed to remain at its current level. The PEMHCA minimum was assumed to increase with a medical cost increase rate of 4.5% beginning in 2017. The initial Unfunded Actuarial Accrued Liability (UAAL) was amortized as a level percentage of projected payroll over a fixed 20-year period as of June 30, 2009. There were 13 years remaining in this amortization period for the 2015/2016 Annual Required Contribution.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 9: Investment in Joint Venture

On June 17, 1987, the Cardiff Sanitation District and the City of Solana Beach established the San Elijo Joint Powers Authority (SEJPA), a separate legal entity, whose function is to manage, operate, maintain and expand a plant for the treatment and disposal of sewage or wastewater and to determine the joint and separate obligations of the members concerning the transmission, treatment, disposal and reclamation of sewage and wastewater within the respective service territories. The SEJPA's governing board consists of two members from each entity. The City of Solana Beach's investment in the SEJPA has been recorded using the equity method of accounting and is shown as an investment in joint venture in the City's financial statements. Summarized audited information of the SEJPA for the fiscal year ended June 30, 2016, is as follows:

Operating revenues	\$ 6,576,287
Operating expenses	(7,169,720)
Net non-operating income	(19,666)
Capital contributions	997,819
Change in net position	<u>\$ 384,720</u>
Total assets and deferred outflows of resources	\$ 53,227,600
Total liabilities and deferred inflows of resources	<u>(15,127,246)</u>
Net position- total fund equity	<u>\$ 38,100,354</u>

Prior to the formation of the San Elijo Joint Powers Authority, the Cardiff Sanitation District and the City of Solana Beach operated the San Elijo water pollution control facility under an agreement whereby operating costs were shared based on usage and capital expansions were funded 56% by Cardiff and 44% by Solana Beach. Upon formation of the SEJPA in June 1987 the members continued funding SEJPA activities in this manner until May 1989, when the equity interests in the joint venture were revised to 50% Cardiff and 50% Solana Beach. To effect the change in equity interests, the City of Solana Beach agreed to pay Cardiff Sanitation District \$750,680, which included a premium on the value of the equity interest in the amount of \$437,782. This premium is being amortized over the estimated useful life of the facility of forty years.

A summary of the changes in the City's investment in the San Elijo Joint Powers Authority for the year ended June 30, 2016, is as follows:

Investment at June 30, 2015	\$ 19,009,204
Capital contribution	498,909
Current year share in the joint venture net loss	(306,549)
Amortization of JPA	<u>(10,945)</u>
Investment at June 30, 2016	<u>\$ 19,190,619</u>

At June 30, 2016, the SEJPA had \$5,964,276 in 2012 Refunding Revenue Bonds outstanding. The financial statements of the SEJPA can be obtained from the Solana Beach Finance Department located at Solana Beach City Hall, 635 S. Highway 101, Solana Beach, California 92075.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 10: Sanitation Loan to General Fund

On June 22, 2011, the City Council adopted Resolution 2011-101 transferring funds from the Sanitation unrestricted reserves to an internal General Fund account, PERS Side Fund Prepayment fund, to pay off the City's CalPERS Side Fund obligation in the amount of \$3,132,587. The transfer of funds was characterized as a loan from the Sanitation Fund at an annual interest rate of 2.375% for 8 years. The funds transfer and the prepayment of the CalPERS Side Fund will save the City \$970,462 in total interest over a twelve year period as compared to the current PERS amortization schedule.

The City has the ability to make this kind of transfer from one fund to another so long as there is no prohibition on the use of the funds. In this case, the Sanitation funds are not specifically prohibited for other uses (except for connection fees, which cannot be used for any other purpose). See Health & Safety Code §§ 5473 et seq. While the transaction was fiscally and legally sound, the City Council determined that the timely repayment of the Sanitation Fund is a priority.

To ensure prudent, responsible fiscal oversight of the Sanitation fund, the Council adopted Council Policy No. 22 establishing procedures to guarantee that the Sanitation Fund is repaid for the transfer of funds in the amount of \$3,132,587 in a timely manner. The Policy requires a 4/5 vote of the City Council to delay and/or release the commitment to pay the Sanitation Fund loan as set forth in Resolution 2011-101. Additionally, a 4/5 vote of the City Council is required to amend or abolish this Council policy. The 4/5 vote requirement is not necessary if the proposed change would expedite the repayment of the Sanitation Fund loan.

