

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest received by the owners of the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purpose of the federal individual and corporate alternative minimum taxes, although it is included in adjusted net book income and current earnings in computing the alternative minimum tax imposed on certain corporations and the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "Tax Exemption."



\$9,235,000
SAN ELIJO JOINT POWERS AUTHORITY
San Diego County, California
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)
(BANK QUALIFIED)

Dated: Date of Delivery

Due: March 1, as shown on the inside cover hereof

This cover page contains certain information for quick reference only. It is not a summary of all factors relating to an investment in the Bonds. Investors must review the entire Official Statement including the section "BONDOWNER'S RISKS," for a discussion of special factors which should be considered before determining the investment quality of the Bonds. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth in the Official Statement.

The Bonds are being issued by the San Elijo Joint Powers Authority (the "Authority") for the purpose of refunding on a current basis the Authority's 2003 Refunding Revenue Bonds (San Elijo Water Pollution Control Facility) (the "Prior Bonds") and prepaying a note to the California Energy Commission. A portion of the proceeds of the Bonds will also be used to pay costs of issuance associated with the Bonds and to pay for the delivery of a Reserve Account Insurance Policy in satisfaction of the Reserve Requirement, defined herein. The Prior Bonds were issued for the purpose of providing funds to refinance the cost of acquiring and constructing certain improvements (the "Project") to the San Elijo Water Reclamation Facility (the "Facility") owned by the Authority. 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 ("Solana Beach"), as successor to the Solana Beach Sanitation District (Encinitas and Solana Beach collectively referred to herein as the "Local Agencies"). The Authority was formed pursuant to Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California. The Bonds are authorized to be issued pursuant to the provisions of the Article 10 (commencing with Section 53570), Chapter 3, Division 2, Title 5 of the Government Code of the State of California (the "Act").

The Bonds are not subject to optional redemption prior to maturity. The Bonds are subject to mandatory redemption prior to maturity as described herein.

Each Local Agency will enter into a Third Amended and Restated Loan Agreement, each dated as of December 1, 2011 (each, a "Loan Agreement" and collectively, the "Loan Agreements"), to assist in the financing of the Local Agencies' respective share of the Bonds. The Loan Agreements will amend and restate the original Loan Agreements, each dated as of March 1, 1990, as amended and restated on March 15, 1993, and as amended and restated on April 1, 2003 (the "Original Loan Agreements"). Each Loan Agreement is an obligation of Solana Beach and Encinitas, respectively, and Loan Installments payable thereunder are secured by a pledge of Net Revenues (defined below) and other funds of each respective Local Agency lawfully available therefor, and does not constitute an obligation of the other Local Agency. Each of the Local Agencies has agreed to make its respective Loan Installments solely from the gross revenues of its wastewater enterprise described in the Loan Agreement, after a deduction for maintenance and operation expenses (the "Net Revenues"), in an amount sufficient to pay the annual principal and interest due with respect to its Loan Agreement. In addition, each Local Agency has made covenants under each respective Loan Agreement with respect to the collection of its respective wastewater revenues and the Authority has made certain covenants with respect to the maintenance of the Enterprise. Loan Installments from Encinitas are calculated to pay approximately 48% of total debt service on the Bonds, and Loan Installments from Solana Beach are calculated to pay approximately 52% of total debt service on the Bonds. AMOUNTS ON DEPOSIT IN THE RESERVE ACCOUNT CONSTITUTING THE RESERVE REQUIREMENT ARE AVAILABLE TO THE TRUSTEE TO MAKE UP ANY DEFICIENCY CAUSED BY THE FAILURE OF EITHER LOCAL AGENCY TO DEPOSIT WITH THE TRUSTEE AMOUNTS REQUIRED BY THE LOAN AGREEMENTS. HOWEVER, IN NO EVENT SHALL EITHER LOCAL AGENCY OR THE AUTHORITY BE REQUIRED TO MAKE UP A DEFICIENCY IN THE RESERVE ACCOUNT CAUSED BY THE OTHER LOCAL AGENCY'S NONPAYMENT OF A LOAN INSTALLMENT. **NEITHER LOCAL AGENCY IS RESPONSIBLE FOR THE LOAN INSTALLMENT OWED BY THE OTHER LOCAL AGENCY, AND A DEFAULT UNDER ONE LOAN AGREEMENT WILL NOT RESULT IN A DEFAULT UNDER THE OTHER LOAN AGREEMENT.**

The scheduled payment of the principal of and interest on the Bonds maturing on March 1 in the years 2016 through 2019, inclusive (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. See "Security for the Bonds – Bond Insurance."



THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED SOLELY BY THE REVENUES PLEDGED THEREFOR IN THE INDENTURE, AND ARE NOT SECURED BY A LEGAL OR EQUITABLE 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 THE REVENUES. THE BONDS ARE NOT A DEBT OF THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS. THE FAITH AND CREDIT OF THE LOCAL AGENCIES IS NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION THEREFOR. NONE OF THE LOCAL AGENCIES OR THE STATE OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS IS LIABLE THEREFOR, NOR IN ANY EVENT SHALL THE BONDS OR ANY INTEREST OR REDEMPTION PREMIUM, IF ANY, THEREON BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY AS SET FORTH IN THE INDENTURE. NEITHER THE BONDS NOR THE OBLIGATION TO MAKE LOAN INSTALLMENTS CONSTITUTES AN INDEBTEDNESS OF THE AUTHORITY, THE LOCAL AGENCIES, THE STATE OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Neither the full faith and credit nor the taxing power of the Authority, the Local Agencies, the State or any other political subdivision thereof is pledged to the payment of the Bonds. THE AUTHORITY HAS NO TAXING POWER.

MATURITY SCHEDULE
(See inside cover hereof)

The Bonds will be offered when, as and if issued and delivered, and received by the Underwriter, subject to the approval of their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, its general counsel, and by Best Best & Krieger LLP, Riverside, California, as Disclosure Counsel, and for each of the Local Agencies by its counsel. It is anticipated that the Bonds will be available for delivery to DTC on or about December 21, 2011.

BRANDIS TALLMAN LLC

Dated: December 8, 2011

MATURITY SCHEDULE

\$9,235,000 Serial Bonds

Maturity Date <u>(March 1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP No.</u> ⁽¹⁾
2012	\$ 50,000	2.000%	0.400%	100.310%	797544 CD3
2013	1,165,000	3.000	0.750	102.669	797544 CE1
2014	1,200,000	3.000	1.050	104.218	797544 CF8
2015	1,235,000	3.000	1.350	105.140	797544 CG6
2016	1,265,000	3.000	1.600	105.656	797544 CH4
2017	1,305,000	4.000	1.850	110.599	797544 CJ0
2018	1,365,000	4.000	2.100	110.979	797544 CK7
2019	1,415,000	4.000	2.350	110.860	797544 CL5
2020	115,000	2.650	2.650	100.000	797544 CM3
2021	120,000	2.850	2.850	100.000	797544 CN1

¹ CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided only as a convenience for reference. Neither the District nor the Underwriter assumes any responsibility for the accuracy of such numbers.

SAN ELIJO JOINT POWERS AUTHORITY

BOARD OF DIRECTORS

Teresa Barth, Chair
Thomas Campbell, Vice Chair
Dave Roberts, Member
Mark Muir, Member

AUTHORITY OFFICERS

Michael T. Thornton, P.E., General Manager/Secretary of the Board
Gregory Lewis, Director of Finance/Administration
Christopher A. Trees, P.E., Director of Operations
Monica Blake, Board Clerk

GOVERNING BOARDS OF LOCAL AGENCIES

City of Encinitas

James Bond, Mayor
Jerome Stocks, Mayor Pro Tem
Teresa Barth, Councilmember
Kristin Gaspar, Councilmember
Mark Muir, Councilmember

City of Solana Beach

Lesa Heebner, Mayor
Joe G. Kellejian, Deputy Mayor
David W. Roberts, Councilmember
Mike Nichols, Councilmember
Thomas M. Campbell, Councilmember

PROFESSIONAL SERVICES

Bond Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Authority General Counsel

Procopio, Cory, Hargreaves & Savitch LLP
San Diego, California

Trustee

Union Bank, N.A.
Los Angeles, California

Disclosure Counsel

Best Best & Krieger LLP
Riverside, California

Escrow Agent

Union Bank, N.A.
Los Angeles, California

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and any continuing disclosure documents of the Local Agencies and the Authority are intended to be made available by the Authority at the address indicated below. The Local Agencies and the Authority have undertaken to provide certain continuing disclosure pursuant to Continuing Disclosure Agreements, as described herein. Copies of the resolutions and other documents relating to the issuance of the Bonds are available upon request and upon payment to the Authority of a charge for copying, mailing and handling, from the San Elijo Joint Powers Authority at 2695 Manchester Avenue, Cardiff by the Sea, California 92007.

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

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words and include, but are not limited to, statements under the captions “ENCINITAS AND SOLANA BEACH.”

The achievement of certain results or other expectations contained in such forward-looking statements involves 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. While the Authority and the Local Agencies have agreed to provide certain on-going financial and operating data, except as specifically described under the caption “CONTINUING DISCLOSURE,” the Authority and the Local Agencies do not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based change.

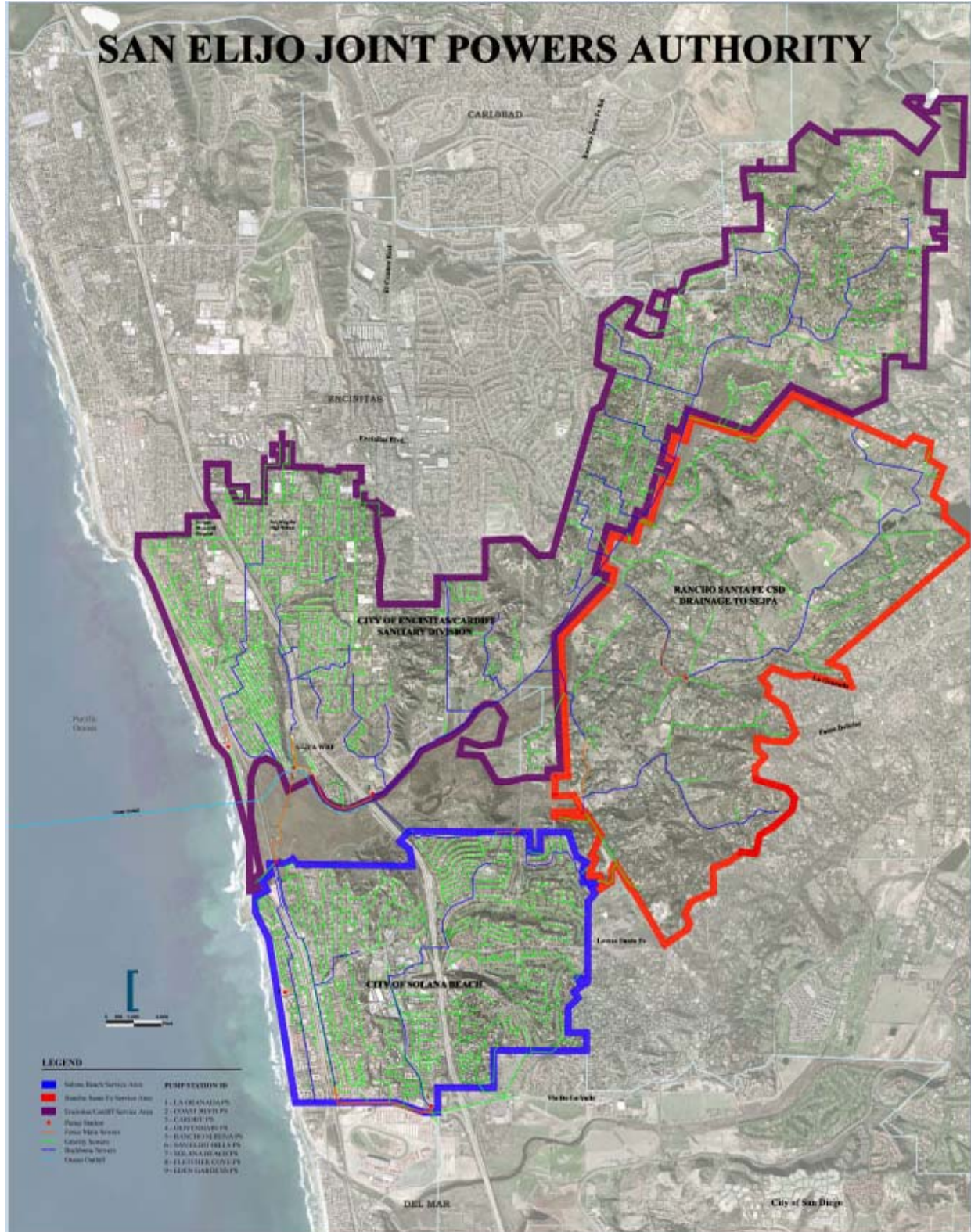
The information set forth herein has been obtained from the Authority and the Local Agencies, and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation by, the Authority and the Local Agencies or the Underwriter. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the Authority and the Local Agencies since the date hereof. All summaries contained herein of any resolutions, the Indenture, the Loan Agreements, and other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions.

THE UNDERWRITER HAS REVIEWED THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH ITS RESPONSIBILITIES UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES PERTAINING TO THE BONDS, BUT DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF THE INFORMATION.

Each of the Authority and the Local Agencies maintains an internet website, however, the information on the website is not incorporated in this Official Statement.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “Bond Insurance” and “Appendix D – Form of Bond Insurance Policy”.

SAN ELIJO JOINT POWERS AUTHORITY



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OFFICIAL STATEMENT

\$9,235,000

San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)
(BANK QUALIFIED)

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in this entire Official Statement, including the cover page and appendices hereto, and the documents summarized or otherwise described herein. A full review should be made of this entire Official Statement and such documents prior to making an investment in the Bonds. The sale and delivery of the Bonds to potential investors is made only by means of the entire Official Statement.

INTRODUCTION

The purpose of this Official Statement, including the Appendices hereto, is to provide certain information concerning the issuance and sale of \$9,235,000 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility) (the “Bonds”) to be issued by the San Elijo Joint Powers Authority (the “Authority”) for the purposes of: (i) refunding the 2003 Refunding Revenue Bonds (San Elijo Wastewater Treatment Facilities) on March 1, 2012 (the “Prior Bonds”) and repaying a note to the California Energy Commission, (ii) to satisfy the Reserve Requirement with the delivery of a Reserve Account Insurance Policy by Assured Guaranty Municipal Corp., and (iii) to pay the expenses of the Authority in connection with the issuance of the Bonds.

The Bonds are being issued pursuant to the Constitution and the laws of the State of California (the “State”), including the Refunding Bond Law (the “Act”), constituting Article 10, Chapter 3, Division 2, Title 5 (commencing with Section 53570), of the California Government Code, as amended, a resolution (the “Resolution”) adopted by the Board of Directors of the Authority on November 14, 2011 and an Indenture of Trust (the “Indenture”), dated as of December 1, 2011, by and between Union Bank, N.A., as trustee (the “Trustee”) and the Authority.

Each of the City of Encinitas (“Encinitas”) and the City of Solana Beach (“Solana Beach”) will enter into separate Third Amended and Restated Loan Agreements, each dated as of December 1, 2011 (each a “Loan Agreement” and, together, the “Loan Agreements”), to assist in the financing of their respective share of the refunding obligations. The Loan Agreements will amend and restate the loan agreements, each dated as of March 1, 1990, as amended and restated on March 15, 1993, and as further amended and restated on April 1, 2003 (the “Original Loan Agreements”).

The Facility

The San Elijo Water Reclamation Facility (the “Facility”) means the tertiary treatment system and reclaimed water distribution system of the Authority, including two 750,000 gallon reservoirs, 17 miles of distribution pipeline and two pumping stations. The Facility, which serves as the sole wastewater treatment facility for the Local Agencies, is located approximately 23 miles north of the City of San Diego, in a small valley on the north side of San Elijo Lagoon immediately west of Interstate Highway 5. The Facility serves (i) Encinitas’ Cardiff Sanitary Division (“Cardiff Sanitation Division”) service area, which covers approximately 5,250 gross acres, or approximately 38% of the city limits of Encinitas in the northern portion of San Diego County along the coast and extending inland, and currently serves an estimated population of approximately 9,500, and (ii) Solana Beach’s service area which covers approximately 2,211 gross acres, or the entire city limits of Solana Beach along the coast, also in the northern portion of San Diego County, and currently serves an estimated population of approximately 12,900.

The Facility provides for wastewater treatment for the Local Agencies as well as Improvement Areas 2 and 3 of Rancho Santa Fe Community Services District and portions of the City of San Diego, which agencies

have no financial participation with respect to the Bonds or Loan Agreements. See “The San Elijo Water Reclamation Facility.”

The Authority was formed by the Cardiff Sanitation District and the Solana Beach Sanitation District pursuant to Article I of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “JPA Law”). The Facility was developed as the wastewater treatment facility for the Local Agencies pursuant to a joint powers agreement between Cardiff Sanitation District and the Solana Beach Sanitation District dated March 26, 1963. Subsequently, a Joint Exercise of Powers Agreement dated June 17, 1987, as amended, (the “Basic Agreement”), replaced the earlier agreement and provided for the joint ownership of wastewater conveyance, treatment and disposal facilities as well as management of the Facility. On July 1, 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. On October 18, 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. On June 25, 2008, the Local Agencies entered into a Restatement of Agreement between Cardiff Sanitation District and Solana Beach Sanitation District establishing the San Elijo Joint Powers Authority (the “Restated Agreement”). Each Local Agency owns and operates facilities for the provision of sewer services within their respective jurisdictions. The Facility was initially constructed in 1964 and was subsequently expanded in 1974, 1982 and 1993. See “The San Elijo Water Reclamation Facility.”

Security for the Bonds

Loan Installments. Pursuant to the Loan Agreements, the Local Agencies are to make Loan Installment payments that are payable by the Local Agencies from the Net Revenues of the wastewater collection systems for Solana Beach and Encinitas Cardiff Sanitary Division, respectively. Each Loan Agreement provides that, as long as the Bonds remain outstanding and unpaid, the Local Agencies are legally required to make Loan Installments as payment for the Facility whether or not the Facility is operating or operable.