The City elected to borrow funds from its Sanitation Fund to pay its CalPERS Side fund obligation in full. Repayment to the Sanitation Fund over the remaining four years of the loan will be as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 473,581	\$ 27,052	\$ 500,633
2018	501,099	15,805	516,904
2019	164,365	3,904	168,269
Total	<u>\$ 1,139,045</u>	<u>\$ 46,761</u>	<u>\$ 1,185,806</u>

Since the PERS Side Fund Prepayment fund made the payment to CalPERS in the amount of \$3,132,587 in fiscal year 2010-11, the fund reported a deficit fund balance of \$1,586,247 for fiscal year 2015-16 and the deficit fund balance was reported as an unassigned fund balance per the requirements of GASB 54. In each succeeding fiscal year, as the Sanitation Fund is repaid, the deficit fund balance will be reduced by that fiscal year's principle payment, and the fund balance will be increased to zero by fiscal year 2018-19. Note 12 provides additional information regarding the fund balance classification for the PERS Side Fund Prepayment fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 11: Commitments and Contingencies

a. Litigation

The City is a defendant in certain legal actions arising in the normal course of operations. The accompanying basic financial statements reflect a liability for the probable amounts of loss associated with these claims.

b. Construction Commitments

Various construction projects were in progress at June 30, 2016, with an estimated cost to complete of approximately \$364,902 in all fund types.

c. Sales Tax – Transnet Debt Commitment

On November 10, 2010, Solana Beach executed an agreement with The San Diego Association of Governments (SANDAG) relating to the 2010 Series A Bonds Build American Bonds (BABs) for the completion of several projects including the Highway 101 streetscape and traffic calming project and other eligible projects. In the agreement, SANDAG withholds one-sixth of the interest due each month when Sales Tax is sent from the Board of Equalization (BOE) in an effort to have the full amount with the Trustee by the 1st of April and 1st of October.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 12: Classification of Fund Balances

The City has adopted the provisions of GASB Statement No. 54 Fund Balance and Governmental Fund Type Definitions. GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund statements conform to this new classification.

	General Fund	TransNet	Affordable Housing Grant	Non-Major Governmental Funds	Total
Nonspendable					
Prepays	\$ 7,471	\$ -	\$ -	\$ -	\$ 7,471
Total nonspendable	<u>7,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,471</u>
Restricted					
Gas Tax	-	-	-	458,194	458,194
Municipal Improvement Districts	-	-	-	787,445	787,445
Lighting District	-	-	-	1,687,903	1,687,903
TransNet	-	43,917	-	-	43,917
COPS	-	-	-	135,389	135,389
Public Safety	-	-	-	75,049	75,049
Fire Mitigation	-	-	-	104	104
CALTRANS	-	-	-	59,634	59,634
Coastal Area Business/ Visitor Assistance & Enhancement	-	-	-	404,188	404,188
Boating & Waterways	-	-	-	60,048	60,048
Miscellaneous Grants	-	-	-	1,285	1,285
Housing	-	-	-	431,323	431,323
Camp Programs	-	-	-	154,412	154,412
Affordable Housing Grant	-	-	161,317	-	161,317
City CIP	-	-	-	5,000	5,000
Assessment Districts CIP	-	-	-	159,457	159,457
Sand Replenish/ Retention and Coastal Access CIP	-	-	-	552,089	552,089
Public Improvement Grant	-	-	-	115,116	115,116
City Debt Service	-	-	-	24,828	24,828
Pensions	508,897	-	-	-	508,897
Total restricted	<u>508,897</u>	<u>43,917</u>	<u>161,317</u>	<u>5,111,464</u>	<u>5,825,595</u>
Committed					
Public Facilities	245,957	-	-	-	245,957
OPEB	85,376	-	-	-	85,376
Pensions	316,209	-	-	-	316,209
In-Lieu Housing	100,786	-	-	-	100,786
Public Art	14,202	-	-	-	14,202
Parks & Recreation	25,260	-	-	-	25,260
Total committed	<u>787,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>787,790</u>
Assigned					
General Fund	5,520,890	-	-	-	5,520,890
Developer Pass-Thru	-	-	-	5,629	5,629
City CIP	-	-	-	844,288	844,288
Total assigned	<u>5,520,890</u>	<u>-</u>	<u>-</u>	<u>849,917</u>	<u>6,370,807</u>
Unassigned	6,200,244	-	-	(184,544)	6,015,700
Total fund balances	<u>\$ 13,025,292</u>	<u>\$ 43,917</u>	<u>\$ 161,317</u>	<u>\$ 5,776,837</u>	<u>\$ 19,007,363</u>

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 12: Classification of Fund Balances (Continued)