Under the Loan Agreements, the Local Agencies have covenanted to make payments of Loan Installments in each year from the Net Revenues (defined herein as Gross Revenues less Operation and Maintenance Expenses) derived from the operation of each Local Agency’s wastewater collection system. The Local Agencies have covenanted and agreed to prescribe, revise and collect such charges from the services and facilities of their respective wastewater collection systems which will produce gross revenues sufficient in each Fiscal Year to (1) repay the Bond Insurer for any draw on the Reserve Account Insurance Policy, as required under each Loan Agreement; and (2) provide Net Revenues equal to at least 1.30 times the sum of (i) the Loan Installments coming due and payable during such Fiscal Year and (ii) all payments required with respect to Parity Debt (as defined herein) due and payable during such Fiscal Year. Aggregate payments by the Local Agencies are intended to be sufficient, in both time and amount, to pay, when due, the annual principal and interest on the Bonds.

Each Loan Agreement defines “Gross Revenues” as all gross income and revenue received by the Local Agency, party thereto, for the collection and treatment of wastewater generated in the Cardiff Sanitary Division with respect to Encinitas, and generated in Solana Beach, 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 respective wastewater collection system and the Enterprise (defined below), (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or pursuant to law to its respective wastewater collection system; and (c) transfers to that Local Agency’s 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 Local Agency.

“Enterprise” means any and all facilities of the Authority used for the treatment and disposal of wastewater, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of

way and other real or personal property useful in connection therewith; provided that the term “Enterprise” shall not include the Facility.

Operation and Maintenance Expenses of each Local Agency’s wastewater collection system, are defined in the Loan Agreements to be (i) all expenses and costs of management, operation, maintenance and repair of the respective wastewater collection system, as well as the cost of maintaining its collection system, of the Cardiff Sanitary Division with respect to Encinitas, and the City of Solana Beach with respect to Solana Beach and all incidental costs, fees and expenses properly chargeable to the respective Local Agency (but excluding debt service or other similar payments on Parity Debt, as defined herein, 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 (ii) all expenses and costs of management, operation, maintenance and repair billed by the Authority to each Local Agency for the treatment of wastewater at the Enterprise as well as the cost of maintaining the Enterprise, and all incidental costs, fees and expenses properly chargeable to the Enterprise, which expenses and costs are billed to each respective Local Agency. “Operation and Maintenance Expenses” do not include expenses and costs of management, operation, maintenance and repair of the Facility. See “The Water Reclamation Facility” herein.

The City of Encinitas is also served by its Encinitas Sanitary Division and the Leucadia County Water District. The revenues of these two other enterprises are separate from the revenues of the Cardiff Sanitary Division and are not pledged to the payment of debt service on the Bonds.

A Reserve Account will be satisfied by the delivery of a Reserve Fund Insurance Policy of Assured Guaranty Municipal Corp. with coverage in an amount equal to the Reserve Requirement. The “Reserve Requirement” means an amount equal to the lesser of (i) maximum annual debt service on the Bonds; (ii) 10% of the principal amount of the Bonds; or (iii) 125% of average annual debt service on the Bonds. The Reserve Fund Insurance Policy will be held by the Trustee for the benefit of the owners of the Bonds (the “Owners”). AMOUNTS DRAWN ON THE RESERVE ACCOUNT INSURANCE POLICY ARE AVAILABLE TO THE TRUSTEE TO MAKE UP ANY DEFICIENCY CAUSED BY THE FAILURE OF EITHER LOCAL AGENCY TO DEPOSIT ANY AMOUNTS REQUIRED BY THE LOAN AGREEMENTS. HOWEVER, IN NO EVENT SHALL EITHER LOCAL AGENCY BE REQUIRED TO REPAY THE BOND INSURER FOR A DRAW ON THE RESERVE ACCOUNT INSURANCE POLICY CAUSED BY THE OTHER LOCAL AGENCY’S NONPAYMENT OF A LOAN INSTALLMENT. See “BONDOWNER’S RISKS,” herein. See APPENDIX B – “Summary of Principal Legal Documents – The Indenture – Establishment of Funds and Accounts; Flow of Funds.”

Bond Insurance

The scheduled payments of the principal of and interest with respect to the Bonds maturing March 1 in the years 2016 through 2019, inclusive, when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. (the “Bond Insurer”). See “Security for the Bonds – Bond Insurance.”

Payment of the Bonds

Interest with respect to the Bonds will be payable on March 1, 2012, and semi-annually thereafter on each March 1 and September 1 to and including the date of maturity or redemption, whichever is earlier. See “The Bonds – General.”

Redemption

The Bonds are not subject to optional redemption prior to maturity. The Bonds are subject to mandatory redemption prior to maturity as described herein.

EACH LOAN AGREEMENT IS AN OBLIGATION OF THE RESPECTIVE LOCAL AGENCY, AND LOAN INSTALLMENTS PAYABLE THEREUNDER ARE SECURED BY A PLEDGE OF NET

REVENUES AND OTHER FUNDS OF THE LOCAL AGENCY LAWFULLY AVAILABLE THEREFOR, AND DOES NOT CONSTITUTE AN OBLIGATION OF THE OTHER LOCAL AGENCY. THE OBLIGATION OF THE LOCAL AGENCIES TO MAKE LOAN INSTALLMENT PAYMENTS UNDER THE LOAN AGREEMENTS IS AN OBLIGATION OF THE RESPECTIVE LOCAL AGENCY, PAYABLE FROM NET REVENUES OF THE RESPECTIVE WASTEWATER COLLECTION SYSTEM AND OTHER SOURCES IDENTIFIED IN THE LOAN AGREEMENTS AND INDENTURE. THE LOCAL AGENCIES ARE NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION IN ORDER TO PAY THE LOAN INSTALLMENTS UNDER THE LOAN AGREEMENTS. NEITHER THE BONDS NOR THE OBLIGATION OF THE LOCAL AGENCIES TO MAKE LOAN INSTALLMENT PAYMENTS UNDER THE LOAN AGREEMENTS CONSTITUTES A DEBT OF THE CITY OF ENCINITAS, THE CITY OF SOLANA BEACH, THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE AUTHORITY'S OR THE LOCAL AGENCIES' OFFICERS, EMPLOYEES AND AGENTS, NOR ANY PERSONS EXECUTING THE LOAN AGREEMENTS OR THE BONDS, SHALL BE PERSONALLY LIABLE ON THE LOAN AGREEMENTS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE DELIVERY THEREOF. THE AUTHORITY HAS NO TAXING POWER.

Description of the Bonds

Unless otherwise directed by the Underwriter, the Bonds will be issued and delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in denominations of \$5,000 or any integral multiple in excess thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. In the event that the book-entry-only system described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Indenture. See "THE BONDS – General" and "BOOK ENTRY SYSTEM," herein.

Principal of, premium, if any, and interest on the Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry-only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Trustee, all as described herein. See "THE BONDS – General" and "BOOK ENTRY SYSTEM," herein. So long as the Bonds are in book-entry-only form, all references in the Official Statement to the owners or holders of the Bonds shall mean DTC and not the Beneficial Owners of the Bonds.

Tax Matters

In the opinion of Jones Hall, a Professional Law Corporation, San Francisco, California, Bond Counsel, subject to certain qualifications described herein, under existing statutes, regulations, rules and court decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest on the Bonds is excluded 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, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. A copy of the form of opinion of Bond Counsel is set forth in APPENDIX E hereto.

Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes. However, Bond Counsel observes that interest on the Bonds is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Although Bond Counsel is of the opinion that interest on the Bonds is excluded from

federal gross income, the accrual or receipt of interest on the Bonds may otherwise affect a Bondholder's federal income tax liability. The nature and extent of these other consequences will depend upon the holder's particular tax status and the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences. See "TAX EXEMPTION" herein.

Professionals Involved in the Offering

Union Bank, N.A., Los Angeles, California, will act as Trustee under the Indenture and as Escrow Bank under the Escrow Agreement. Brandis Tallman LLC is the Underwriter for the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on for the Authority by Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, as General Counsel, and Best Best & Krieger LLP, Riverside, California, as Disclosure Counsel.

For information concerning circumstances in which certain of the above-named professionals may have a financial or other interest in the offering of the Bonds, see "PROFESSIONAL FEES."

Special Risks

See the section of this Official Statement entitled "BONDOWNER'S RISKS" for a discussion of risk factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds. The purchase of the Bonds involves risks, and the Bonds may only be appropriate investments for some types of investors.

CONTINUING DISCLOSURE

The Authority and the Local Agencies, with Union Bank, N.A., as Dissemination Agent, entered into a Continuing Disclosure Certificate whereby the Authority and the Local Agencies have covenanted for the benefit of the Owners of the Bonds to 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 Local Agencies by not later than six months after the end of each fiscal year (the "Annual Reports"), and to provide notices of the occurrence of certain listed events.

The Annual Reports will be filed by the Dissemination Agent, on behalf of the Authority and the Local Agencies, with EMMA. The specific nature of the information to be contained in the Annual Reports or the notices of listed events is set forth in "APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE." The Authority and the Local Agencies have timely filed all continuing disclosure reports.

PLAN OF REFUNDING

Refunding Prior Bonds

Concurrently with the issuance of the Bonds, the Authority will enter into an Escrow Deposit and Trust Agreement (the "Escrow Agreement") dated as of December 1, 2011, between the Authority and Union Bank, N.A., as Escrow Bank. Upon delivery of the Bonds, a portion of proceeds of the Bonds, together with certain moneys held by the Prior Trustee with respect to the Prior Bonds, will be deposited into an escrow fund (the "Escrow Fund") established under the Escrow Agreement which will be held as cash and which shall be available to pay, when due, interest due with respect to the Prior Bonds through March 1, 2012, and to pay the principal and redemption premium on the Prior Bonds on March 1, 2012.

The mathematical accuracy of the calculation as to the sufficiency of anticipated receipts from the Federal Securities in the Escrow Fund to meet the payment requirements of the Bonds and the calculation of yield relating to the Bonds will be verified by Berens Tate LLP, independent certified public accountants. See "Verification of Mathematical Computations" herein.

Additionally, the Authority plans to prepay a note with the California Energy Resources Conservation and Development Commission which has a current balance of \$1,009,320.44. The loan proceeds were used to improve energy efficiency in the operations of the aeration basins and repaired and replaced structures relating to the primary effluent channels. Energy savings exceeding 800,000 kilowatt hours per year have resulted from this project, and the Authority has increased control of the biological treatment process.

Estimated Sources and Uses of Funds

The proceeds to be received from the sale of the Bonds and amounts available under the Prior Indenture are expected to be applied as follows:

Sources:

Bond Par Amount	\$ 9,235,000.00
Prior Bond Funds ⁽¹⁾	3,075,973.97
Original Issue Premium	<u>658,741.55</u>
Total	\$12,969,715.52

Uses⁽²⁾:

Escrow Fund	\$11,736,400.00
CERCDC Note Payoff	1,009,328.49
Costs of Issuance ⁽³⁾	<u>223,987.03</u>
Total	\$12,969,715.52

-
- (1) Represents amounts to be transferred under the Prior Indenture and accrued principal and interest payments from Local Agencies.
- (2) The Reserve Requirement will be satisfied with the delivery of a Reserve Account Insurance Policy delivered by Assured Guaranty Municipal Corp.
- (3) Includes, without limitation, all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority and the Trustee, compensation to any financial consultants or underwriters, legal fees and expenses, rating agency fees, bond insurance premium, Reserve Account Insurance Policy premium and costs of printing.

Debt Service

The Loan Agreements require Loan Installments to be paid on the fourth Business Day (as defined herein) preceding the principal or interest payment date for the Bonds in an amount equal to principal or interest payments with respect to the Bonds on the next succeeding principal or interest payment date, respectively. The Indenture requires that Loan Installments be deposited in the Revenue Fund maintained by the Trustee. Pursuant to the Indenture, the Trustee will apply such amounts in the Revenue Fund as are necessary to make principal and interest payments due with respect to the Bonds on March 1 and September 1 of each year, in amounts sufficient to meet the following amortization schedule:

TABLE 1
\$9,235,000
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)
Debt Service Schedule

Bond Year Ending <u>(March 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Debt Service</u>
2012	\$ 50,000	\$ 61,603.40	\$ 111,603.40
2013	1,165,000	315,817.50	1,480,817.50
2014	1,200,000	280,867.50	1,480,867.50
2015	1,235,000	244,867.50	1,479,867.50
2016	1,265,000	207,817.50	1,472,817.50
2017	1,305,000	169,867.50	1,474,867.50
2018	1,365,000	117,667.50	1,482,667.50
2019	1,415,000	63,067.50	1,478,067.50
2020	115,000	6,467.50	121,467.50
2021	<u>120,000</u>	<u>3,420.00</u>	<u>123,420.00</u>
Totals	\$9,235,000	\$1,471,463.40	\$10,706,463.40

THE BONDS

Capitalized terms used but not defined in this section have the meanings attributed to them in APPENDIX B – “Summary of Principal Legal Documents.”

General

The Bonds will be dated the date of delivery thereof and issued without coupons as one fully registered bond for each maturity, in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), as registered owner of all the Bonds, or in such other manner as directed by the Underwriter. The Bonds will be available to ultimate purchasers in denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, or in such other manner as directed by the Underwriter. Ultimate purchasers of Bonds held in book-entry form will not receive physical certificates representing their interest in the Bonds. So long as the Bonds held in book-entry form are registered in the name of Cede & Co., as nominee of DTC, references herein to the owners shall mean Cede & Co., and shall not mean the purchasers or Beneficial Owners of the Bonds. See APPENDIX G – THE BOOK ENTRY SYSTEM.

So long as the Bonds are held in book-entry only form, principal of, premium, if any, and interest on the Bonds will be paid directly to DTC for distribution to the beneficial owners of the Bonds in accordance with the procedures adopted by DTC. Bonds not held in book-entry form will be paid directly by the Trustee in the manner described in the Indenture. See APPENDIX G – THE BOOK ENTRY SYSTEM.

Principal of the Bonds will be paid, subject to prior redemption as described herein, on the dates and in the amounts set forth on the cover page hereof. Interest with respect to the Bonds is payable on March 1, 2012, and semi-annually thereafter on each March 1 and September 1 to and including the date of maturity or redemption, whichever is earlier (each an “Interest Payment Date”) at the respective rates per annum set forth on the inside cover page hereof.

Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) it is authenticated on or before March 1, 2012, in which event it shall bear interest from its date of delivery; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Method of Payment

Payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Trustee, so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of Participants and Indirect Participants, as more fully described herein. Bonds not held in book-entry form will be paid directly by the Trustee in the manner described in the Indenture. See APPENDIX G – THE BOOK ENTRY SYSTEM.

For any Bond not held in book-entry form, interest on the Bonds is payable by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date, to the registered Owner thereof at such registered Owner’s address as it appears on the registration books maintained by the Trustee at the close of business on the Record Date preceding the Interest Payment Date. The principal of the Bonds and any premium on the Bonds are payable in lawful money of the United States of America by check of the Trustee upon surrender of such Bonds at the Principal Office of the Trustee; provided, however, that at the written request of the Owner of at least \$1,000,000 in aggregate principal amount of Outstanding Bonds filed with the Trustee prior to any Record Date, interest on such Bonds shall be paid to such Owner on each succeeding Interest Payment Date by wire transfer of immediately available funds to an account in the United States of America designated in such written request. All Bonds paid by the Trustee pursuant to this subsection shall be canceled by the Trustee.

Optional Redemption

The Bonds are not subject to optional redemption prior to their stated dates of maturity.

Mandatory Redemption upon Acceleration of Loan

The Bonds are subject to mandatory redemption in whole, or in part pro rata among maturities and by lot within a maturity, on any date, solely from amounts credited towards the payment of principal of any Loan coming due and payable solely by reason of acceleration of such Loan pursuant to the provisions of the related Loan Agreement, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, together with accrued interest thereon to the redemption date.

Notice of Redemption

Notice of redemption will be mailed no less than thirty (30), nor more than sixty (60), days prior to the redemption date (i) to DTC or (ii) in the event the book-entry only system is discontinued, to the respective registered owners of the Bonds designated for prepayment at their addresses appearing on the bond registration books, and to certain securities depositories and information services. Neither failure to receive such notice nor any defect in the notice so mailed nor any failure on the part of DTC or failure on the part of the nominee of the Beneficial Owner to notify the Beneficial Owner so affect the sufficiency of the proceedings for prepayment of such Bonds or the cessation of interest on the prepayment date.

To the extent funds for redemption of Bonds are not on deposit with the Trustee at the time the notice of redemption is sent to the Owners of the Bonds, the notice of redemption shall nevertheless be sent by the Trustee at the Written Request of the Authority, but such notice may state that redemption is conditioned upon receipt by the Trustee of funds sufficient to said redemption.

Transfer or Exchange of Bonds

So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, transfers and exchanges of Bonds shall be made in accordance with DTC procedures. See APPENDIX G – THE BOOK ENTRY SYSTEM. If the book-entry only system for the Bonds is ever discontinued, any Bond may, in accordance with its terms, be transferred or exchanged by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly written instrument of transfer in a form approved by the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The Trustee shall collect from the Owner requesting such transfer any tax or other governmental charge required to be paid with respect to such transfer or exchange.

SECURITY FOR THE BONDS

Capitalized terms used but not defined in this section have the meanings attributed to them in APPENDIX B – “Summary of Principal Legal Documents.”

General

The Bonds are limited obligations of the Authority and, pursuant to the Indenture, the Bonds are secured by a first lien on and pledge of all of the Revenues 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, as well as all amounts drawn on the Reserve Account Insurance Policy.

“Revenues” means: (a) all amounts payable by the Local Agencies pursuant to the 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 Loan Agreement; (b) any proceeds of 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 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 Loan Agreements.

The obligation of the Local Agencies to make Loan Installments constitutes an obligation of each respective Local Agency, payable from a first and prior lien on its Net Revenues, together with other funds of the respective Local Agency lawfully available therefor, and certain interest and other income derived from the investment of the funds and accounts held by the Trustee for the Local Agencies pursuant to the Indenture.

The obligation of the Local Agencies to make Loan Installments does not constitute an obligation of either Local Agency for which the Local Agency is obligated to levy or pledge any form of taxation or for which the Local Agency has levied or pledged any form of taxation. Neither the Bonds nor the obligation of either Local Agency to make Loan Installments constitute an indebtedness of the Local Agencies, the Authority, the State of California or any of its political subdivisions within the meaning of the Constitution of the State of California nor a pledge of the faith and credit of either Local Agency.