Fund Name	General Fund						PERS Side Fund Prepayment	Total Classification
	General Fund	Self Insurance	Worker's Compensation	Asset Replacement	Facilities Replacement	OPEB/ Pensions		
Non-Spendable								
Prepays	\$ 7,471	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,471
Total Non-Spendable	<u>7,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,471</u>
Restricted								
Pensions	-	-	-	-	-	508,897	-	508,897
Total Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>508,897</u>	<u>-</u>	<u>508,897</u>
Committed								
Public Facilities	245,957	-	-	-	-	-	-	245,957
Public Art	14,202	-	-	-	-	-	-	14,202
OPEB	-	-	-	-	-	85,376	-	85,376
Pensions	-	-	-	-	-	316,209	-	316,209
In-Lieu Housing	100,786	-	-	-	-	-	-	100,786
Parks & Recreation	25,260	-	-	-	-	-	-	25,260
Total Committed	<u>386,205</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>401,585</u>	<u>-</u>	<u>787,790</u>
Assigned								
Park Fee	31,503	-	-	-	-	-	-	31,503
Community Television	70,607	-	-	-	-	-	-	70,607
Street Sweeping	120,575	-	-	-	-	-	-	120,575
Housing	1,499,500	-	-	-	-	-	-	1,499,500
Self-Insurance	-	779,858	-	-	-	-	-	779,858
Worker's Comp	-	-	600,735	-	-	-	-	600,735
Asset Replacement	-	-	-	2,166,660	-	-	-	2,166,660
Facilities Replacement	-	-	-	-	251,452	-	-	251,452
Total Assigned	<u>1,722,185</u>	<u>779,858</u>	<u>600,735</u>	<u>2,166,660</u>	<u>251,452</u>	<u>-</u>	<u>-</u>	<u>5,520,890</u>
Unassigned	<u>7,339,289</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,139,045)</u>	<u>6,200,244</u>
Total fund balances (deficit)	<u>\$ 9,455,150</u>	<u>\$ 779,858</u>	<u>\$ 600,735</u>	<u>\$ 2,166,660</u>	<u>\$ 251,452</u>	<u>\$ 910,482</u>	<u>\$ (1,139,045)</u>	<u>\$ 13,025,292</u>

The General Fund for financial reporting purposes consists of the General Fund and the following funds that act as internal funds: Self Insurance Liability, Worker's Compensation, Asset Replacement, Facilities Replacement, OPEB/Pensions, and the PERS Side Fund Prepayment (Prepayment).

The fund balances for the internal service funds are classified as Assigned with the exception of the Prepayment fund. This fund has a deficit fund balance of \$1,139,045 and because the fund balance amount is a deficit, GASB 54 requires this amount to be classified as Unassigned instead of Assigned.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 12: Classification of Fund Balances (Continued)

As described in Note 10, the City made a decision to borrow \$3,132,587 from its Sanitation Fund to pay in full the City's pension side fund obligation. This will save the City \$970,462 in interest costs over twelve years. The Sanitation funds were transferred to the Prepayment fund, and since the issuance of a long-term interfund loan is recorded as a balance sheet item (advances payable) rather than in the operating statement (other financing sources), the transfer was reported as an Advance to other funds (Prepayment fund) on the Sanitation fund's balance sheet, and as an Advance from other funds (Sanitation fund) on the Prepayment fund's balance sheet. When the payment was made to CalPERS to pay the City's pension side fund obligation, the payment was recorded as an expense in the Prepayment fund for the fiscal year ended June 30, 2011.

The loan from the Sanitation Fund will be repaid over eight years. In each succeeding fiscal year, the deficit fund balance will be reduced by that fiscal year's principle payment made to the Sanitation Fund, and the fund balance for the Prepayment fund will be increased to zero by FY 2019.

Note 10 provides additional information regarding the loan made by the Sanitation Fund to the General Fund, the terms of the repayment, and the amortization schedule that lists for each fiscal year the principle amount that will reduce deficit fund balance for PERS Side Fund Prepayment fund.

Note 13: Deficit Fund Balances

At June 30, 2016, the following funds had deficit fund balances:

<u>Fund</u>	<u>Deficit</u>
Special Revenue Funds:	
TEA 21/TEA	\$ 168,970
CDBG	15,574

The deficits will be resolved through future fund revenue sources.