In the event that either Local Agency fails to make any Loan Installment when due, the delinquent Loan Installment shall continue as an obligation of that Local Agency, and that Local Agency 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 Bonds. Should either Local Agency default under its respective Loan Agreement, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Outstanding Bonds the Trustee shall, with the written consent of the Bond Insurer, (a) declare the principal of the 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 this Loan Agreement to the contrary notwithstanding, and (b) exercise any other remedies available to the Trustee in law or at equity. Each Local Agency’s liability to pay its Loan Installments is limited to Net Revenues and other funds of such Local Agency lawfully available therefor.

Each Loan Agreement is an obligation of the respective Local Agency, and does not constitute an obligation of the other Local Agency. As a result, a default in the payment of a Loan Installment under either Loan Agreement would constitute an event of default under such Loan Agreement and may result in acceleration of the related Loan Installments. Such a default under one Loan Agreement would not constitute an event of default under the other Loan Agreement, but may result in a payment default on the Bonds.

An event of default under either Loan Agreement, except to the extent of moneys drawn on the Reserve Account Insurance Policy may result in insufficient monies with which to pay the principal of and interest on the

Bonds. See APPENDIX B - “Summary of Principal Legal Documents - Loan Agreements - Events of Default and Remedies”. AMOUNTS ON DEPOSIT IN THE RESERVE ACCOUNT ARE AVAILABLE TO THE TRUSTEE TO MAKE UP ANY DEFICIENCY CAUSED BY THE FAILURE OF EITHER LOCAL AGENCY TO DEPOSIT ANY AMOUNTS REQUIRED BY THE LOAN AGREEMENTS. HOWEVER, IN NO EVENT SHALL EITHER LOCAL AGENCY BE REQUIRED TO MAKE UP A DEFICIENCY IN THE RESERVE ACCOUNT CAUSED BY THE OTHER LOCAL AGENCY’S NONPAYMENT OF A LOAN INSTALLMENT. See APPENDIX B - “Summary of Principal Legal Documents - Indenture - Establishment of Funds and Accounts; Flow of Funds”.

Encinitas is also served by the Encinitas Sanitary Division of the City of Encinitas and the Leucadia County Water District. The revenues of the two other enterprises are separate from the revenues of the Cardiff Sanitary Division and are not pledged to the payment of debt service on the Bonds.

Shares of Capacity

The Facility has a rated capacity of 5.25 million gallons per day (“mgd”). Each of the Local Agencies own 50% of the Facility. The total amount of each payment of principal and interest with respect to the Bonds maturing in each of the following years is comprised of interests in Loan Installments to be made by the respective Local Agency will be approximately 48% with respect to Encinitas and 52% with respect to Solana Beach of debt service on the Bonds.

The percentages differ from the 50% ownership share of the Local Agencies due to the refunding of prior indebtedness as well as different equity contributions by each of the Local Agencies at the time of the issuance of the Prior Bonds. Under the Basic Agreement, the Local Agencies are entitled to purchase and use the capacity of the 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 Local Agency for debt service on the Bonds can change under certain circumstances from that shown above. See APPENDIX B – “Summary of Principal Legal Documents - Indenture - Establishment of Funds and Accounts; Flow of Funds”.

Rate Covenants

Each Local Agency has covenanted that it will prescribe, revise and collect such charges for the services and facilities provided by its respective wastewater collection system (in the case of Encinitas, its Cardiff Sanitary Division and in the case of Solana Beach, the City of Solana Beach Sanitation Enterprise Fund), which will produce Gross Revenues sufficient in each Fiscal Year to (1) repay the Bond Insurer for any draws on the Reserve Account Insurance Policy caused by a nonpayment by it of its Loan Payment obligation, as required under each Loan Agreement; and (2) provide Net Revenues equal to at least 1.30 times the sum of (i) the Loan Installments coming due and payable during such Fiscal Year and (ii) all payments required with respect to Parity Debt (as defined herein) due and payable during such Fiscal Year.

“Enterprise” means any and all facilities of the Authority used for the treatment and disposal of wastewater, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith; provided, that the term “Enterprise” does not include the Water Reclamation Facilities.

The San Elijo Water Reclamation Facility (the “Facility”) means the tertiary treatment system and reclaimed water distribution system of the Authority, including two 750,000 gallon reservoirs, 17 miles of distribution pipeline and two pumping stations, as more particularly described in the Authority’s State Revolving Fund Loan Program No. C 06-4155-110.

Parity Debt

Each Local Agency has the right to issue or incur Parity Debt, on a parity with its respective Loan Agreement, provided:

(i) The Local Agency is not in default under the terms of its respective Loan Agreement; and

(ii) Net Revenues, calculated on sound accounting principles, as shown by the books of the Local Agency for the latest fiscal year, currently July 1 to June 30 in the succeeding year (the “Fiscal Year”), or any more recent twelve (12) month period selected by the Local Agency ending not more than sixty (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 Local Agency, plus at the option of the Local Agency, 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 Local Agency 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 Net Revenues of the Local Agency for the purpose of applying the restriction contained above.

(1) An allowance for revenues from any additions to or improvements or extensions of the wastewater collection system and the Enterprise 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 Local Agencies or the Authority, and

(2) An allowance for earnings arising from any increase in the charges made for service from the wastewater collection system of the Local Agency and the Enterprise 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 Local Agency or the Authority.

Reserve Account

A Reserve Account is established by the Indenture and is funded with the Reserve Account Insurance Policy in a coverage amount, as of any date of calculation, equal to the lesser of (i) maximum annual debt service on the Bonds; (ii) 10% of the principal amount of the Bonds; or (iii) 125% of average annual debt service on the Bonds (the “Reserve Requirement”).

If, on any date of computation, amounts available under the Reserve Account Insurance Policy are less than the Reserve Requirement because of a draw thereon, the Local Agencies are required to repay the Bond Insurer for any draws on the Reserve Account Insurance Policy from Net Revenues. However, the Local Agencies are only obligated to repay draws on the Reserve Account Insurance Policy caused by its own nonpayment of a Loan Installment of the Local Agency. Amounts available under the Reserve Account Insurance Policy are to be used only for the payment of Loan Installments to the extent amounts in the Interest Account or the Principal Account are insufficient therefor. The Authority will repay any draws under the Reserve Account Surety and pay all related reasonable expenses incurred by the Bond Insurer in connection with the Reserve Account Insurance Policy. Interest will accrue and be payable on such draws and expenses from the date of payment by the Bond Insurer at the “Late Payment Rate” (as defined in Appendix B to this

Official Statement). The Trustee will immediately apply any late loan payment received by it to reimburse the Bond Insurer for a draw on the Reserve Account Insurance Policy to be applied as a credit against any amounts owed by the Authority to the Bond Insurer. See APPENDIX B - “Summary of Principal Legal Documents — The Indenture — Reserve Account”.

Neither Local Agency is responsible for the Loan Installments owed by the other Local Agency, and a default under one Loan Agreement will not result in a default under the other Loan Agreement. See “BONDOWNERS RISKS - Limited Recourse on Default,” herein.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Bonds maturing on March 1 in the years 2016 through 2019, inclusive (the “Insured Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (“Holdings”). Holdings is an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM’s financial strength is rated “AA-” (stable outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “Aa3” (negative outlook) by Moody’s Investors Service, Inc. (“Moody’s”). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On November 30, 2011, S&P published a Research Update in which it downgraded AGM’s financial strength rating from “AA+” to “AA-”. At the same time, S&P removed the financial strength rating from CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

The most recent rating action by Moody’s on AGM took place on December 18, 2009, when Moody’s issued a press release stating that it had affirmed the “Aa3” insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody’s comments. Moody’s is in the process of reviewing AGL and its subsidiaries and there can be no assurance as to any ratings action that Moody’s may take with respect to AGM.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as amended by its Form 10-K/A; its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2011 and June 30, 2011,

each as amended by its Form 10-Q/A; and its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011.

Capitalization of AGM

At September 30, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,105,604,840 and its total net unearned premium reserve was approximately \$2,207,101,966, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2010 and for the quarterly periods ended March 31, 2011, June 30, 2011 and September 30, 2011, which have been filed with the New York State Department of Financial Services and posted on AGL's website at <http://www.assuredguaranty.com>, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as amended by Amendment No. 1 on Form 10-K/A (filed by AGL with the SEC on March 1, 2011 and October 31, 2011, respectively);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, as amended by Amendment No. 1 on Form 10-Q/A (filed by AGL with the SEC on May 10, 2011 and November 14, 2011, respectively);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, as amended by Amendment No. 1 on Form 10-Q/A (filed by AGL with the SEC on August 9, 2011 and November 14, 2011, respectively); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 (filed by AGL with the SEC on November 14, 2011).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Insured Bonds or any uninsured bonds offered under this Official Statement and may hold such Insured Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Insured Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE”.

SAN ELIJO JOINT POWERS AUTHORITY

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). The Cardiff Sanitation District and the Solana Beach Sanitation District originally approved a joint powers agreement on March 26, 1963, 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 to maintain and operate the facilities. The joint powers agreement contemplates the possible inclusion of adjacent communities as users of the Facility. Under the original joint powers agreement, 56% of the capacity of the Facility 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 joint powers authority. Therefore, on June 17, 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 Facility. On July 1, 1990, the City of 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. On October 18, 2001, the City of 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 its Cardiff Sanitary Division. On June 25, 2008, Encinitas and Cardiff amended and restated the Basic Agreement by entering into the Restated Agreement. The Authority is governed by a four member Board of Directors with two members representing each of the Local Agencies. The Authority has hired its own staff to operate and maintain the Facilities as well as manage the business of the Authority. By means of the Restated Agreement, the Local Agencies have conveyed their ownership interests in the Facility to the Authority. In general, the Restated Agreement establishes the Authority's right to finance expansion of the Facility as well as to determine, by agreement of the Local Agencies, capacity rights resulting from any upgrade of the Facilities. Each Local Agency maintains its respective collection facilities located within the service territory of each respective Local Agency. However, the Authority maintains the pump stations and force mains for each Local Agency's service area.

Under the Restated Agreement, each Local Agency owns a specified percentage, or capacity rights, of the sewage treatment capacity provided by the Facility. Each Local Agency may lease, sell or purchase capacity without the consent of any other party. Any such transaction, however, will not relieve the Local Agency of any of its obligations under the Restated Agreement. The Restated Agreement may be rescinded and the Authority terminated upon the written consent of the Local Agencies, however, under the Restated Agreement prior to termination, all expenses of any Local Agency terminating its participation in the Authority would become payable. The Local Agencies have covenanted in each respective Loan Agreement not to terminate the Restated Agreement until their respective obligations under the Loan Agreement have been satisfied.

The Authority is governed by a Board of Directors. The Restated Agreement establishes a Board of Directors consisting of four members, two of whom are to be members of the City Council of the City of Encinitas and two of whom 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 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 Restated 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 Restated 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: (i) participating in the design of and supervision of the construction of any improvement, or expansion of the Facilities, (ii) making and entering into contracts in connection with capital costs, costs of special services, equipment, materials, supplies, maintenance or repair that involves an expenditure of less than \$35,000, (iii) employing agents and employees to maintain and operate the Facilities, (iv) in an emergency, making and entering into contracts where required to keep the Facility in operation or to restore the Facility to operating conditions that involves an expenditure of less than \$75,000, (v) preparing and submitting annual budgets, (vi) applying for all permits, licenses or approvals necessary for operation of the Facility from any local, state or federal government or agency with jurisdiction over the Facilities and to file all reports required by any local, state or federal government or agency with jurisdiction over the facilities of the Authority, and (vii) to supervise the acquisition, construction, management, maintenance and operation of the Facility.

The Authority acts as the wholesale provider of wastewater treatment services for the Local Agencies. The Local Agencies have agreed to contribute from their respective wastewater enterprise funds the actual cost of the administration, operation and maintenance of the Facility as divided among the Local Agencies pursuant to the Restated Agreement. Such costs shall include the actual costs of (i) all materials and supplies used or purchased for the operation and maintenance of the Authority, (ii) all contracts let by Authority for the performance of any work incidental to providing such service, and (iii) the salaries and wages of all Authority employees providing such services. Each Local Agency individually sets its own rates for the provision of wastewater treatment capacity for its wastewater collection system. See "San Elijo Water Reclamation Facility - Service Area".

The Authority has separate sources of operating income, primarily from its water reuse operations. The facilities of the Authority were upgraded in 1998 for water reuse through capital contribution from the Local Agencies of \$4 million, a loan from the State of California Water Resources Department in the amount of \$12 million, and a \$4 million loan from the United States Bureau of Reclamation. Currently, the Authority has 72 customers of the water reuse program including CalTrans, Encinitas Ranch Golf Course, Del Mar Fairgrounds, and Lomas Santa Fe Golf Club and Executive Golf Course located in the service area of the Authority.

The Authority manager is responsible for the day to day operation and management of the Facility. Michael T. Thornton, who serves at the pleasure of the Authority's Board of Directors, acts as the manager for the Authority. In addition to the manager, the Authority's Board of Directors also selects the Treasurer/Auditor. The 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 overseeing the administration and operation of the 5.25-mgd secondary wastewater treatment plant and the recently constructed 2.48-mgd tertiary treatment system. Prior to joining the Authority, Mr. Thornton was employed by Camp Dresser & McKee Inc., in various capacities including marketing, engineering and construction engineering oversight. Mr. Thornton is a graduate of San Diego State University, earning a B.S. in Civil Engineering, and is a registered engineer in the State of California.

Gregory E. Lewis, Director of Finance/Administration. Gregory E. Lewis has worked for the Authority since its inception in 1988. Mr. Lewis became a full-time employee of the Authority in 2000. Prior to that, he worked for Camp, Dresser & McKee Inc. as a finance consultant to the Authority. Mr. Lewis was hired by John S. Murk Engineers, Inc. in 1987, and was retained by the firm after its acquisition by Camp, Dresser & McKee

Inc. From 1984 to 1987, he was a Finance Manager for a construction contractor for the San Onofre Nuclear Generating Station. Mr. Lewis has a Bachelor of Business Administration in Financial Accounting from National University where he graduated Summa Cum Laude. He received an honorable discharge as a Sergeant in the United States Marine Corps.

Christopher Trees is the Director of Operations for the San Elijo Joint Powers Authority, and has been with the Agency since 2009. His duties include overseeing the operation and maintenance of the 5.25-mgd secondary wastewater treatment plant, the 2.48-mgd tertiary treatment and distribution system, and the Agency laboratory. Prior to joining the Agency, Mr. Trees was employed by Dudek & Associates, in various capacities including marketing, engineering and construction engineering oversight. As a Dudek employee, Mr. Trees served the Rainbow Municipal Water District as the District Engineer for 6 years and the General Manager for 2 years. Mr. Trees is a graduate of Purdue University, earning a B.S. in Mechanical Engineering, and is a registered engineer in the State of California with over 23 years of engineering experience.

THE SAN ELIJO WATER RECLAMATION FACILITY

General

The Facility consists of a wastewater treatment plant and water reuse facility located approximately 23 miles north of the City of San Diego in a small valley on the north side of the San Elijo Lagoon and immediately west of Interstate 5. The Facility is situated on 27 acres of land owned by the Authority. The Facility serves as a regional sewage treatment and disposal facility for a service area encompassing approximately 18.9 square miles and a population of approximately 34,000. Wastewater effluent is discharged directly to the Pacific Ocean from an associated effluent outfall jointly owned with the City of Escondido.

Service Area

General. The joint service area served by the Facility is located 23 miles north of the City of San Diego and encompasses approximately 7,150 gross acres (5,971 net acres) in the northern portion of the County. The sewage agencies served by the Facility include Cardiff Sanitary Division of the City of Encinitas, the City of Solana Beach, Rancho Santa Fe Community Services District Improvement Areas 2 and 3, 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 which agencies are not financially obligated with respect to the Bonds or the Loan Agreements.

The joint service area is situated on a coastal plain, bordered by the communities of Cardiff-by-the-Sea in the City of Encinitas to the north and the City of Solana Beach to the south. The major hydrological features in the area consist of surface water, which includes creeks, lakes, lagoons and groundwater basins. The principal water features are the Escondido Creek, the San Dieguito River and the San Elijo Lagoon. The groundwater levels are generally less than 50 feet below the ground surface and the groundwater is of poor quality.

Collection System. Each Local Agency is responsible for the maintenance, operation, expansion and installation of all wastewater transmission facilities located within the service territory of the Local Agency. While the Local Agencies may delegate responsibilities to the Authority for certain activities, the delegating Local Agency would remain liable for any costs associated with such a delegation. In general, the Local Agencies have similar but distinct service areas and operations all as described herein. See "Encinitas and Solana Beach".

The Local Agencies own sewage systems to collect and transport wastewater to the Facility. The Facility serves approximately 5,971 net acres (approximately 80% of a gross acre), with the Cardiff Sanitary Division of the City of Encinitas serving approximately 4,202 net acres and Solana Beach serving approximately 1,769 net acres. Solana Beach has 4 pump stations and the Cardiff Sanitation Division has 3 pump stations.

The area served by the Cardiff Sanitary Division of the City of Encinitas consists of approximately 1,550 net acres of sewered area. The land use in the area served by the Cardiff Sanitary Division is almost exclusively residential, including a mix of single-family, duplex and multi-family units.

Solana Beach serves approximately 1,605 net acres of sewered area with an additional build-out potential of approximately 214 net acres. The existing land use in Solana Beach involves mainly residential and commercial uses. The remaining undeveloped tracts of land in Solana Beach include mainly single family units and a smaller portion of commercial uses.

The current overall population of the Encinitas and Solana Beach service areas consists of approximately 19,000 for Encinitas and 13,300 for Solana Beach. Both Solana Beach and the service area of the Cardiff Sanitary Division of Encinitas are near build-out and have experienced slight growth over the last several years. Estimates of build-out population include a “population” equivalent which includes allowances for commercial and industrial discharge. Encinitas and Solana Beach will have approximately 9,000 and 6,660, respectively, dwelling units, 0 and 10, respectively, acres of developed industrial land, and 10 and 115, respectively, acres of developed commercial land.