Note 14: Successor Agency Trust for Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Solana Beach that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 14: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

a. Cash and Investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	\$	372,514
Cash and investments with fiscal agent		235,840
	\$	<u>608,354</u>

b. Long-Term Debt

The following debt was transferred from the Redevelopment Agency to the Successor Agency as of February 1, 2012, as a result of the dissolution. A description of long-term debt outstanding (excluding defeased debt) of the Successor Agency as of June 30, 2016, follows:

	Balance July 1, 2015	Additions	Repayments	Balance June 30, 2016	Due Within One Year
Fiduciary Funds:					
2006 Tax Allocation Bonds	\$ 2,995,000	\$ -	\$ 85,000	\$ 2,910,000	\$ 90,000
Total Fiduciary Funds	<u>\$ 2,995,000</u>	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$ 2,910,000</u>	<u>\$ 90,000</u>

2006 Tax Allocation Bonds

On June 8, 2006, the Agency issued the Solana Beach Redevelopment Project 2006 Tax Allocation Bonds to be used for capital projects to alleviate blight in the project area. These bonds have a 30 year maturity with the final maturity paid on June 1, 2036 and interest rates ranging from 3.6% to 5.1 %. Interest on the bonds is payable semi-annually on June 1 and December 1, commencing December 1, 2007.

The amount on deposit in the Reserve Fund is maintained at the reserve requirement at all times prior to the payment in full of the Bonds, except to the extent required for the purposes set forth in the Indenture. As defined in the Indenture, "reserve requirement" means, excluding there from in the case of the Bonds an amount equal to the amount then on deposit in the Escrow Fund and in the case of any Parity Bonds an amount equal to the amount then on deposit in any escrow fund created with respect to such Parity Bonds created pursuant to the Indenture, as of the date of calculation an amount equal to the lesser of (i) 10% of the initial outstanding principal amount of such Bonds; (ii) Maximum Annual Debt Service on such Bonds; or (iii) 125% of average Annual Debt Service on such Bonds. As of June 30, 2016, \$235,815 was held in reserve.

CITY OF SOLANA BEACH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

Note 14: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

The annual debt service requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 90,000	\$ 143,850	\$ 233,850
2018	95,000	139,755	234,755
2019	100,000	135,385	235,385
2020	105,000	130,735	235,735
2021	105,000	125,800	230,800
2022-2026	625,000	545,863	1,170,863
2027-2031	790,000	377,250	1,167,250
2032-2036	1,000,000	158,100	1,158,100
Total	<u>\$ 2,910,000</u>	<u>\$ 1,756,738</u>	<u>\$ 4,666,738</u>

Pledged Revenue

The City pledged, as security for bonds issued, either directly or through the Financing Authority, a portion of tax increment revenue (including Low and Moderate Income Housing set-aside and pass through allocations) that it receives. The bonds issued were to provide financing for various capital projects, accomplish Low and Moderate Income Housing projects and to defease previously issued bonds. Assembly Bill 1X 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is \$4,666,738 with annual debt service requirements as indicated above. For the current year, the total property tax revenue recognized by the City for the payment of indebtedness incurred by the dissolved redevelopment agency was \$521,503 and the debt service obligation on the bonds was \$232,675.

c. Insurance

The Successor Agency is covered under the City of Solana Beach's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City also apply to the Successor Agency. Additional information as to coverage and self-insured retentions can be found in Note 6.

APPENDIX D

FORM OF BOND COUNSEL OPINION

July 6, 2017

San Elijo Joint Powers Authority
2695 Manchester Avenue
Cardiff by the Sea, California 92007

OPINION: \$22,115,000 San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects)

Greetings:

We have acted as Bond Counsel to the San Elijo Joint Powers Authority (the “Issuer”) in connection with the issuance by the Issuer of \$22,115,000 aggregate principal amount of San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”), pursuant to: (a) the Constitution and laws of the State of California, including Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State of California (the “Act”); (b) Resolution No. 2017-07 (the “Resolution”) adopted by the Board of Directors of the Issuer at its regular meeting held June 12, 2017; and (c) a Series 2017 Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”) by and between the Issuer and MUFG Union Bank, N.A., as trustee (the “Trustee”) thereunder. The Series 2017 Indenture provides that the Series 2017 Bonds are being issued for the purpose of making loans (the “Series 2017 Loans”) by the Issuer to the City of Encinitas and to the City of Solana Beach, respectively (each, a “Borrower,” and together, the “Borrowers”), pursuant to separate Series 2017 Loan Agreements, each dated as of June 1, 2017 (the “Series 2017 Loan Agreements”), by and between the respective Borrowers and the Issuer. The Series 2017 Bonds are secured by a pledge and assignment of the Revenues (as such term is defined in the Series 2017 Indenture) and other funds pledged under the Series 2017 Indenture.

In connection with the foregoing, we have examined the law and reviewed the Series 2017 Indenture, the Series 2017 Loan Agreements, the Tax Certificate (as such term is defined in the Series 2017 Indenture), certificates of the Issuer, of the Trustee and of each of the Borrowers, and such other documents, opinions and matters to the extent we deemed necessary to render the opinion set forth herein. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Series 2017 Indenture and in the certified proceedings and other certifications of the Issuer and the Borrowers and their respective officials and others furnished to us, without undertaking to verify the same by independent investigation.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery of said documents by, and the validity of said documents against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in said documents.