The residential build-out of Encinitas is characterized by growth primarily east of Interstate 5, and primarily on lands which are currently vacant. However, some growth is occurring as a result of “in-fill” activity in older areas of Encinitas, including some neighborhoods west of Interstate 5 planned for higher ultimate densities. The number of persons per household has remained at 2.5 for the last ten years. The overall Encinitas population is expected to grow by an average of 1% per year. There is no significant developable land located in the Cardiff Sanitary Division Service Area which is zoned for commercial and industrial use.

The residential build-out of Solana Beach is expected to be characterized by minimal growth in the southeast and northwest quadrants with some development elsewhere. The number of persons per household is expected to decline slightly to a level of 2.1 persons per household. The existing inner-city residential areas near the train station are expected to undergo redevelopment. The overall City of Solana Beach population will increase at a rate of less than .10% annually.

The commercial growth anticipated for Solana Beach consists of general commercial development along Highway 101, the major north-south thoroughfare in Solana Beach. Overall, Solana Beach has approximately 151 acres of commercially zoned land, of which 115 acres are developed and 5 acres are vacant. Projected development includes small offices and shops, financial institutions, community shopping centers and automobile sales and repair shops.

Population

The land use planning projections for the service area were developed by the respective Local Agency. The estimates of population in the service area were based upon projected future land use. The population projections at ultimate build-out are as follows:

<u>Service Area</u>	<u>Buildout Population</u> ⁽¹⁾
Cardiff Sanitary Division of the City of Encinitas	19,000 ⁽²⁾
City of Solana Beach	<u>14,924</u>
Total	33,924

Source: City of Encinitas and City of Solana Beach.

(1) Population shown is a “population equivalent”, which includes allowances for commercial and industrial discharges.

(2) This total represents the maximum under current land use classifications of Encinitas, however, it is not expected to be reached.

Existing Water Reclamation Facility

The Authority's water reclamation facility can treat 5.25 mgd of wastewater to "secondary" level, and 2.48 mgd can be treated to "tertiary" levels. The plant treats domestic wastewater flows from the Cardiff Sanitary Division of the City of Encinitas, City of Solana Beach, Rancho Santa Fe Community Services District Improvement Areas 2 and 3 and a portion of the City of San Diego. Rancho Santa Fe Community Services District and the City of San Diego have no financial participation with respect to the Bonds or the Loan Agreements.

Waste Discharge Requirements

The existing wastewater treatment, collection and disposal systems of the Authority and the Local Agencies is subject to waste discharge requirements established by the Regional Board as well as the State Water Resources Control Board.

On July 1, 1981, the Regional Board adopted Order No. 81-12, National Pollutant Discharge Elimination System (NPDES) Permit No. CA0107999, Waste Discharge Requirements for the San Elijo Water Pollution Control Facility, San Diego County. Order No. 81-12, and Addenda Nos. 1 and 2 thereto, established requirements for the discharge of up to 3.7 mgd of treated wastewater from the San Elijo Water Pollution Control Facility (SEWPCF) to the Pacific Ocean via the Ocean Outfall. Order No. 81-12 had an expiration date of June 1, 1986.

On June 6, 1988, the Regional Board adopted Order No. 88-21, NPDES No. CA0107999, Waste Discharge Requirements for the San Elijo Water Pollution Control Facility Discharge Through the San Elijo Ocean Outfall, San Diego County, which superseded Order No. 81-12. Order No. 88-21, and Addenda Nos. 1 and 2 thereto, established requirements for the discharge of an average dry weather flow rate of 3.7 mgd of treated wastewater from the SEWPCF to the Pacific Ocean via the Ocean Outfall. Order No. 88-21, as amended, had an expiration date of June 6, 1993, Monitoring and Reporting Program No. 81-12, as modified by Technical Change Order Nos. T-1 and T-2 remained in effect with the adoption of Order No. 88-21, as no new monitoring and reporting program was issued with Order No. 88-21.

On December 9, 1992, the Authority submitted an application for renewal of its NPDES permit, pursuant to Reporting Requirement No. E.11 of Order No. 88-21, and requested an increase in authorized flow rate from 3.7 mgd to the discharger's upgraded design flow of 5.25 mgd.

On June 26, 1993, the Authority notified the Regional Board that it had completed construction of and start up operations for the secondary treatment facilities at the SEWPCF.

On November 10, 1994, the Regional Board established Order No. 94-105, which contains requirements for the discharge of an average dry weather flow rate of 3.7 mgd of treated wastewater from the SEWPCF to the Pacific Ocean via the Ocean Outfall, superseding Order No. 88-21. Order No. 94-105 did not authorize an increase in flow rate from 3.7 mgd to 5.25 mgd. On July 1, 1995 Technical Change Order No. 1 substituted Monitoring and Reporting Program 94-105 in its entirety.

On May 10, 1999 the Authority submitted an application for renewal of its NPDES permit, requesting a permitted discharge of 5.25 mgd at the SEWRF. On July 13, 1999, the Authority resubmitted the application with a few modifications, and after minor revisions on August 11, 1999, the permit application was determined to be complete.

On November 10, 1999, the Regional Board adopted Order No. 99-71, National Pollutant Discharge Elimination System (NPDES) Permit No. CA0107999, Waste Discharge Requirements for the San Elijo Water Reclamation Facility. Order No. 99-71, with errata, established requirements for the discharge of up to 5.25 mgd of treated wastewater from the San Elijo Water Reclamation Facility to the Pacific Ocean via the San Elijo Ocean Outfall. Order No. 99-71 had an expiration date of November 10, 2004.

On June 8, 2005, the Regional Board adopted Order No. R9-2005-0100, National Pollutant Discharge Elimination System (NPDES) Permit No. CA0107999, Waste Discharge Requirements for the San Elijo Water Reclamation Facility. Order No. R9-2005-0100 established requirements for the discharge of up to 5.25 mgd of treated wastewater from the San Elijo Water Reclamation Facility to the Pacific Ocean via the San Elijo Ocean Outfall. Order No. R9-2005-0100 had an expiration date of June 8, 2010.

On September 8, 2010, the Regional Board adopted Order No. R9-2010-0087, National Pollutant Discharge Elimination System (NPDES) Permit No. CA0107999, Waste Discharge Requirements for the San Elijo Water Reclamation Facility. Order No. R9-2010-0087 established requirements for the discharge of up to 5.25 mgd of treated wastewater from the San Elijo Water Reclamation Facility to the Pacific Ocean via the San Elijo Ocean Outfall. Order No. R9-2010-0087 is the current permit for operation of the facility and has an expiration date of October 27, 2015.

Sewage flows to the influent structure through three forcemains, gravity sewer. The influent structure contains three bar screens. Large solids are removed by the bar screen to protect downstream equipment. Grit is removed by an aerated grit chamber. The existing grit removal system also includes two air lift pumps and a washer. Existing facilities add chemicals, polymer and ferric chloride to the aerated grit chamber to aid in the settling of solids of the primary sedimentation tank.

The wastewater flows from the grit chamber to two of the six covered primary sedimentation tanks with flights and chains for a sludge collection, scum skimmers and positive displacement sludge pumps. Two of the primary sedimentation tanks are in service, two are standby, and two are currently out of service and available for future expansion. The 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 involves flow of primary treated wastewater to one of four aeration basins where organic materials are oxidized through a bacterial process. Two of the aeration basins have been equipped with a selector zone and only one aeration basin is required to accommodate the current ADWF of 3.0 mgd. The other two aeration basins are out of service and available for future expansion. Flow from the aeration basins goes to two of five 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. Waste solids from the bottom of the secondary clarifiers are pumped through one of two DAF (dissolved air flotation) units to further concentrate solids and then to two of the four anaerobic digesters for further biological treatment prior to dewatering by belt filter press and disposal. The dewatered sludge is hauled away and disposed of pursuant to an agreement with a private hauler. See “Bondowners’ Risks - Sludge Disposal”.

The final secondary treated effluent flows by gravity or is pumped by three (3) existing vertical turbine pumps with variable speed drives through the Ocean Outfall. The San Elijo Ocean Outfall was commissioned in 1965 to discharge treated effluent from the San Elijo Water Pollution Control Facility (now named the San Elijo Water Reclamation Facility). The outfall was upgraded and expanded in 1974 to include discharge capacity for the City of Escondido’s Hale Avenue Resource Recovery Facility. The length of the outfall is 8,000 feet with an end depth of approximately 150 feet below mean sea level. The diffuser section of pipe is composed of 1,176 feet of 48-inch pipe with 200 individual 2-inch diameter diffuser ports. The discharge of treated wastewater to the ocean is subject to environmental regulations that stipulate dilution requirements, distance from shore, and depth of water for which the effluent is discharged. To ensure that the ocean outfall is in sound operating condition and that environmental regulations are being met, the San Elijo Joint Powers Authority (SEJPA) inspects the outfall annually.

The SEJPA also owns and operates tertiary treatment facilities for recycled water production and distribution. The secondary effluent water can be pumped through four sand filters and a chlorine contact tank for disinfection. The sand filters operate with a flash mix tank where polymer and aluminum sulfate may be added to enhance the filtration process. Once the water is filtered and disinfected in accordance with Title 22 tertiary treatment requirements, it is pumped into 17 miles of distribution piping and two storage tanks that are owned and operated by the SEJPA. The Authority sells approximately 1,200 acre-feet per year of recycled water as a wholesaler to three local water agencies for irrigation use in their service area.

Other Obligations

In addition to the Bonds, the Authority has other obligations payable from various revenue sources of the Authority.

State Water Resources Loan. In 1988, the Authority entered into a State Revolving Fund Loan for reclamation projects. As of June 30, 2011, the remaining balance on the loan is \$7,300,000. The loan is payable from operating revenues of the Authority.

California Energy Commission Note Payable. In 2007, the Authority entered into a promissory note with the California Energy Resources Conservation and Development Commission in the amount of \$1,193,500. The remaining principal balance as of July 1, 2011, is \$1,009,320.44. The note is payable from legally available funds of the Authority. The Authority expects to use a portion of the proceeds of the Bonds to prepay this note.

Additional Borrowings. The Authority has taken action to approve and enter into a \$2 million loan payable from its water reclamation revenues. The loan will fund an advanced water treatment project with an expected cost of \$4.2 million. The project will also be funded with funds received from a Proposition 84 grant and other funds on hand with the Authority. The loan closed on December 2, 2011.

Sewer Rates and Revenues

Both Local Agencies 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 plus federal and State Clean Water Grants. Each Local Agency establishes user fees adequate to provide for their pro-rata responsibility of the Authority's costs as well as their own costs. The four components of the user fees imposed by the Local Agencies are:

1. *Sewer Service Charges.* Charges based on a measure of Equivalent Dwelling Units ("EDUs").
2. *Sewer Connection Fees.* A charge designed to recover the depreciated original cost of the capacity required by new sewer connections and to properly recognize the equity of existing sewer users who financed current treatment capacity.
3. *Miscellaneous Fees.* Charges derived from interest income and miscellaneous fees and charges.

The sewer rates for the entire wastewater treatment system of each Local Agency are set by the City Councils of Encinitas and Solana Beach, respectively, and are not subject to review by any state or local government agency. In the past, rate changes have been enacted by the respective Encinitas and Solana Beach based upon the recommendations of the respective staffs of Encinitas and Solana Beach.

TABLE 2
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Encinitas
Cardiff Sanitary Division
Sewer Rates and Charges

<u>Fiscal Year</u>	<u>Sewer Service Charge</u>	<u>Connection Fee</u>
2007/08	\$667.90	\$3,417
2008/09	682.38	3,417
2009/10	673.57	3,417
2010/11	663.76	3,417
2011/12	675.86	3,417

TABLE 3
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Solana Beach
Sanitation Enterprise Fund
Sewer Rates and Charges

<u>Fiscal Year</u>	<u>Sewer Service Charge</u>	<u>Connection Fee</u>
2006/07	\$495	\$4,500
2007/08	\$508	4,500
2008/09	\$534	4,500
2009/10	\$560	4,500
2010/11	\$560	4,500

Source: City of Encinitas and City of Solana Beach.

Encinitas last conducted a rate study in 2003. A ten year rate schedule was adopted January 14, 2004, after its introduction and a public hearing held on December 17, 2003. Encinitas adopted a subsequent ordinance implementing adjustments to sewer service charges for fiscal years 2009-2013 and reaffirming previous adjustments for fiscal year 2006-2008 on May 28, 2008; after a public hearing May 14, 2008. Encinitas' approved rate schedule and structure was adopted to meet certain goals, which include, (1) maintaining a formal reserve policy for capital and operating funds, (2) adopting a billing structure and formula to recover fixed and variable costs, (3) adopting a ten-year financial plan with full funding of operation and maintenance, debt service and projected capital needs including automatic rate increases, and (4) adopting "safety triggers" providing for administrative increase in rates and charges to ensure the recovery of unforeseen costs. Encinitas, by administrative policy, maintains a minimum level of reserves for operating cash flow, rate stabilization and capital of \$4,000,000. Under the plan, the annual average single family charge is anticipated to increase to approximately \$675.86 in the next fiscal year. Currently, Encinitas is improving the Cardiff Division Enterprise with the construction of the Olivenhain Pump Station and the Olivenhain trunk line. Both projects are pay as you go funded by the City.

Solana Beach annually reviews its rates for wastewater services. The financial goal for the wastewater system is to provide funding for operation and maintenance, payment of debt service, and payment of project capital costs. Planned improvements to the wastewater system include a pump station upgrade and building repair and pipeline repair and replacement throughout the system.

Rate Setting Process

The Local Agencies are required by their respective Loan Agreements to establish rates and charges for the use of their wastewater collection systems to produce Gross Revenues sufficient to provide Net Revenues equal to at least 1.30 times (i) the Loan Installments coming due and payable during such Fiscal Year, (ii) all payments required with respect to Parity Debt, and (iii) amounts required to repay the Bond Insurer for any draws on the Reserve Account Insurance Policy as required by the Loan Agreements. The sewer service charges, the 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 and become effective after a posting period of 30 days.

The Local Agencies' service charges are designed to comply with the Revenue Program guidelines of the California State Water Resources Control Board. California recipients of State and federal grants for sewage facilities are required to adopt rates in conformity with the guidelines as a condition of receiving the grants. The guidelines 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 Local Agencies' budgetary process. Once results of operations for the Local Agencies' wastewater collection systems are known, a determination is made as to whether it is appropriate for rate adjustments to be made. The timing of rate adjustments may or may not coincide with the budget adoption process, but the implications of any rate adjustments are considered in budget development. The process used to set rates follows State regulations concerning the operation of local government utilities. Based upon the actual amounts of fees received by the Local Agency, sewer rates and connection fees are reviewed and adjusted as needed. Typically, several public hearings are held to review staff studies and recommendations concerning rate adjustments before final adoption of rate changes.

The Authority develops annual budgets for both operations and maintenance and capital improvement programs. The operations and maintenance budget which includes treatment plant and pump station operations and maintenance is based upon 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 of Directors for review in April and revised as necessary for final adoption at the May board meeting. Recommended budget information is also provided to the Local Agencies, to allow opportunity for comment and inclusion in the Local Agencies' annual budget process.

Each year prior to June 1, the Manager of each Local Agency submits to its respective Legislative Body a proposed preliminary budget for the fiscal year commencing the following July 1. The proposed budget includes all funds of each Local Agency except for the funds for capital projects. The proposed budgets include expected expenditures (or expenses, as appropriate) and the means for their financing. Review occurs during May, and public hearings are conducted in June to obtain citizen comments relating to the budget. The fund budget is legally adopted prior to July 1.

Each year the Manager of the each Local Agency presents a budget for capital projects to its respective Legislative Body which includes a five year plan of spending for the capital project funds. Although it is a five year plan, the budget for capital expenditures is legally adopted on an annual basis.

In each year total expenditures of any fund may not exceed total appropriations for that fund. However, each Local Agency's Legislative Body may legally amend the budget at any time during the fiscal year by the adoption of supplemental appropriations and transfers within the programs.

Billing and Collection

Sewer Service Charge. Billing and collection services for sewer service charges for both Local Agencies 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 Local Agency, less delinquencies, in 13 payments 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 the Local Agencies based upon estimates provided by the County. The Local Agencies are ultimately at risk for any reduction in revenues arising from delinquencies. However, shortfalls in collections are typically offset by collections of prior period delinquencies. In addition, the Local Agencies maintain reserves against various contingencies, including variations in revenues. A limited number of customers are not billed through the County property tax collection system. Public schools, churches and other public entities are billed by the respective public agencies within the Local Agencies' boundaries.

Connection Fees. Connection charges are collected by each Local Agency from new customers as a precondition to issuance of a wastewater discharge permit for connection to the wastewater collection system of the respective Local Agency, generally at the time of issuance of a certificate of occupancy.

Tax Levies and Delinquencies

Property taxes are due in two installments, on November 1 and February 1 of each fiscal year, and if unpaid become delinquent on December 10 and April 10, respectively. A penalty of 10 percent 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 percent per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer/Tax Collector.

By policy, the County of San Diego does not include the fees and charges for the collection of wastewater in any Teeter Plan.

Permits, Licenses and Approvals

Permits held by the Authority include a permit issued jointly by the Environmental Protection Agency and the Regional Board. The Authority also holds current permits for operation of all facilities at the Facility, including Air Pollution Control District emission permits and Hazardous Materials storage permits. See "The San Elijo Water Pollution Control Facility -Waste Discharge Requirements".

BONDOWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future.

Sewer Revenues and Demand for Sewer Service

There can be no assurance 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 Rate Covenant. See "Security for the Bonds-Rate Covenants".

Sewer System Expenses

There can be no assurance that the Local Agencies expenses for their respective wastewater collection system 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 Net Revenues of a Local Agency, and could require substantial increases in rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Proposition 218

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters on November 5, 1996. The initiative added Articles XIIC and XIID to the California Constitution, creating additional requirements for the imposition by most local governments of “general taxes,” “special taxes,” “assessments,” “fees,” and “charges.” Proposition 218 became effective, pursuant to its terms, as of November 6, 1996, although compliance with some of its provisions was deferred until July 1, 1997, and certain of its provisions purport to apply to any tax imposed for general governmental purposes (i.e., “general taxes”) imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIID imposes substantive and procedural requirements on the imposition, extension or increase of any “fee” or “charge” subject to its provisions. A “fee” or “charge” subject to Article XIID includes 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, in the event 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 the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the 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 following the public hearing on any such 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* (published July 24, 2006) (“*Bighorn*”) have clarified some of the uncertainty surrounding 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 the Enterprise 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 because it results from 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 the voluntary decisions of customers as to how much water to use.