Based upon the foregoing, we are of the opinion, under existing statutes, regulations, rulings, and court decisions, and assuming the accuracy of the representations furnished to us, that:

1. The Issuer is a joint exercise of powers agency duly organized and validly existing under the laws of the State of California, with the full power to enter into the Series 2017 Indenture and the Series 2017 Loan Agreements, to perform the agreements on its part contained therein and to issue the Series 2017 Bonds.

2. The Borrowers are general law cities, each duly organized and validly existing under the laws of the State of California, with the full power to enter into the Series 2017 Loan Agreements and to perform the agreements on their part contained therein.

3. The Series 2017 Indenture has been duly approved by the Issuer and constitutes the valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms. The Series 2017 Indenture creates a valid pledge of and first lien on the Revenues and other funds pledged and assigned thereby for the security and payment of the principal of and the interest on the Series 2017 Bonds, subject to the provisions of the

Series 2017 Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series 2017 Indenture. The Series 2017 Bonds and the Series 2017 Indenture do not create a pledge of or lien on the funds or properties of the Issuer except to the extent of the aforementioned pledge.

4. The Series 2017 Loan Agreements have been duly authorized, executed and delivered by the Issuer and constitute the valid and binding obligations of the Issuer enforceable against the Issuer in accordance with their respective terms.

5. The Series 2017 Loan Agreements have been duly authorized by the Borrowers and constitute valid and binding obligations of the Borrowers enforceable against the respective Borrowers in accordance with their respective terms. Each of the respective Series 2017 Loan Agreements creates a valid pledge of and first lien on the System Revenues (as such term is defined in the respective Series 2017 Loan Agreements) and other funds pledged thereby for the security of the respective Series 2017 Loans, in accordance with the terms of each of the respective Series 2017 Loan Agreements. The Series 2017 Loan Agreements do not create pledges of or liens on the funds or properties of the Borrowers except to the extent of the aforementioned pledges.

6. The Series 2017 Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding special obligations of the Issuer, payable solely from the sources provided therefor in the Indenture. Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of or the interest on the Series 2017 Bonds.

7. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, interest on the Series 2017 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Series 2017 Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Issuer has covenanted in the Series 2017 Indenture and in other instruments relating to the Series 2017 Bonds to comply with all such requirements, and the Issuer has full legal authority to make and comply with said covenant. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2017 Bonds in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2017 Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Series 2017 Bonds or the ownership or disposition thereof.

8. Interest on the Series 2017 Bonds is exempt from personal income taxation imposed by the State of California. We express no opinion regarding any other state or local tax consequences with respect to the Series 2017 Bonds or the ownership or disposition thereof.

In rendering our opinion in paragraph 7 of this letter, we have relied upon and assumed the accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in all documents provided to us, including, without limitation, the Tax Certificate and all related certificates. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for federal income tax purposes of interest on the Series 2017 Bonds.

The rights of the owners of the Series 2017 Bonds and the enforceability of the Series 2017 Bonds, the Series 2017 Indenture and the Series 2017 Loan Agreements are limited by and subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, and by equitable principles and the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public entities in the State of California.

This opinion is given under existing statutes and court decisions as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur, or any action hereafter taken or not taken, or for any other reason.

Respectfully submitted,

APPENDIX E

FORM OF DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”), dated July 6, 2017, is executed and delivered by San Elijo Joint Powers Authority (the “Issuer”), the City of Encinitas (“Encinitas”), and the City of Solana Beach (“Solana Beach”), in connection with the issuance and delivery by the Issuer of its 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”). The Series 2017 Bonds are being issued pursuant to a Series 2017 Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”), by and between the Issuer and MUFG Union Bank, N.A. in its capacity as Trustee (the “Trustee”). The Issuer, Encinitas and Solana Beach each covenant as follows:

SECTION 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer, Encinitas and Solana Beach, for the benefit of the Owners of the Series 2017 Bonds and in order to assist the Participating Underwriter in complying with the Rule. Applied Best Practices, LLC, in its capacity as the Dissemination Agent designated by the Issuer (the “Dissemination Agent”), has acknowledged and accepted this Disclosure Agreement at the express direction of the Issuer evidenced by the Issuer’s signature to this Disclosure Agreement. Encinitas and Solana Beach may designate additional Dissemination Agents on their behalf from time to time. No party to this Disclosure Agreement or the transaction regarding the issuance and delivery of the Series 2017 Bonds shall have any right to rely on the Dissemination Agent for any purpose other than the performance of its duties under this Disclosure Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the Series 2017 Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean each Annual Report provided by the Issuer, together with each Annual Report required of Encinitas and Solana Beach, respectively, pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Disclosure Representative” shall mean the General Manager of the San Elijo Joint Powers Authority, the Finance Director of the City of Encinitas, and the City Manager of the City of Solana Beach or any respective designee of such officers, or such other officer or employee as the Issuer, Encinitas and Solana Beach shall designate in writing to the Dissemination Agent from time to time.

“Disclosure Requirements” shall have the meaning set forth in Section 6.13 of the Series 2017 Indenture.

“Dissemination Agent” shall mean, initially, Applied Best Practices, LLC, acting in its capacity as Dissemination Agent designated by the Issuer under this Disclosure Agreement, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the then current Dissemination Agent and the Issuer a written acceptance of such designation, and any corresponding or other Dissemination Agent designated by Encinitas or Solana Beach from time to time.

“EMMA” shall mean the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board (“MSRB”), which can be found at www.emma.msrb.org, or any other repository of disclosure information that may be designated by the SEC or the MSRB in the future.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“Participating Underwriter” shall mean Hilltop Securities Inc., currently at 2533 South Coast Highway 101, Suite 250, Cardiff-by-the-Sea, California 92007.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the United States Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as the same may be amended by the SEC from time to time.

“Series 2017 Bonds” means the San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects).

“Tax-Exempt” shall mean that interest on the Series 2017 Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

SECTION 3. Provision of Annual Reports.

(a) The Issuer (together with Encinitas and Solana Beach) shall, or shall cause the Dissemination Agent upon its written direction to, not later than eight months after the end of the Issuer’s fiscal year, commencing with the report for the fiscal year ending June 30, 2017, provide to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer, Encinitas and Solana Beach may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. Each of the Issuer’s, Encinitas’ and Solana Beach’s fiscal year is currently effective from July 1 to the next succeeding June 30 of the following calendar year. Each of the Issuer, Encinitas and Solana Beach will promptly notify EMMA and the Dissemination Agent of any change in its respective fiscal year dates. The Issuer (together with Encinitas and Solana Beach) shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it under this Disclosure Agreement. The Dissemination Agent may conclusively rely upon such certification of the Issuer (together with Encinitas and Solana Beach) and shall have no duty or obligation to review such Annual Report.

(b) Not later than 15 Business Days prior to the date specified in subsection (a) of this Section 3 for providing each Annual Report to EMMA, the Issuer (together with Encinitas and Solana Beach) shall provide, or cause to be provided, each Annual Report to the Dissemination Agent. If by 15 Business Days prior to such date the Dissemination Agent has not received a copy of any Annual Report, the Dissemination Agent shall contact the Issuer, Encinitas and Solana Beach, as applicable, to determine if the Issuer, Encinitas and Solana Beach are in compliance with the provisions of said subsection (a).

(c) If the Dissemination Agent is unable to verify that any Annual Report has been provided to EMMA by the date required in subsection (a) of this Section 3, the Dissemination Agent shall send a notice to EMMA, in substantially the form attached to this Disclosure Agreement as Exhibit A.

(d) Promptly after its receipt of each fiscal year’s Annual Report, the Dissemination Agent shall file a report with the Issuer, Encinitas and Solana Beach certifying that each Annual Report has been provided pursuant to this Disclosure Agreement and stating the date such Annual Report was provided to EMMA. The Dissemination Agent’s duties under this subsection (d) shall exist only if the Issuer (together with Encinitas and Solana Beach) provide, or cause to be provided, the Annual Report to the Dissemination Agent for filing.

(e) The Issuer, for itself and on behalf of Encinitas and Solana Beach, shall, or if received by the Dissemination Agent, the Dissemination Agent shall, deliver, or cause to be delivered, a copy of each Annual Report to the Participating Underwriter at the time that each Annual Report is provided to EMMA in accordance with the provisions of this Section 3.

SECTION 4. Content of Annual Reports. Each Annual Report of the Issuer (together with Encinitas and Solana Beach) shall contain or include by reference the following:

(a) The audited financial statements of each of the Issuer, Encinitas and Solana Beach, respectively, for the most recent fiscal year of the Issuer, Encinitas and Solana Beach then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, each Annual Report shall contain any unaudited financial statements of the Issuer, Encinitas and Solana Beach, as applicable, in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer, Encinitas and Solana Beach shall be audited by such auditor as shall then be required or permitted by State law or the Series 2017 Indenture. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as

prescribed for governmental units by the Governmental Accounting Standards Board (“GASB”), as such principals may be amended, revised or issued by GASB from time to time; provided, however, that the Issuer, Encinitas and Solana Beach may from time to time, if required by federal or State legal requirements or under GASB accounting principles, modify the basis upon which its respective financial statements are prepared. If any of the Issuer, Encinitas and Solana Beach shall modify the basis upon which its respective financial statements are prepared, the Issuer, Encinitas and Solana Beach, as applicable, shall provide a notice of such modification to EMMA, including a reference to the specific federal or State law, regulation or GASB accounting principles specifically describing the relevant requirements for the change in accounting basis.