Article XIID also provides that “standby charges” are considered “assessments” and must follow the procedures required for “assessments” under Article XIID and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that “majority protest” exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirements that the levying entity “separate the general benefits from the special benefits conferred on a parcel” of land. Article XIID also precludes standby charges for services that are not immediately available to the parcel being charged.

Article XIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and imposed exclusively to finance the capital costs or maintenance and operations expenses for “among other things water” are exempted from some of the provisions of Article XIID applicable to assessments.

Article XIII C extends the people's initiative power to reduce or repeal existing local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIII C to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIII C local voters by initiative may reduce a public agency's water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate's initiative power is subject to the public agency's statutory obligation to set water service charges at a level 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."

Constitutional Limit on Appropriations, Fees and Charges

Under Article XIII B of the California Constitution, state and local government entities have an annual "appropriations limit" which limits their ability to spend certain moneys called "appropriations subject to limitation," which consists of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. In general terms, the "appropriations limit" is to be based on certain fiscal year 1978/79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and the expenditures provided by these entities. Among other provisions of Article XIII B, if an entities' revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. The Local Agencies are of the opinion that the rates and use charges imposed by each Local Agency in connection with their respective wastewater collection system do not exceed the costs it reasonably bears in providing such services.

If a portion of a wastewater collection system's rates or connection charges were determined by a court to exceed the reasonable costs of providing service, any fee which the related Local Agency charges may be considered to be a "special tax," which under Article XIII A or XIII D of the California Constitution must be authorized by a two-thirds vote of the affected electorate. This requirement is applicable to the Local Agencies' rates for service provided by their related wastewater collection system. The reasonable cost of service provided by each wastewater collection system has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees such as connection fees (capacity charges) will not be special taxes if they approximate the reasonable cost of constructing wastewater collection system improvements contemplated by the local agency imposing the fee. Such court determinations have been codified in the Government Code of the State of California (Section 66000 et seq.).

Limited Recourse on Default

If either Local Agency 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 Local Agency's 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 Local Agency, and in such event, a Bond Owner may not receive the entire amount of scheduled principal of or interest on the Bonds.

Neither Local Agency is responsible for the Loan Installments owed by the other Local Agency, and a default under one Loan Agreement will not result in a default under the other Loan Agreement. Correspondingly, one Local Agency is not responsible to cure the deficiency in payments of the Loan Agreement of the other Local Agency.

Limitations on Remedies Available

The enforceability of the rights and remedies of the Owners and the obligations of the Authority and the Local Agencies 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, usual 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 Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, 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 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 taxation. The operating income of the Authority is not pledged to the payment of debt service on the Bonds. The operating income of the Authority is not pledged to the payment of debt service on the Bonds. The obligation of the authority to pay principal of and interest on the Bonds does not constitute a debt or indebtedness of the Authority, Encinitas, Solana Beach, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

Change in Law

In addition to the other limitations described herein, the California electorate or 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 Local Agencies. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could reduce the revenues and adversely affect the security of the Bonds.

Sludge Disposal

Currently, the Authority disposes of all of the sludge produced at the Facility pursuant to an agreement with a private sector contractor. The private sector contractor hauls the sludge out of the State of California and processes it for commercial distribution as the sludge is nonhazardous material. If the Authority is unable to dispose of the sludge it produces, it may be forced to curtail or cease operations.

Loss of Tax-Exemption

As discussed under the caption "TAX EXEMPTION," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Indenture. Additionally, the President and Congress continue to search for solutions to the nation's deficit, which include proposals that may impact the treatment of tax-exempt interest by certain taxpayers. Potential bond owners should consult with their tax advisors when considering the purchase of the Bonds.

Natural Disasters

The Local Agencies, like all California communities, may be subject to unpredictable seismic activity, fires, flood or other natural disasters. Southern California is a seismically active area. Seismic activity represents a potential risk for damage to buildings, roads, bridges and property within the Local Agencies. Portions of Southern California are subject to wildfires.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the service areas of the Local Agencies. As a result, a substantial portion of the property owners may be unable or unwilling to pay for wastewater service.

ENCINITAS AND SOLANA BEACH

Encinitas

The Cardiff Sanitation District was formed following an election held on October 6, 1953. The Board of Supervisors of the County acted as the Cardiff Sanitation District's Board of Directors until October 1, 1986. On that date, pursuant to an election approving the San Dieguito Reorganization, the City Council of the City of Encinitas became the new Board of Directors of the District. Also pursuant to the San Dieguito Reorganization, certain boundary changes resulted in fixed assets being transferred from Cardiff Sanitation District to Solana Beach Sanitation District and Rancho Santa Fe Community Services District Improvement Areas 2 and 3. On October 18, 2001, the City of Encinitas merged with the Cardiff Sanitation District which now operates as a separate enterprise of the City of Encinitas known as the Cardiff Sanitary Division.

The service area of Cardiff Sanitary Division presently encompasses an area of approximately 4,202 acres, or approximately 38% of City of Encinitas, and provides sewer service to approximately 7,636 connections. The service area of the Cardiff Sanitary Division is located along Interstate Highway 5 and the Pacific Ocean just north of the San Elijo Lagoon.

City Government

The Cardiff Sanitation District was formed, pursuant to Sections 4700 et seq. of the Health and Safety Code of the State of California and, until the time of the San Dieguito Reorganization referenced above, was under the jurisdiction of the County Board of Supervisors. Pursuant to the Local Agency Formation Commission orders for the incorporation of the City of Encinitas in 1986, Cardiff Sanitation District became a subsidiary district to the newly incorporated City. Upon the completion of the merger of the Cardiff Sanitation District with the City of Encinitas, the City Council governs the activities of the Cardiff Sanitary Division as a separate enterprise of the City of Encinitas. The City of Encinitas staff is responsible for collection system engineering, budget and accounting and new connections. The City of Encinitas is also served by the Encinitas Sanitary Division of the City of Encinitas and the Leucadia County Water District. The revenues of the two other enterprises are separate from the revenues of the Cardiff Sanitary Division and are not pledged to the payment of debt service on the Bonds.

Description of Existing System

The service area of the Cardiff Sanitary Division's wastewater collection system is located approximately 23 miles north of City of San Diego and extends about 2 miles northwest along the 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 of the Cardiff Sanitary Division's wastewater collection system generally slopes westerly to the Pacific Ocean, thereby allowing the majority of wastewater to be collected and transported by gravity along the coastal plain where the topography is relatively flat, however, pumping stations are required. the Cardiff Sanitary Division's sewerage system consists of approximately 400,000 linear feet of collection and trunk sewer lines. Wastewater collected by the Cardiff Sanitary Division's wastewater collection system is conveyed to a pumping station located a short distance from the Facility on the north shore of the San Elijo Lagoon. Wastewater is then pumped to the Facility through a 1,500 foot long, 10-inch diameter forcemain.

Number of Connections

The majority of the past decade has witnessed a gradual suburban residential-type growth within the Cardiff Sanitary Division's service area. The table below shows the last five years growth in connections. Encinitas estimates that 83% of sewer service users are residential while 17% consist of commercial-industrial.

TABLE 4
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Encinitas
Cardiff Sanitary Division
Number of Service Connections and EDU's

Fiscal Year	Total Connections (Billed Parcels)	Residential EDU's	Commercial Industrial EDU's	Total EDU's
2007	6,241	6,840	1,112	7,952
2008	6,283	6,976	1,122	8,097
2009	6,312	6,990	1,124	8,114
2010	6,317	7,011	1,124	8,136
2011	6,329	7,033	1,124	8,187

Source: City of Encinitas.

Secured Tax Charges and Delinquencies

The assessed valuation of Cardiff Sanitary Division is established by the County Assessor, except for utility property which is assessed by the State Board of Equalization. Included in the table below are assessed values in the Cardiff Sanitation Division for the last five fiscal years. The City no longer receives an annual breakdown of assessed values with the Cardiff Sanitation Division since it has merged with the City of Encinitas. Taxes within Cardiff Sanitary Division are levied against the assessed valuation of land and improvements only before exemption. The table below shows secured service charges and rates of delinquencies for the past five years within the Cardiff Sanitation Division of the City of Encinitas.

TABLE 5
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Encinitas
Cardiff Sanitary Division
Assessed Valuations (Land and Improvement)

2003-04	\$2,544,879,587
2004-05	2,774,912,253
2005-06	3,021,825,558
2006-07	3,300,627,664
2007-08	3,534,836,073
2008-09	3,726,246,488
2009-10	3,735,235,461
2010-11	3,717,123,826

Secured Service Charges and Delinquencies

<u>Fiscal Year</u>	<u>Secured Service Charge⁽¹⁾</u>	<u>Amount Del. June 30</u>	<u>% Del. June 30</u>
2006-07	\$4,633,325.22	\$192,086.29	4.15%
2007-08	4,723,040.02	110,512.30	2.34%
2008-09	4,831,651.64	119,910.89	2.48%
2009-10	4,736,723.96	141,027.40	2.98%
2010-11	4,602,824.00	81,410.00	1.80%

Source: California Municipal Statistics, Inc.

⁽¹⁾ 1% General Fund apportionment.

Ten Largest Ratepayers

The top 10 wastewater collection customers of the Cardiff Sanitary Division for the 12-month billing period ended June 30, 2011 are set forth in the table below. The Cardiff Sanitary Division's ten largest users accounted collectively for approximately 10 % of the Cardiff Sanitary Division's total revenues for such period.

TABLE 6
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Encinitas
Cardiff Sanitary Division
Largest Wastewater Customers
(For 12 Months Ended June 30, 2011)

<u>Customer</u>	<u>Actual Charges</u>	<u>Percent of Total Charges</u>
Scripps Memorial Hospital	\$117,288	2.47%
Collwood Pines Apartments LP	85,619	1.81
State of California Parks & Recreation	48,932	1.03
San Dieguito Union High School Dist.	46,601	.98
Avolencia Investment Group LLP	44,212	.93
K&K Lumber Co.	44,659	.88
944 Regal Road LLC	39,238	.83
Cardiff Town Center LLC	26,708	.56
Newport Taft Inc.	19,731	.42
West Village Inc.	<u>19,642</u>	<u>.41</u>
Total	\$492,630	10.32%

Source: City of Encinitas.

The Cardiff Sanitary Division's Summary Financial Information

The following table presents a five year summary of the revenues, expenses and net income of the Cardiff Sanitary Division. The summary was derived by City of Encinitas' Finance Manager from the amounts included in the City's annual combined statements for the fiscal years ending June 30, 2007 through 2011.

TABLE 7
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Encinitas
Cardiff Sanitary Division
Statements of Revenues and Expenses
For Fiscal Years Ended June 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenue:					
Charges for services ⁽¹⁾	\$ 4,826,970	\$ 4,926,104	\$ 5,009,340	\$ 4,979,238	\$ 4,830,204
Rental income	-	-	-	-	-
Internal support services	-	-	-	-	-
Other revenues	541	3,528	469	-	331,244
Total operating revenues	<u>\$ 4,827,511</u>	<u>\$ 4,929,632</u>	<u>\$ 5,009,809</u>	<u>\$ 4,979,238</u>	<u>\$ 5,161,448</u>
Operating Expenses:					
General operations and maintenance	\$ 596,725	\$ 744,074	\$ 732,298	\$ 804,867	\$ 1,070,596
Facility operations and maintenance	1,291,172	1,144,969	1,250,163	1,209,308	1,193,741
Depreciation and amortization	255,546	169,474	303,930	-	932,273
Administrative support	-	-	-	-	-
Operational support services	-	-	-	-	-
General and administrative	256,163	321,086	265,910	357,879	251,386
Change in investment in other agencies	221,639	290,609	-	-	-
Lease payments	-	-	-	-	-
Total operating expenses	<u>\$ 2,621,245</u>	<u>\$ 2,670,212</u>	<u>\$ 2,552,301</u>	<u>\$ 3,284,080</u>	<u>\$ 3,447,996</u>
Operating income (loss)	<u>\$ 2,206,266</u>	<u>\$ 2,259,420</u>	<u>\$ 2,457,508</u>	<u>\$ 1,695,158</u>	<u>\$ 1,713,452</u>
Nonoperating Revenues (Expenses):					
Use of money and property	\$ 421,162	\$ 688,423	\$ 392,505	\$ 162,601	\$ 355,974
Gain on sale of capital assets	-	-	-	-	(8,575)
Grant revenue	-	-	-	-	-
Interest expense on revenue bonds	-	-	-	-	-
Interest expense on notes payable	(326,867)	(315,700)	(302,067)	(285,800)	(267,533)
Other nonoperating expenses	-	-	-	-	-
Total nonoperating revenues (expenses), net	<u>\$ 94,295</u>	<u>\$ 372,723</u>	<u>\$ 90,438</u>	<u>(\$ 123,199)</u>	<u>\$ 79,866</u>
Income (loss) before capital contributions	<u>\$ 2,300,561</u>	<u>\$ 2,632,143</u>	<u>\$ 2,547,946</u>	<u>\$ 1,571,959</u>	<u>\$ 1,793,318</u>
Capital Contributions:					
Change in net assets	\$ 132,238	\$ 492,971	\$ 52,964	\$ 69,801	\$ 223,692
Total net assets – Beginning of year, as restated ⁽²⁾	<u>\$ 2,432,799</u>	<u>\$ 3,125,114</u>	<u>2,600,910</u>	<u>1,641,760</u>	<u>2,017,010</u>
Total net assets – Beginning of year, as restated ⁽²⁾	<u>\$25,413,464</u>	<u>\$27,846,263</u>	<u>\$30,216,977</u>	<u>\$34,129,055</u>	<u>\$36,390,212</u>
Total net assets – End of year ⁽²⁾	<u>\$27,846,263</u>	<u>\$30,971,377</u>	<u>\$32,817,887</u>	<u>\$35,770,815</u>	<u>\$38,407,222</u>

Source: Derived from City of Encinitas Audited Financial Statements by City of Encinitas.

⁽¹⁾ Charges for services do not include income relating to reclaimed water.

⁽²⁾ For Fiscal Year 2010, Encinitas implemented GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets, which required the City to record land easement that the City had from previous year in enterprise funds. See Audited Financial Statements of Local Agencies, Appendix C.

The following table shows historical debt service coverage on the Encinitas Loan from fiscal year 2006-07 to 2010-11

TABLE 8
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Encinitas
Cardiff Sanitary Division
Historic Debt Service Coverage
For Fiscal Years Ended June 30

Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11
Revenues:					
Operating Revenues – Service Charges & Connection Fees	\$4,959,749	\$5,422,603	\$5,062,773	\$5,049,039	\$5,337,717
Non-Operating Revenues	<u>421,162</u>	<u>688,423</u>	<u>392,505</u>	<u>162,601</u>	<u>355,974</u>
Gross Revenues	\$5,380,911	\$6,111,026	\$5,455,278	\$5,211,640	\$5,693,691
Total Operating & Non-Operating Expenses	<u>\$2,948,112</u>	<u>\$2,985,912</u>	<u>\$2,854,368</u>	<u>\$3,569,880</u>	<u>\$3,746,748</u>
Net Income	\$2,432,799	\$3,125,114	\$2,600,910	\$1,641,760	\$1,946,943
Add Back					
Interest Expense	326,867	315,700	302,067	285,800	267,533
Depreciation and Amortization	255,546	169,474	303,930	912,026	932,273
Change in Investment in Other Agencies	<u>221,639</u>	<u>290,609</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Revenues Available for Debt Service	\$3,236,851	\$3,900,897	\$3,206,907	\$2,839,586	\$3,146,749
Debt Service					
2003 Bonds ⁽¹⁾					
Interest Charges	\$ 330,325	\$ 319,950	\$ 307,200	\$ 450,000	\$ 470,000
Principal Repayments	<u>415,000</u>	<u>425,000</u>	<u>440,000</u>	<u>291,800</u>	<u>273,800</u>
Total Debt Service	\$ 745,325	\$ 744,950	\$ 747,200	\$ 741,800	\$ 743,800
Coverage by Net Revenues Available for Debt Service	4.34x	5.24x	4.29x	3.83x	4.23x

Source: Derived from City of Encinitas Audited Financial Statements by City of Encinitas.

⁽¹⁾ 2003 Bonds to be refunded with proceeds of Bonds.

The following table shows assets, liabilities and retained earnings of the Cardiff Sanitation Division's wastewater treatment system as of June 30, 2007 through 2011 as reported in the City of Encinitas' combined financial statements.

TABLE 9
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Encinitas
Cardiff Sanitary Division
Balance Sheets
For Fiscal Year Ended June 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>ASSETS:</u>					
Current assets:					
Cash and investments	\$11,851,702	\$14,627,870	\$16,566,649	\$17,778,447	\$18,692,351
Cash with fiscal agent	-	-	-	-	-
Accounts and taxes receivable	387,477	233,993	239,758	282,470	245,905
Interest receivable	101,987	98,190	71,120	36,446	21,411
Other assets	-	-	-	-	-
Inventory	-	-	-	-	-
Total Current Assets	<u>\$12,341,166</u>	<u>\$14,960,053</u>	<u>\$16,877,527</u>	<u>\$18,097,363</u>	<u>\$18,959,667</u>
<u>NONCURRENT ASSETS:</u>					
Restricted assets:					
Cash and investments with fiscal agent	\$ 747,048	\$ 754,400	-	-	-
Total Restricted Assets	<u>\$ 747,048</u>	<u>\$ 754,400</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other noncurrent assets:					
Investment in other agencies	<u>\$17,551,052</u>	<u>\$17,392,634</u>	<u>\$17,584,957</u>	<u>\$17,169,523</u>	<u>\$17,948,239</u>
Total other noncurrent assets	<u>\$17,551,052</u>	<u>\$17,392,634</u>	<u>\$17,584,957</u>	<u>\$17,169,523</u>	<u>\$17,948,239</u>
Capital assets:					
Land	\$ 8,575	\$ 8,575	\$ 8,575	\$ 8,575	-
Land easements	-	-	-	1,311,168	\$ 1,358,591
Public Works facility right of use	-	-	-	-	-
Construction in progress	23,446	371,695	574,484	1,128,970	1,760,013
Capacity rights, net of accumulated amortization	-	-	-	-	-
Utility, plant and equipment, net of accumulated depreciation	<u>4,380,077</u>	<u>4,264,736</u>	<u>4,091,954</u>	<u>3,919,172</u>	<u>3,992,641</u>
Total capital assets (net of accumulated depreciation)	<u>\$ 4,412,098</u>	<u>\$ 4,645,006</u>	<u>\$ 4,675,013</u>	<u>\$ 6,367,885</u>	<u>\$ 7,111,245</u>
Total noncurrent assets	<u>\$22,710,198</u>	<u>\$22,792,040</u>	<u>\$22,259,970</u>	<u>\$23,537,408</u>	<u>\$25,059,484</u>
Total assets	<u>\$35,051,364</u>	<u>\$37,752,093</u>	<u>\$39,137,497</u>	<u>\$41,634,771</u>	<u>\$44,019,151</u>
<u>LIABILITIES:</u>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 12,295	\$ 18,316	\$ 2,343	\$ 2,689	\$ 226,929
Accrued interest payable	106,650	102,400	97,267	91,267	85,000
Deposits and other liabilities	1,156	-	-	-	-
Current portion of long term debt	<u>425,000</u>	<u>440,000</u>	<u>450,000</u>	<u>470,000</u>	<u>490,000</u>
Total current liabilities	<u>\$ 545,101</u>	<u>\$ 560,716</u>	<u>\$ 549,610</u>	<u>\$ 563,956</u>	<u>\$ 801,929</u>
Noncurrent liabilities:					
Notes and mortgages payable	\$ 6,660,000	\$ 6,220,000	\$ 5,770,000	\$ 5,300,000	\$ 4,810,000
Advances from other funds	-	-	-	-	-
Total noncurrent liabilities	<u>\$ 6,660,000</u>	<u>\$ 6,220,000</u>	<u>\$ 5,770,000</u>	<u>\$ 5,300,000</u>	<u>\$ 4,810,000</u>
Total liabilities	<u>\$ 7,205,101</u>	<u>\$ 6,780,716</u>	<u>\$ 6,319,610</u>	<u>\$ 5,863,956</u>	<u>\$ 5,611,929</u>
<u>NET ASSETS:</u>					
Invested in capital assets, net of related debt	\$ 4,412,098	\$ 4,645,006	\$ 4,675,013	\$ 6,367,885	\$ 7,111,245
Restricted for debt service	747,048	754,400	-	-	-
Unrestricted	<u>22,687,117</u>	<u>25,571,971</u>	<u>28,142,874</u>	<u>29,402,930</u>	<u>31,295,977</u>
Total net assets ⁽¹⁾	<u>\$27,846,263</u>	<u>\$30,971,377</u>	<u>\$32,817,887</u>	<u>\$35,770,815</u>	<u>\$38,407,222</u>

Source: City of Encinitas Audited Financial Statements.

⁽¹⁾ For Fiscal Year 2010, Encinitas implemented GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets, which required the City to record land easements that the City had from previous years in enterprise funds. See Audited Financial Statements, Appendix C.

Solana Beach

The Solana Beach Sanitation District was formed following an election held on November 12, 1946. The Board of Supervisors of the County acted as the Solana Beach Sanitation District Board of Directors until July 1, 1986. On that date, pursuant to an election approving a plan of reorganization, as approved by resolution of the Board of Supervisors of the County, Solana Beach Sanitation District became a subsidiary district of Solana Beach. After the reorganization, the City Council of Solana Beach became the new Board of Directors of the Solana Beach Sanitation District. Also pursuant to the reorganization, certain boundary changes resulted in fixed assets being transferred from Encinitas to the Solana Beach Sanitation District. The transition of day-to-day management of the Solana Beach Sanitation District, first from the County Public Works Department to Solana Beach Sanitation District, and more recently to Solana Beach Sanitation Enterprise Fund, has occurred since the incorporation of Solana Beach. City staff is responsible for collection system engineering, budget and accounting, and new connections. The operating functions of line maintenance are provided by contract with Encinitas.

The Board of Directors of the Solana Beach Sanitation District passed a resolution dated September 14, 1989 requesting that Solana Beach undertake all actions necessary to dissolve or merge the Solana Beach Sanitation District into Solana Beach. Following acceptance by Solana Beach Sanitation District's plan of reorganization on September 18, 1989 and a hearing before the Local Agency Formation Commission, the merger was completed on July 1, 1990. Upon the completion of the reorganization of the Solana Beach Sanitation District and Solana Beach, Solana Beach established a City Sanitation Enterprise 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 Solana Beach Sanitation District under the Basic Agreement. The validity of the Original Loan Agreement entered into between the Solana Beach Sanitation District and the Authority in regard to the 1993 Bonds is also not impacted.

City Government

The City was incorporated in July 1986 after an election held June 3, 1986. The City's incorporation involved a reorganization consisting primarily of the incorporation of Solana Beach; the detachment of territory from Encinitas and annexation of the same territory to the Solana Beach Sanitation District and the establishment of the Solana Beach Sanitation District as a subsidiary district of the City of Solana Beach.

The City is a general law city and operates under a council-manager form of government. The City Council consists of five members elected at large. Council members serve four-year terms, with elections every two years for either two or three seats. The Mayor is selected by a majority vote of the City Council and serves a one year term. The City Manager is appointed by the City Council and serves as the City Council's administrative head of the City of Solana Beach. All other city employees are appointed by and are responsible to the City Manager, except the City Attorney who is appointed by the City Council.

Description of Existing System

The service area of Solana Beach wastewater collection system generally slopes westerly to the Pacific Ocean, thereby allowing the majority of wastewater to be collected and transported by gravity along the coastal plain where the topography is relatively flat, however, pumping stations are required. The City's wastewater collection system consists of approximately 196,470 linear feet of collection and trunk sewer lines. Wastewater collected by Solana Beach's wastewater collection system is conveyed to Solana Beach's pumping station located on the south shore of the San Elijo Lagoon. Wastewater is then pumped to the Facility through a 5,500 foot long, 12-inch diameter force main. The remaining wastewater is conveyed to the Olivenhain Pump Station, which is owned by the City of Encinitas and operated by the Authority, from where it is pumped to the San Elijo Water Reclamation Facility.

Number of Connections

The majority of the past decade has witnessed a gradual suburban residential-type growth within Solana Beach's service area. The table below shows the last five years growth in connections. The City estimates that 62 % of sewer service users are residential while 38 % consist of commercial-industrial.

TABLE 10
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Solana Beach
Number of Service Connections and EDU's

<u>Fiscal Year</u>	<u>Residential EDU's⁽¹⁾</u>	<u>Commercial Industrial EDU's</u>	<u>Total EDU's</u>
2007	2,421	1,639	4,060
2008	2,421	1,645	4,066
2009 ⁽²⁾	2,729	1,713	4,442
2010 ⁽²⁾	2,730	1,733	4,463
2011 ⁽²⁾	2,728	1,735	4,463

Source: City of Solana Beach

⁽¹⁾ Single family only.

⁽²⁾ Includes 300 EDU's billed to the City of San Diego for services outside of the City.

Secured Tax Charges and Delinquencies

The assessed valuation of Solana Beach is established by the County Assessor, except for utility property which is assessed by the State Board of Equalization. Taxes within Solana Beach are levied against the assessed valuation of land and improvements only before exemptions. The table below shows the assessed valuation of Solana Beach together with tax collections and delinquency rates for the past five fiscal years.

TABLE 11
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Solana Beach
Assessed Valuations

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2007-08	\$3,136,904,631	\$0	\$42,571,014	\$3,179,475,645
2008-09	3,340,906,670	0	44,075,393	3,384,982,063
2009-10	3,395,706,773	0	45,112,840	3,440,819,613
2010-11	3,387,231,619	0	41,730,069	3,428,961,688
2011-12	3,458,751,909	0	43,334,921	3,502,086,830

Secured Tax Charges and Delinquencies

	<u>Secured Service Charge⁽¹⁾</u>	<u>Amount Del. June 30</u>	<u>% Del. June 30</u>
2006-07	\$4,382,503.63	\$127,521.03	2.91%
2007-08	4,719,563.84	185,009.49	3.92
2008-09	5,004,106.84	187,231.77	3.74
2009-10	5,066,039.00	160,409.00	3.17
2010-11	5,034,194.19	101,857.03	2.02

Source: California Municipal Statistics, Inc.

⁽¹⁾ 1% General Fund apportionment.

Ten Largest Ratepayers

The top 10 wastewater collection customers of the Sanitation Enterprise Fund for the 12-month billing period ended June 30, 2010 are set forth in the table below. The Sanitation Enterprise Fund ten largest users collectively accounted for approximately 12% of the Sanitation Enterprise Fund total revenues for such period.

TABLE 12
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Solana Beach
Largest Wastewater Customers
(For 12 Months Ended June 30, 2010)

<u>Customers</u>	<u>Amount Billed</u>	<u>Percent of Total</u>
Fenton Solana Highlands LLC	\$ 75,600	1.8%
S B Towne Center LLC	74,838	1.8
Pacific Solana Beach Holdings LP	59,214	1.4
Muller-Beachwalk LLC	56,622	1.3
ERP Operating Ltd Ptnship	56,000	1.3
Urschel Laboratories Inc.	44,240	1.0
SB Corporate Centre III-IV LLC	40,376	1.0
S B Corporate Centre LLC	38,080	0.9
Pinnacle Solana LP	34,160	0.8
Solana Partners LP	<u>29,680</u>	<u>0.7</u>
Total	\$508,810	12.0%

Source: City of Solana Beach.

City Sanitation Department Summary Financial Information

The following table presents a five year summary of the revenues, expenses and net income of the City's Sanitation Enterprise Fund. The summary was derived by the City of Solana Beach Finance Manager from the amounts included in Solana Beach's Enterprise Fund annual combined financial statements for the years ending June 30, 2007 through 2010, and unaudited for fiscal year 2011.

TABLE 13
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Solana Beach
Sanitation Enterprise Fund
Statements of Revenues and Expenses
For Fiscal Years Ended June 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011⁽¹⁾</u>
Operating Revenue:					
Charges for services	\$ 3,846,613	\$ 4,084,886	\$ 4,283,087	\$ 4,498,181	\$ 4,501,364
Other	-	14,009	13,803	217,552	13,803
Intergovernmental	<u>\$ 13,803</u>	<u>1,821,970</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Revenues	\$ 3,860,416	\$ 5,920,865	\$ 4,296,890	\$ 4,715,733	\$ 4,515,167
Operating Expenses:					
Costs of sales and services	\$ 1,809,123	\$ 1,916,925	\$ 2,472,042	\$ 2,269,659	\$ 2,524,870
Administration	232,986	241,609	285,836	372,779	328,920
Depreciation	<u>169,845</u>	<u>170,429</u>	<u>237,649</u>	<u>240,413</u>	<u>345,103</u>
Total Operating Expenses	\$ 2,211,954	\$ 2,328,963	\$ 2,995,527	\$ 2,882,851	\$ 3,198,893
Operating Income (Loss)	<u>\$ 1,648,462</u>	<u>\$ 3,591,902</u>	<u>\$ 1,301,363</u>	<u>\$ 1,832,882</u>	<u>\$ 1,316,274</u>
Non-Operating Revenues (Expenses):					
Intergovernmental	-	-	-	-	-
Interest income	\$ 451,527	\$ 488,749	\$ 261,554	\$ 73,634	\$ 51,294
Interest expense	(542,867)	(785,782)	(748,726)	(723,659)	(696,026)
Amortization of bond issuance costs	(31,066)	(36,620)	(36,621)	(36,621)	(36,621)
Amortization of investment premium	(10,945)	(10,945)	(10,945)	(10,945)	(10,945)
Share in joint venture net gain/capital contribution	<u>(70,702)</u>	<u>(158,419)</u>	<u>192,323</u>	<u>203,963</u>	<u>159,319</u>
Total Non-Operating Revenues (Expenses)	<u>(\$ 204,053)</u>	<u>(\$ 503,017)</u>	<u>(\$ 342,415)</u>	<u>(\$ 493,628)</u>	<u>(\$ 532,979)</u>
Income (Loss) Before Transfers	<u>\$1,444,409</u>	<u>\$3,088,885</u>	<u>\$ 958,948</u>	<u>\$ 1,339,254</u>	<u>\$ 783,295</u>
Capital Contributions:			-	-	-
Transfers:					
Transfer in	-	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Transfers	-	-	-	-	-
Change in net assets	\$ 1,444,409	\$ 3,088,885	\$ 958,948	\$ 1,339,254	\$ 783,295
Net Assets:					
Beginning of year	\$21,749,362	\$23,193,771	\$26,282,656	\$27,241,604	\$28,580,858
End of year	<u>\$23,193,771</u>	<u>\$26,282,656</u>	<u>\$27,241,604</u>	<u>\$28,580,858</u>	<u>\$29,364,153</u>

Source: Derived from City of Solana Beach Audited Financial Statements.

⁽¹⁾ Unaudited Financial Statements.

The following table shows historical debt service coverage from fiscal years ending 2007 through 2011.

TABLE 14
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Solana Beach
Sanitation Enterprise Fund
Historic Debt Service Coverage
For Fiscal Years Ended June 30

<u>Fiscal Year</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11⁽⁷⁾</u>
Revenues:					
Operating Revenue – Service Charges & Connection Fees ⁽¹⁾	\$3,846,613	\$ 4,084,886	\$4,283,087	\$4,498,181	\$4,501,364
Intergovernmental revenue	-	1,821,970	-	-	-
Other Operating ⁽²⁾	13,803	14,009	13,803	217,552	13,803
Non-Operating Revenues	<u>477,002</u>	<u>488,749</u>	<u>453,867</u>	<u>277,597</u>	<u>210,613</u>
Gross Revenues	\$4,337,418	\$ 6,409,614	\$4,750,757	\$4,993,330	\$4,725,780
Less: Operations, Non-Operations and Maintenance Expenses	<u>2,893,009</u>	<u>3,320,729</u>	<u>3,791,819</u>	<u>3,654,075</u>	<u>3,942,485</u>
Net Income	\$1,444,409	\$ 3,088,885	\$ 958,938	\$1,339,255	\$ 783,295
Deduct from:					
Intergovernmental revenue	-	(\$1,821,970)	-	-	-
Add Back:					
Interest Expense (accrual method of accounting) ⁽³⁾	\$ 373,483	\$ 785,782	\$ 748,726	\$ 723,659	\$ 696,026
Depreciation and Amortization ⁽⁴⁾	169,845	170,429	237,749	240,413	345,103
Amortization of Bond Issuance Costs ⁽⁵⁾	48,765	36,620	36,621	36,621	36,621
Amortization of Investment in JPA ⁽⁵⁾	<u>10,945</u>	<u>10,945</u>	<u>10,945</u>	<u>10,945</u>	<u>10,945</u>
Net Revenues Available for Debt Service	\$2,047,447	\$ 2,270,691	\$1,992,979	\$2,350,893	\$1,871,990
Debt Service:					
2003 Refunding Revenue Bonds ⁽⁶⁾					
Interest Charges	\$ 373,483	\$ 360,800	\$ 342,350	\$ 333,600	\$ 313,000
Principal Repayment	<u>470,000</u>	<u>485,000</u>	<u>500,000</u>	<u>515,000</u>	<u>535,000</u>
Total Debt Service	\$ 843,483	\$ 845,800	\$ 842,350	\$ 848,600	\$ 848,000
Coverage by Net Revenues Available for Debt Service	2.43x	2.68x	2.37x	2.77x	2.21x

Source: City of Solana Beach Audited Financial Statements, as adjusted for reclaimed water activity.

⁽¹⁾ Operating Revenues Sewer Service and Connection Fees.

⁽²⁾ Operating Revenues, Other.

⁽³⁾ Non-Operating Expense, Interest Expense.

⁽⁴⁾ Operating Expense, Depreciation.

⁽⁵⁾ Operating Expense, part of General and Administrative. Reduces value of asset on balance sheet under Investment in Joint Venture and Deferred Debt Issuance Costs.

⁽⁶⁾ 2003 Bonds to be refunded with proceeds of Bonds.

⁽⁷⁾ Unaudited Financial Statements.

Other Obligations of Solana Beach Enterprise. On January 18, 2007, the Solana Beach Financing Authority issued its \$9,825,000, series 2006 subordinate Wastewater Revenue Bonds (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 the Solana Beach Sanitation Enterprise Fund on a basis subordinate to the payment of the 2003 Loan Installments and the Loan Installments relating to the Bonds. The 2006 Bonds mature on September 1, 2037, and annual debt service payments are approximately \$590,000.

The following table shows assets, liabilities and retained earnings of the City's Sanitation Department as of June 30, 2007 through 2010 as reported in the City's combined audited financial statements, and the unaudited Fiscal Year 2011.