(b) Encinitas’ portions of the Annual Report shall also include updates of financial information and operating data with respect to the Cardiff Sanitation Division of the type included in the tables under the heading “Encinitas and Solana Beach” of the Official Statement (excluding tables under such heading shown as produced by California Municipal Statistics, Inc.).

(c) Solana Beach’s portions of the Annual Report shall also include updates of financial information and operating data with respect to its wastewater enterprise of the type included in the tables under the heading “Encinitas and Solana Beach” of the Official Statement (excluding tables under such heading shown as produced by California Municipal Statistics, Inc.).

(d) Any or all of the items listed above in this Section 4 may be included by specific reference to other documents, including final official statements of debt issues of the Issuer, Encinitas and Solana Beach, as applicable, or related public entities, which have been submitted to EMMA or the SEC. Each final official statement incorporated by reference must be available from EMMA from and after the date of delivery of the applicable Annual Report. The Issuer, Encinitas and Solana Beach, as applicable, shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Series 2017 Bonds, the Issuer, Encinitas or Solana Beach, as applicable, not more than ten Business Days after any such event:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2017 Bonds, or other material events affecting the tax status of the Series 2017 Bonds;
7. modifications to rights of holders of Series 2017 Bonds, if material;
8. bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Series 2017 Bonds, if material;
11. ratings changes;
12. bankruptcy, insolvency, receivership or similar event of the Issuer, Encinitas or Solana Beach (each, an “Obligated Person”);

13. the consummation of a merger, consolidation or acquisition involving any Obligated Person or the sale of all or substantially all of the assets of any Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, of material; and

14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with EMMA or provide notice of such reportable event to the Dissemination Agent in format suitable for filing with EMMA. The Dissemination Agent shall have no duty to independently prepare or file any report of any Listed Event. The Dissemination Agent may conclusively rely on the Issuer's determination of materiality pursuant to subsections (b) and (c) of this Section 5.

(d) If the Issuer determines that the Listed Event would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, then unless the Issuer in its discretion determines that the Listed Event should be reported, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with EMMA. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) of this Section 5 need not be given earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2017 Bonds pursuant to the Series 2017 Indenture. In each case of the occurrence of any Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this Section 5 prior to the occurrence of such Listed Event.

(f) The Issuer agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and, if the Dissemination Agent is other than the Issuer, the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer, Encinitas and Solana Beach, and with respect to the Dissemination Agent under this Disclosure Agreement, shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2017 Bonds. If such termination occurs prior to the final maturity of the Series 2017 Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing not less than 30 days' prior written notice to the Issuer. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer. The Dissemination Agent shall have no duty to prepare any information, notice or report, nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer, Encinitas or Solana Beach, as applicable, in a timely manner and in a form suitable for filing.

SECTION 8. Amendment. This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners of the Series 2017 Bonds, if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer, Encinitas or Solana Beach or the types of businesses conducted any of them; (ii) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (iii) there shall have been delivered to the Issuer an opinion of a nationally recognized Bond Counsel or other counsel expert in federal securities laws, addressed to the Issuer, to the

same effect as set forth in clause (ii) above; (iv) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized Bond Counsel or other counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners of the Series 2017 Bonds; and (v) the Issuer shall have delivered copies of such opinion and amendment to EMMA and the Dissemination Agent.

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners at least 25% of the Outstanding Series 2017 Bonds; provided that the conditions set forth in clauses (i), (ii) and (iii) of subsection (a) of this Section 8 have been satisfied; and provided, further, that the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations under this Disclosure Agreement.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided after such change shall include a narrative explanation of the reasons for the amendment and the effects of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Each of the Issuer, Encinitas and Solana Beach acknowledges and understands that other State and federal laws, including but not limited to the Securities Act of 1933, as amended, and the Rule, may apply to any or all of said parties, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all of their respective duties and obligations under such laws.