TABLE 15
San Elijo Joint Powers Authority
2011 Refunding Revenue Bonds
(San Elijo Water Reclamation Facility)

City of Solana Beach
Sanitation Enterprise Fund
Balance Sheet
For Fiscal Years Ended June 30

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011⁽¹⁾</u>
ASSETS					
Current assets:					
Cash and investments	\$ 3,468,280	\$ 8,438,529	\$ 7,523,590	\$ 5,766,100	\$ 7,310,688
Cash and investments with fiscal agents	8,749,326	8,380,786	8,313,612	8,316,287	3,442,146
Receivables:					
Sewer fees, due within one year	3,590,011	672,154	557,771	422,988	240,750
Accounts	-	9,858	220,186	245,889	239,017
Taxes	2,461	14,555	31,991	32,766	20,598
Interest	47,677	49,190	26,367	6,320	5,163
Advance to General Fund (current)	-	-	-	-	352,249
Due from other governments	-	530,028	-	-	-
Due from other funds	-	-	-	-	-
Due from joint venture	130,035	50,793	-	-	-
Total Current Assets	<u>\$15,987,790</u>	<u>\$18,145,893</u>	<u>\$16,673,517</u>	<u>\$14,790,350</u>	<u>\$11,610,611</u>
Noncurrent assets:					
Sewer fees receivable	\$ 15,512	-	-	-	-
Deferred issuance costs, net	1,026,092	\$ 963,996	\$ 901,901	\$ 839,806	\$ 777,710
Investment in joint venture	17,790,000	17,620,636	17,802,014	17,995,032	18,143,406
Advance to General Fund	-	-	-	-	2,780,338
Capital assets:					
Non-depreciable	-	-	2,716,351	5,304,744	213,861
Depreciable, net	-	-	6,735,219	6,633,023	11,548,113
Total net capital assets	<u>\$ 7,581,699</u>	<u>\$ 7,476,418</u>	<u>\$ 9,451,570</u>	<u>\$11,937,767</u>	<u>\$11,761,974</u>
Total noncurrent assets	<u>\$26,413,303</u>	<u>\$26,061,050</u>	<u>\$28,155,485</u>	<u>\$30,772,605</u>	<u>\$33,463,428</u>
Total Assets	<u>\$42,401,093</u>	<u>\$44,206,943</u>	<u>\$44,829,002</u>	<u>\$45,562,955</u>	<u>\$45,074,039</u>
LIABILITIES					
Current liabilities:					
Account payable	\$ 639,159	\$ 42,399	\$ 417,955	\$ 545,194	\$ 49,039
Accrued salaries and benefits	4,093	5,099	6,130	10,320	10,716
Interest payable	291,267	252,239	244,248	235,164	225,697
Loans payable	615,000	685,000	-	-	-
Due to other funds	-	-	-	-	-
Compensated absences, due within one year	1,802	1,154	1,570	1,806	6,511
Long term debt, due within one year	-	-	705,000	735,000	790,475
Total current liabilities	<u>\$ 1,551,321</u>	<u>\$ 985,891</u>	<u>\$ 1,374,903</u>	<u>\$ 1,527,484</u>	<u>\$ 1,082,438</u>
Noncurrent liabilities:					
Compensated absences, due in more than one year	\$ 19,824	\$ 12,694	\$ 17,268	\$ 19,861	\$ 8,645
Loan payable	17,305,000	16,620,000	-	-	-
Premium on debt issuance	331,177	305,702	-	-	-
Premium on long term debt	-	-	280,227	254,752	203,801
Long term debt, due in more than one year	-	-	15,915,000	15,180,000	14,415,000
Total noncurrent liabilities	<u>\$17,656,001</u>	<u>\$16,938,396</u>	<u>\$16,212,495</u>	<u>\$15,454,613</u>	<u>\$14,627,446</u>
Total liabilities	<u>\$19,207,322</u>	<u>\$17,924,287</u>	<u>\$17,587,398</u>	<u>\$16,982,097</u>	<u>\$15,709,886</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 5,655,824	\$ 5,300,163	\$ 9,451,570	\$10,679,302	\$6,389,844
Restricted for:					
Debt service ⁽²⁾	1,021,293	1,021,293	1,021,293	-	-
Unrestricted	16,516,654	19,961,200	16,768,741	17,901,556	22,974,309
Total net assets	<u>\$23,193,771</u>	<u>\$26,282,656</u>	<u>\$27,241,604</u>	<u>\$28,580,858</u>	<u>\$29,364,153</u>

Source: Derived from City of Solana Beach Audited Financial Statements.

⁽¹⁾ Unaudited Financial Statements.

⁽²⁾ Fiscal Year 2010 reclassified net asset allocation as a result of change of auditor.

TAX EXEMPTION

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest 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 corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings, and the Bonds are “qualified tax-exempt obligations” within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Tax Code”), such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction for federal income tax purposes is allowed for 80% of that portion of such financial institution's interest expense allocable to interest payable on the Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds. The Authority has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds, or may cause the Bonds to not be “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Tax Code.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, the arithmetical accuracy of certain computations included in the schedules provided by the Underwriter on behalf of the Authority relating to the computation of (a) the adequacy of forecasted receipts of principal and interest on the Federal Securities and cash to be held pursuant to the Escrow Agreement, (b) the forecasted payments of principal and interest with respect to the Prior Bonds on and prior to their respective maturity dates, and (c) the yields with respect to the Bonds and the Federal Securities to be deposited to the Escrow Fund upon the delivery of the Bonds, will be verified by Berens Tate LLP, independent certified public accountants. Such verification of the accuracy of the mathematical computations shall be based upon certain information and assumptions supplied to Berens Tate LLP, by the Underwriter on behalf of the Authority. Berens Tate LLP has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made a study or evaluation of the information and assumptions on which the computations are based, and accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance, sale and delivery by the Authority of the Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by its general counsel, Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, and Best Best & Krieger LLP, Riverside, California, disclosure counsel, and for the Local Agencies by their respective counsels.

ABSENCE OF LITIGATION

There is no litigation pending against the Authority or the Local Agencies, nor, to the knowledge of the officers or attorneys of the Authority or the Local Agencies, threatened, in any court or other tribunal of competent jurisdiction, state or federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the Bonds, (ii) questioning or affecting the validity of the Bonds, (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Bonds, or (iv) questioning or affecting the validity or enforceability of the Loan Agreements or the Indenture.

RATINGS

Standard & Poor's is expected to assign its municipal bond rating of "AA-" (stable outlook) to the Bonds maturing on March 1 in the years 2016 through 2019, inclusive (the "Insured Bonds"), with the understanding that, upon delivery of the Insured Bonds, the Policy will be issued by Assured Guaranty Municipal Corp. Such rating reflects only the view of Standard & Poor's and an explanation of the significance of such rating may be obtained from them as follows: Standard & Poor's Corporation, 25 Broadway, New York, New York 10004, (212) 208-8000. The Authority has also obtained underlying ratings on the Bonds from Standard & Poor's and Fitch Investors Service, Inc. of "AA-" and "AA", respectively. There is no assurance that such ratings will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agencies, if in the judgment of such rating agencies circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased for reoffering by Brandis Tallman LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of \$9,833,714.05 representing the principal amount of Bonds plus original issuance premium of \$658,741.55 and less the Underwriter's discount of

\$60,027.50. The obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Agreement. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

The Underwriter reserves the right to join with dealers and other underwriters in offering the bonds to the public. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallocate any such discounts on sales to other dealers.

PROFESSIONAL FEES

In connection with the issuance of the Bonds, fees payable to Jones Hall, A Professional Corporation, as Bond Counsel, Best Best & Krieger LLP, as Disclosure Counsel and Union Bank, N.A., as Trustee are contingent upon the issuance of the Bonds.

AVAILABILITY OF DOCUMENTS

Copies of the Loan Agreements and the Indenture will be available, upon written request, from the Manager of the Authority.

ADDITIONAL INFORMATION

The quotations from, and summaries and explanations of the Indenture and other statutes and documents contained herein do not purport to be complete, and reference is made to such documents, the Indenture, the Loan Agreements and statutes for full and complete statements of their provisions.

This Official Statement is submitted only in connection with the sale of the Bonds by the Authority. All estimates, assumptions, statistical information and other statements contained herein, while taken from sources considered reliable, are not guaranteed by the Authority. The information contained herein should not be construed as representing all conditions affecting the Authority, the Local Agencies or the Bonds.

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

SAN ELIJO JOINT POWERS AUTHORITY

By: /s/ Michael T. Thornton, P.E.
General Manager

APPENDIX A

Economic and Demographic Information Regarding the Cities of Encinitas and Solana Beach

The following information regarding the Encinitas, Solana Beach and the surrounding area is presented as general background data. The Bonds are payable solely from the sources described herein (see “SECURITY FOR THE BONDS”). The taxing power of the City of Encinitas, the City of Solana Beach, the State of California or any political subdivision thereof is not pledged to the payment of the Bonds. See the information under the caption “THE BONDS.”

CITY OF ENCINITAS

History and Location

The City was incorporated in October, 1986. The City’s incorporation involved a reorganization consisting primarily of the incorporation of the City of Encinitas; the detachment of territory from the Cardiff Sanitation District and annexation of the same territory to the Solana Beach Sanitation District; and the establishment of the Encinitas Fire Protection District, the San Dieguito Water District, and the Encinitas Sanitary District as subsidiary districts of the City (the “Districts”).

The City is located in the northern coastal area of San Diego County (the “County”) overlooking the Pacific Ocean. The City encompasses approximately 21.4 square miles and is located 30 miles north of the City of San Diego and immediately north of the City of Solana Beach. Topography of the surrounding area varies from broad coastal plains to fertile inland valleys backed up by mountain ranges to the east. The climate is equable in the coastal and valley regions. The community has long, dry summers and mild temperatures, with mean temperatures of 70 degrees and an average annual rainfall of 10.36 inches.

City Organization

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

Population

At incorporation in 1986, there were about 48,558 people in the City limits. As of January 1, 2011, the California Department of Finance estimates that Encinitas has grown to a population of 59,910, and expects to be built out according to general plan estimates at 73,600. Encinitas is a low density community consisting predominately of single family homes. The table below shows population estimates for Encinitas, San Diego County and the State.

**City of Encinitas
Population Estimates**

<u>Year</u>	<u>City of Encinitas</u>	<u>San Diego County</u>	<u>State of California</u>
2007	59,378	2,998,477	36,116,202
2008	59,411	3,032,689	36,399,676
2009	59,453	3,064,436	36,704,375
2010	59,628	3,091,579	36,966,713
2011	59,910	3,118,876	37,510,760

Source: California State Department of Finance.

Assessed Valuation and Collections

The following Table sets forth assessed valuation growth in Encinitas.

**CITY OF ENCINITAS
ASSESSED VALUATION
(Fiscal Year 2011-12)**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2007-08	\$10,539,452,529	\$0	\$149,460,274	\$10,688,912,803
2008-09	11,097,895,097	0	160,815,739	11,258,710,836
2009-10	11,175,029,435	0	163,857,938	11,338,887,373
2010-11	11,186,889,197	0	157,142,326	11,344,031,523
2011-12	11,388,978,126	0	138,583,972	11,527,562,098

Source: California Municipal Statistics, Inc.

**CITY OF ENCINITAS
LARGEST TAXPAYERS
(Fiscal Year 2011-2012)**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2011-12 Assessed Valuation</u>	<u>Percent of Total⁽¹⁾</u>
1. Collwood Pines Apartments LP	Apartments	\$ 54,972,120	0.49%
2. Pacific Station Property LLC	Commercial	46,467,461	0.41
3. North Coast Health Center LLC	Professional Buildings	32,409,699	0.29
4. Encinitas Town Center Asscs I LLC	Shopping Center	32,288,675	0.29
5. WRI El Camino LP	Shopping Center	31,977,500	0.28
6. Belmont Village Cardiff LP	Convalescent Home	29,255,866	0.26
7. PK III Encinitas Marketplace LP	Shopping Center	28,600,000	0.25
8. Urschel Laboratories Inc.	Apartments	22,443,243	0.20
9. ASN Encinitas LLC	Apartments	22,335,652	0.20
10. KSL Encinitas Resort Corp.	Commercial	21,647,020	0.19
11. Vons Companies Inc.	Shopping Center	21,517,793	0.19
12. Lofts at Moonlight Beach LLC	Commercial	20,107,555	0.18
13. Encinitas Plaza LP	Commercial	17,367,711	0.15
14. Sterling Family Trust	Apartments	17,226,857	0.15
15. Keith B. and Sara S. Harrison	Residential and Commercial	17,141,367	0.15
16. Plenc El Camino LLC	Shopping Center	16,888,954	0.15
17. Hughes/Encinitas Ltd.	Shopping Center	16,612,808	0.15
18. Home Depot USA Inc.	Commercial	16,560,628	0.15
19. Golden Eagle Annuity Investment LP	Shopping Center	16,120,480	0.14
20. Quailpointe Apartments LP	Apartments	15,010,089	0.13
		<u>\$496,951,478</u>	<u>4.39%</u>

Source: California Municipal Statistics, Inc.

⁽¹⁾ 2011-12 Local Secured Assessed Valuation: \$11,321,440,297.

City Audits

The City and all of its funds are currently audited annually by the certified public accounting firm of Macias Gini & O'Connell LLP, Newport Beach, California. Copies of the audited financial statements are on file with the City.

Retail and Total Taxable Sales

The following table presents the retail taxable transactions of the City of Encinitas for the calendar years 2005 through 2010.

CITY OF ENCINITAS TAXABLE RETAIL SALES (\$ in thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010⁽¹⁾</u>
Apparel Stores	\$ 22,983	\$ 25,626	\$ 26,378	\$ 28,118	\$ 80,620	\$ 25,690
General Merchandise Stores	91,208	96,977	101,819	94,883	59,344	13,468
Food Stores	70,618	71,703	69,015	66,638	85,057	22,015
Eating and Drinking Places	127,224	130,857	138,204	138,632	74,801	18,456
Home Furnishing and Appliances	79,601	80,770	69,015	63,536	100,110	28,742
Building Material and Farm Implements	-	-	-	-	33,402	8,790
Auto Dealers and Auto Supplies	151,760	119,270	98,533	84,025	-	-
Service Stations	80,081	87,069	93,987	115,805	134,441	34,151
Other Retail Stores	287,766	289,446	276,077	250,506	194,488	46,825
Retail Stores Totals	911,241	901,718	873,669	842,141	762,263	198,137
All Other Outlets	<u>116,219</u>	<u>122,082</u>	<u>122,630</u>	<u>113,682</u>	<u>93,299</u>	<u>24,126</u>
Total All Outlets	\$1,027,460	\$1,023,800	\$996,299	\$955,823	\$855,562	\$222,264

⁽¹⁾ Second Quarter of 2010.

Source: State of California, Board of Equalization

Construction Activity

The City's General Plan projects a build-out population of approximately 73,600 and promotes gradual movement toward that amount. Annual total building permit valuation and the annual unit total of new residential permits since 2006-07 for the City is shown in the following table:

CITY OF ENCINITAS NEW BUILDING UNITS PERMITS

<u>Fiscal Year</u>	<u>Number of Permits</u>
06-07	2,769
07-08	2,573
08-09	2,332
09-10	2,242
10-11	<u>2,381</u>
Total	12,297

Source: City of Encinitas

CITY OF SOLANA BEACH

General

The City of Solana Beach ("Solana Beach") is located on the northern coast of San Diego County. The City is bounded on the south by Del Mar, on the east by the City of San Diego and unincorporated portions of San Diego County, on the west by the Pacific Ocean, and on the north by San Elijo Lagoon. 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 by Solana Beach voters. Council members serve a four year term. Council members appoint the City Manager who is responsible for the proper administration of Solana Beach. The table below shows population estimates for Solana Beach, San Diego County and the State.

City of Solana Beach Population Estimates

<u>Year</u>	<u>City of Solana Beach</u>	<u>San Diego County</u>	<u>State of California</u>
2007	12,790	2,998,477	36,116,202
2008	12,780	3,032,689	36,399,676
2009	12,805	3,064,436	36,704,375
2010	12,896	3,091,579	36,966,713
2011	12,945	3,118,876	37,510,760

Source: California State Department of Finance.

The following table shows annual taxable retail store sales in Solana Beach in the last five years for which figures are available, as reported by the State Board of Equalization. During fiscal year 2011, total taxable sales that were reported in Solana Beach were reported to be \$2,447,917, a 4% increase of the total taxable sales of \$2,344,322 that were reported for calendar year 2010.

CITY OF SOLANA BEACH Taxable Retail Sales (in thousands)

<u>State Board of Equalization Major Business Categories</u>	<u>2006-07 Fiscal Year Totals</u>	<u>2007-08 Fiscal Year Totals</u>	<u>2008-09 Fiscal Year Totals</u>	<u>2009-10 Fiscal Year Totals</u>	<u>2010-11 Fiscal Year Totals</u>
Retail Group					
Apparel Stores	\$ 258,257	\$ 267,639	\$ 248,710	\$ 254,015	\$ 270,134
Auto Dealers and Supplies	63,901	66,628	63,158	62,675	63,708
Building Materials	271,028	265,881	261,362	182,533	184,779
Eating and Drinking Places	531,180	558,273	553,087	538,844	548,069
Food Stores	127,002	124,561	123,307	123,693	129,014
Furniture and Appliances	341,069	309,654	288,567	198,093	228,069
Other Retail Stores	<u>896,866</u>	<u>729,729</u>	<u>667,200</u>	<u>717,419</u>	<u>772,183</u>
Total Retail Group	\$ 2,489,302	\$2,322,366	\$2,205,392	\$2,077,273	\$2,195,956
Non-Store & Part Time Retailers	\$ 4,962	\$ 7,532	\$ 9,671	\$ 5,935	\$ 3,864
Business, Service and Repair Group	\$ 126,827	\$ 119,179	\$ 105,698	\$ 81,761	\$ 85,978
Manufacturers & Wholesalers Group					
Contractors & Material	\$ 8,588	\$ 16,483	\$ 12,938	\$ 11,988	\$ 19,372
Furniture & Textiles	24,762	4,625	2,802	1,441	4,145
Industrial Equipment	20,534	15,278	11,433	11,657	14,982
All Other Equipment	<u>160,091</u>	<u>120,911</u>	<u>149,203</u>	<u>147,224</u>	<u>123,620</u>
Total Mfg & Wholesale Group	\$ 213,975	\$ 157,297	\$ 176,376	\$ 172,310	\$ 162,120
State Adjustments & Transfers	\$ 0	\$ 0	\$ 0	\$ 7,043	\$ 0
Total Sales All Outlets	\$2,835,065	\$2,606,373	\$2,497,136	\$2,344,322	\$2,447,917

Source: State of California, Board of Equalization

Construction Activity

The following table shows the number of building permits and valuation in the City of Solana Beach for the last five fiscal years.

CITY OF SOLANA BEACH **New Building Units and Total Valuation**

<u>Fiscal Year</u>	<u>No. of Permits</u>	<u>Total Valuation</u>
2006/07	285	\$15,506,544
2007/08	281	\$26,012,554
2008/09	222	\$13,566,424
2009/10	248	\$10,870,018
2010/11	184	\$12,514,047

Source: City of Solana Beach.

Property Taxes

Assessed Valuation. The following table shows historical assessed valuation for Solana Beach.

CITY OF SOLANA BEACH **Assessed Valuation**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2007-08	\$3,136,904,631	\$0	\$42,571,014	\$3,179,475,645
2008-09	3,340,906,670	0	44,075,393	3,384,982,063
2009-10	3,395,706,773	0	45,112,840	3,440,819,613
2010-11	3,387,231,619	0	41,730,069	3,428,961,688
2011-12	3,458,751,909	0	43,334,921	3,502,086,830

Source: San Diego County Assessor.