SECTION 10. Default. In the event of a failure of the Issuer, Encinitas or Solana Beach, or of the Dissemination Agent, to comply with any provision of this Disclosure Agreement, any Owner of the Series 2017 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Series 2017 Indenture or either Series 2017 Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer, Encinitas or Solana Beach, as applicable, to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties; Immunity and Liability of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and no other duties shall be implied hereunder, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents (collectively, the "Indemnified Parties"), harmless against any loss, expense and liabilities (whether or not litigated) which any of the Indemnified Parties may incur arising out of or in the exercise or performance of the powers and duties provided under this Disclosure Agreement, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's failure to file any Annual Report or any notice of a Listed Event delivered to it. The Dissemination Agent shall be paid compensation by the Issuer for its services provided under this Disclosure Agreement in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties under this Disclosure Agreement. The Dissemination Agent

shall have no duty or obligation to review any information provided to it under this Disclosure Agreement and shall not be deemed to be acting in any fiduciary capacity for the Issuer, Encinitas, Solana Beach or the Owners of the Series 2017 Bonds, or any other party. The obligations of the Issuer under this Section 11 shall survive resignation or removal of the Dissemination Agent and payment of the Series 2017 Bonds. No person shall have any right to commence any action against the Trustee or the Dissemination Agent under this Disclosure Agreement, seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, Encinitas, Solana Beach, the Dissemination Agent, the Participating Underwriter and Owners from time to time of the Series 2017 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices shall be sent in writing to the following addresses, whether physically delivered or delivered by Electronic Means. The following information may be conclusively relied upon until changed in writing.

Issuer Disclosure Representative:	San Elijo Joint Powers Authority 2695 Manchester Avenue Cardiff-by-the-Sea, CA 92007-1007 Attention: General Manager fax: 760.753.5935 email: kinkelp@SEJPA.org
Encinitas Disclosure Representative:	City of Encinitas 505 South Vulcan Avenue Encinitas, California 92024 Attention: Finance Director
Solana Beach Disclosure Representative:	City of Solana Beach 635 South Highway 101 Solana Beach, California 92075 Attention: City Manager
Dissemination Agent (for the Issuer):	Applied Best Practices, LLC 19900 MacArthur Boulevard, Suite 1100 Irvine, CA 92612-2433 Attention: James Fabian, Principal

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SAN ELIJO JOINT POWERS AUTHORITY

By: _____
General Manager

CITY OF ENCINITAS

By: _____
Finance Director

CITY OF SOLANA BEACH

By: _____
City Manager

ACCEPTANCE BY DISSEMINATION AGENT:

The undersigned hereby accepts the designation of Dissemination Agent and agrees to further the duties set forth in Section 3(c) of the foregoing Continuing Disclosure Agreement

APPLIED BEST PRACTICES, LLC, as Dissemination Agent

By: _____
Authorized Signatory

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: San Elijo Joint Powers Authority

Name of Bond Issue: San Elijo Joint Powers Authority
2017 Revenue Bonds
(Clean Water Projects)

Name of Obligated Party: [AUTHORITY, ENCINITAS OR SOLANA BEACH]

Date of Issuance: July 6, 2017

CUSIP Numbers: 797544CP6
797544CQ4
797544CR2
797544CS0
797544CT8
797544CU5
797544CV3
797544CW1
797544CX9
797544CY7
797544CZ4
797544DA8
797544DB6
797544DC4
797544DD2
797544DE0
797544DF7
797544DG5
797544DH3

NOTICE IS HEREBY GIVEN that San Elijo Joint Powers Authority (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated July 6, 2017, executed by the Issuer, the City of Encinitas and the City of Solana Beach. [The Issuer/obligated party anticipates that its Annual Report will be filed by _____, 20__.

Dated: _____, 20__

APPLIED BEST PRACTICES, LLC,
as Dissemination Agent

Authorized Signatory

APPENDIX F

The Book Entry Only System

The information in this section concerning The Depository Trust Company (“DTC”) New York, New York and DTC’s book-entry only system has been obtained from DTC, and the Authority, Borrower, UDA, Trustee and the Underwriter take no responsibility for the accuracy thereof.

DTC will act as securities depository for the Series 2017 Bonds. The Series 2017 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Series 2017 Bonds, as set forth on the cover page hereof, in the aggregate principal amount of each maturity of the Series 2017 Bonds and deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation & Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2017 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2017 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2017 Bonds, except in the event that use of the book entry-system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2017 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of Series 2017 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2017 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping accounts of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Series 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Series 2017 Bonds may wish to ascertain that the nominee holding the Series 2017 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2017 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2017 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2017 Bonds are to be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other name as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2017 Bonds purchased or tendered, through its Participant, to Tender or Remarketing Agent, and shall effect delivery of such Series 2017 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2017 Bonds, on DTC's records, to Tender or Remarketing Agent. The requirement for physical delivery of the Series 2017 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2017 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit for tendered Series 2017 Bonds to Tender or Remarketing Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Series 2017 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book entry only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

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SAN ELIJO

JOINT POWERS AUTHORITY



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