Principal Taxpayers. The twenty largest secured taxpayers in Solana Beach are shown below.

**CITY OF SOLANA BEACH
Principal Taxpayers
2011-12 Secured Tax Roll**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2011-12 Assessed Valuation</u>	<u>Percent of Total⁽¹⁾</u>
1. SBTC Holdings LLC	Commercial	\$41,307,683	1.19%
2. Sanyo Foods Corp. of America	Industrial	29,241,915	0.85
3. Pacific Solana Beach Holdings LP	Shopping Center	29,235,554	0.85
4. Fenton Solana Highlands LLC	Apartments	27,669,189	0.80
5. SB Corporate Centre III-IV LLC	Commercial	27,222,158	0.79
6. Muller-Beachwalk LLC	Commercial	22,400,000	0.65
7. ERP Operating LP	Apartments	17,708,254	0.51
8. Lavida Delmar Associates LP	Convalescent Home	15,649,998	0.45
9. 445 Marine View LLC	Commercial	15,000,000	0.43
10. Urschel Laboratories Inc.	Apartments	12,823,692	0.37
11. Price Self Storage Solana Beach LLC	Industrial	12,494,603	0.36
12. Pinnacle Solana LP	Hotel	11,113,586	0.32
13. Ozawa Farms Inc.	Shopping Center	8,943,277	0.26
14. Generation Properties LP	Commercial	7,974,620	0.23
15. Keith and Sara Harrison	Commercial	7,688,642	0.22
16. Long's Drug Stores California Inc.	Commercial	7,547,998	0.22
17. Beckman Lomas LLC	Commercial	6,804,671	0.20
18. Sloan Norton Revocable Trust	Residential Properties	6,623,081	0.19
19. ALPS Hospitality Inc.	Hotel	6,168,164	0.18
20. Solana/F&G Partners	Commercial	<u>5,999,746</u>	<u>0.17</u>
		\$319,616,831	9.24%

Source: California Municipal Statistics, Inc.

⁽¹⁾ 2011-12 Local Secured Assessed Valuation: \$3,458,751,909.

City Audits

The City and all of its funds are currently audited annually by the certified public accounting firm of Caporicci & Larson, Inc., San Diego, California. Copies of the audited financial statements are on file with the City.

INFORMATION RELATING TO BOTH ENCINITAS AND SOLANA BEACH

Employment

The cities of Encinitas and Solana Beach are primarily residential communities, and thus, there are few major employers in the communities. Numerous small businesses primarily make up the employment base in the community. Civilian labor force statistics for the City are unavailable. Encinitas and Solana Beach are part of the Metropolitan Statistical Area (MSA) comprised of San Diego County. The two tables which follow set forth information with respect to employment by industry groups and the labor force in general in the County of San Diego MSA.

COUNTY OF SAN DIEGO-CARLSBAD-SAN MARCOS MSA EMPLOYMENT BY MAJOR INDUSTRY GROUP (2006 - 2010)

<u>Major Industry Group</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total All Industries ⁽¹⁾	1,312,500	1,319,700	1,309,300	1,240,900	1,229,800
Total Farm	10,900	10,900	10,500	9,500	9,700
Mining	500	400	400	400	400
Construction	92,700	87,000	76,100	61,100	55,500
Manufacturing	103,900	102,500	102,800	95,300	92,400
Wholesale Trade	45,100	45,500	44,900	40,600	39,200
Retail Trade	148,300	148,100	142,000	131,600	130,000
Transportation, Warehousing and Utilities	28,700	28,800	29,000	27,400	27,500
Publishing	10,700	10,400	9,700	8,900	7,900
Broadcasting	4,600	4,800	4,900	4,600	4,300
Finance and Insurance	53,200	50,200	46,100	43,300	41,400
Real Estate	30,500	30,100	29,200	26,500	25,700
Professional and Business Services	219,200	223,200	222,300	206,800	208,000
Educational Services	21,300	22,000	24,400	26,700	26,600
Health Services	103,800	107,600	112,900	117,500	120,600
Leisure and Hospitality	156,500	161,800	164,000	154,800	154,600
Other Services	48,400	48,300	48,400	46,800	47,200
Federal Government	40,400	40,900	41,600	43,700	46,900
State and Local Government	177,500	181,500	183,500	180,800	179,100

Source: State of California Employment Development Department.

⁽¹⁾ Figures may not add to total due to independent rounding.

Since the industry employment data referenced above is organized by standard industrial classification codes, employment in the various high tech categories, such as Telecommunications, Software and Biotechnology may not fall into a single employment sector alone. For example, some telecommunications firms appear in Manufacturing, while certain other telecommunications firms appear in Services.

**COUNTY OF SAN DIEGO
EMPLOYMENT TRENDS-ANNUAL AVERAGES 2006-2010
BY PLACE OF RESIDENCE
(in thousands)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
County of San Diego					
Labor Force	1,499,900	1,518,300	1,547,300	1,554,100	1,558,200
Employment (000s)	1,440,400	1,449,500	1,455,100	1,404,500	1,393,900
Unemployment Rate (%)	4.0%	4.5%	6.0%	9.6%	10.5%
State of California					
Labor Force (000s)	17,686,700	17,928,700	18,191,000	18,204,200	18,176,200
Employment (000s)	16,821,300	16,970,200	16,883,400	16,141,500	15,916,300
Unemployment Rate (%)	4.9%	5.3%	7.2%	11.3%	12.4%

Sources: California Employment Development Department; California Labor Market Bulletin; Employment Development Department, Labor Market Conditions in California.

Encinitas is experiencing growth throughout its city limits, whereas Solana Beach is presently 97% developed. Growth management is concentrated more on the future redevelopment of Solana Beach than current building. Sections of Solana Beach's General Plan provide all guidelines relating to growth management.

Population

Both Solana Beach and Encinitas are low density communities consisting primarily of single family homes. Solana Beach is near build-out at 12,867 and Encinitas' projected build-out under the general plan estimates a population of 73,600.

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APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Indenture of Trust and the Loan Agreements. Such summary is not intended to be definitive, and reference is made to the complete documents for the complete terms thereof.

DEFINITIONS

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this summary:

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

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

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

“Authority Representative” means the Manager of the Authority.

“Basic Agreement” means the Basic Agreement, dated June 17, 1987, between the Cardiff Sanitation District and the Solana Beach Sanitation District, as amended from time to time, under which the Authority was created.

“Board” means the Board of the Authority.

“Bond Insurance Policy” means the insurance policy issued by the Bond Insurer with respect to the Insured Bonds guaranteeing the scheduled payment of principal and interest on the Insured Bonds when due.

“Bond Insurer” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

“Bond Law” means Article 10 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State, as in existence on the Closing Date or as thereafter amended from time to time.

“Bond Year” means 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 1st Bond Year shall extend from the Closing Date to March 1, 2012.

“Bonds” means the \$9,235,000 aggregate principal amount of San Elijo Joint Powers Authority 2012 Refunding Revenue Bonds (San Elijo Water Reclamation Facility), authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture.

“Business Day” means a day of the year on which banks in New York, New York, and Los Angeles, California, are not required or authorized to remain closed and on which The New York Stock Exchange is not closed.

“CEC Loan” means the Energy Conservation Assistance Account Loan Agreement between the California Energy Resources and Development Commission (the “Commission”) and the Authority, pursuant to which the Commission made an unsecured loan to the Authority in the original principal amount of \$1,193,500.

“Certificate of the Authority” means a certificate in writing signed by the Chairperson, Vice-Chairperson, Authority Representative or Secretary of the Authority, or by any other officer of the Authority duly authorized by the Board for that purpose.

“Cities” mean Encinitas and Solana Beach.

“Closing Date” means December 21, 2011, being the date of delivery of the Bonds to Brandis Tallman LLC as the original purchaser thereof.

“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds and the making of the Loans pursuant to the Loan Agreements, 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 to any financial consultants or underwriters, legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents, and costs of printing, as well as bond insurance and surety bond premiums, if any.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amounts:

(a) The principal amount of all Outstanding Serial Bonds coming due and payable by their terms in such period; and

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

“Depository” means (a) initially DTC, and (b) any other Securities Depository acting as Depository pursuant to Section 2.05 of the Indenture.

“Depository System Participant” means any participant in the Depository’s book-entry system.

“Encinitas” means the City of Encinitas, as successor to the Cardiff Sanitation District.

“Enterprise” or “Facility” means any and all facilities of the Authority used for the treatment and disposal of wastewater, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith; provided that the term “Enterprise” shall not include the Water Reclamation Facility.

“Escrow Bank” means U.S. Bank National Association, acting as Escrow Bank under the Escrow Deposit and Trust Agreement.

“Escrow Deposit and Trust Agreement” means the Escrow Deposit and Trust Agreement, dated as of December 1, 2011, by and between the Authority and the Escrow Bank.

“Escrow Fund” means the fund of that name established and maintained under the Escrow Deposit and Trust Agreement.

“Event of Default” means any of the events described as such in the Indenture.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security—State and Local Government Series that is acquired in accordance with the applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment. To the extent required by the Regulations, the term “investment” will include a hedge.

“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 entity the timely payment of principal of and interest on which are directly or indirectly guaranteed by the United States of America.

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

“Gross Revenues” means all gross income and revenue received by the Cities for the collection and treatment of wastewater generated in the Cardiff Sanitary Division with respect to Encinitas, and generated in the City of Solana Beach with respect to Solana Beach, 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 their wastewater collection systems and the Enterprise, and (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or pursuant to the law to their wastewater collection systems and the Enterprise; 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 Cities.

“Indenture” means the Indenture of Trust, dated as of December 1, 2011, 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 pursuant to the provisions of the Indenture.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service”, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 55 Broad Street, 28th Floor, New York, New York 10004; Moody’s Investors Service “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; Standard & Poor’s Corporation “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Insured Bonds” shall mean those Bonds maturing on March 1 in any of the years 2016, 2017, 2018 and 2019.

“Interest Account” means the account by that name established and held by the Trustee pursuant to Section 4.02(a) of the Indenture.

“Interest Payment Date” means March 1 and September 1 in each year, beginning March 1, 2012, and continuing thereafter so long as any Bonds remain Outstanding.

“Late Payment Rate” means a rate per annum equal to the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (“Prime Rate”) (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days.

In the event JPMorgan Chase Bank ceases to announce its prime rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Bond Insurer shall specify.

“Loan Agreements” means, collectively, (a) the Third Amended and Restated Loan Agreement, dated as of December 1, 2011, by and among the Authority, the Trustee and Encinitas relating to the loan of \$4,341,362 to Encinitas, and (b) the Third Amended and Restated Loan Agreement, dated as of December 1, 2011, by and among the Authority, the Trustee and Solana Beach, relating to the loan of \$4,893,638 to Solana Beach.

“Loans” means the loans made by the Authority to the Cities under and pursuant to the Loan Agreements.

“Moody’s” means Moody’s Investors Service, Inc., and its successors and assigns.

“Net Revenues” means Gross Revenues less Operation and Maintenance Expenses.

“Nominee” means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated pursuant to Section 2.05(a) of the Indenture.

“Operation and Maintenance Expenses” means all expenses and costs of management, operation, maintenance and repair incurred by the cities for the collection of wastewater in the Cardiff Sanitary Division with respect to Encinitas and in the City of Solana Beach with respect to Solana Beach, as well as the costs of maintaining their respective collection systems, and all incidental costs, fees and expenses properly chargeable to their wastewater collection systems in the Cardiff Sanitary Division with respect to Encinitas and in the City of Solana Beach with respect to Solana Beach (but excluding debt service or other similar payments on parity Debt or other obligations an depreciation and obsolescence charges or reserves therefor and amortization of intangibles and inter-fund transfers or other bookkeeping entries of a similar nature). “Operating and Maintenance Expenses” does not include expenses and costs of management, operation, maintenance and repair of the Water Reclamation Facilities.

“Outstanding”, when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 9.07 of the Indenture) all Bonds theretofore executed, issued and delivered by the Authority under the Indenture except -

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

- (b) Bonds paid or deemed to have been paid within the meaning of Section 9.03 of the Indenture; and

- (c) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered pursuant to the Indenture or any Supplemental Indenture.

“Owner” or “Bond Owner”, when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered on the Registration Books.

“Parity Debt” means indebtedness or other obligations (including leases and loan agreements) hereafter issued or incurred by either of the Cities and secured by a pledge of and lien on Net Revenues equally and ratably with the Loan Installments.

“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) any of the following direct or indirect obligations of the following agencies of the United States of America and other entities: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;
- (c) 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 the Trustee), provided that: (i) in the case of a savings and loan association, such demand or time deposits shall be fully insured by the Federal Deposit Insurance Corporation, or the unsecured obligations of such savings and loan association shall be rated A or better by Moody’s or S&P; and (ii) in the case of a bank, such demand or time deposits shall be fully insured by the Federal Deposit Insurance Corporation, or the unsecured obligations of such bank (or the unsecured obligations of the parent bank holding company of which such bank is the lead bank) shall be rated A or better by Moody’s and S&P;
- (d) commercial paper rated in the highest rating category by Moody’s and S&P;
- (e) obligations the interest on which is excludable from gross income pursuant to Section 103 of the Tax Code and which are either (a) rated A or better by Moody’s or S&P, or (b) fully secured as to the payment of principal and interest by Federal Securities;
- (f) obligations issued by any corporation organized and operating within the United States of America having assets in excess of \$500,000,000, which obligations are rated A or better by Moody’s and S&P;
- (g) money market funds the policy of which is to invest solely in Federal Securities or in obligations which are fully guaranteed or collateralized by Federal Securities; and
- (h) any investment agreement which is either (i) fully collateralized with cash or Federal Securities, or (ii) entered into with a financial institution the long-term unsecured obligations of which are rated A or better by S&P.
- (i) the Local Agency Investment Fund - Bond Proceeds Pool established and maintained by the Treasurer of the State of California.

“Principal Account” means the account by that name established and held by the Trustee pursuant to Section 4.02(b) of the Indenture.

“Prior Bonds” means the \$18,640,000 original aggregate principal amount of San Elijo Joint Powers Authority 2003 Refunding Revenue Bonds (San Elijo Water Reclamation Facility), authorized by the Bond Law and issued under the Prior Indenture.

“Prior Indenture” means the Indenture of Trust, dated as of April 1, 2003, by and between the Authority and Union Bank, N.A., authorizing the issuance of the Prior Bonds.

“Private Business Use” means use directly or indirectly in a trade or business carried on by a natural person or in any activity carried on by a person other than a natural person, excluding use by a governmental unit (other than the federal government) and use by any person as a member of the general public.

“Qualified Surety Bond” means any irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company approved by the Bond Insurer and deposited with the Trustee as provided in the Indenture, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or insurance company is “AA” or “Aa” or better from each rating agency which then maintains a rating on the Bonds; (b) such letter of credit or surety bond has a term of at least twelve (12) months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Indenture; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Debt Service Fund for the purpose of making payments required pursuant to the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

“Registration Book” means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

“Request of the Authority” means a request in writing signed by the Authority Representative, the Treasurer of the Authority, or by any other officer of the Authority duly authorized by the Board for that purpose.

“Reserve Account” means the account by that name established and held by the Trustee pursuant to 4.02(c) of the Indenture.

“Reserve Account Surety” means the reserve account surety issued by the Bond Insurer on the Closing Date in an amount equal to the Reserve Requirement.

“Reserve Account Surety Costs” means repayment of draws under the Reserve Account Surety and payment of expenses and accrued interest thereon at the Late Payment Rate.

“Reserve Requirement” means an amount equal to the lesser of: (i) maximum annual Debt Service on the Bonds; (ii) ten percent (10%) of the principal amount of the Bonds; or (iii) 125% of average annual Debt Service on the Bonds.

“Revenue Fund” means the fund by that name established pursuant to the Indenture.

“Revenues” means: (a) all amounts payable by the Cities pursuant to the 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 each of the Loan Agreements; (b) any proceeds of 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 Indenture; and (c) income and gains with respect to the investment of amounts on deposit in the funds and accounts established under the Indenture.

“S&P” means Standard & Poor’s Corporation, and its successors and assigns.

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190 and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Solana Beach” means the City of Solana Beach, a general law city duly organized and existing under the laws of the State.

“State” means the State of California.

“Supplemental Indenture” means any indenture, agreement or other instrument hereafter duly executed by the Authority and the Trustee in accordance with the provisions of the Indenture.

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

“Tax Regulations” means temporary and permanent regulations promulgated under or with respect to Section 103 and Sections 141 through 150, inclusive, of the Tax Code.

“Trust Office” means the principal corporate trust office of the Trustee at Union Bank, N.A., 120 S. San Pedro Street, Suite 400, Los Angeles, CA 90012, or such other offices as may be specified to the Authority by the Trustee in writing.

“Trustee” means Union Bank, N.A., and its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in Article VI of the Indenture.

“Water Reclamation Facilities” means tertiary treatment system and reclaimed water distribution system of the Authority, including two 750,000 gallon reservoirs, 17 miles of distribution pipeline and two pumping stations, as more particularly described in the Authority’s State Revolving Fund Loan Program No. C 06-4155-110.

INDENTURE

Establishment of Funds and Accounts; Flow of Funds

The proceeds of sale of the Bonds will be deposited with the Trustee in the Reserve Account and the Costs of Issuance Fund and transferred to the Escrow Bank for deposit in the Escrow Fund established under the Escrow Agreement. The Escrow Fund established under the Escrow Agreement will be applied by the Escrow Bank to refund the CEC Loan on December 22, 2011 and the Prior Bonds in full on or about March 1, 2012.

Costs of Issuance Fund. Pursuant to the Loan Agreements, the amount specified in the Indenture will be deposited with the Trustee in the Costs of Issuance Fund on the Closing Date. The moneys in the Costs of Issuance Fund will be disbursed to pay costs of issuing the Bonds and other related financing costs from time to time upon receipt of written requests of the Authority. On the 60th day following the Closing Date, or upon the earlier request of the Authority stating that all such costs have been paid, the Trustee will transfer all remaining amounts in the Costs of Issuance Fund to the Revenue Fund.

Revenue Fund: Receipt, Deposit and Application of Amounts Therein. All Revenues described in clause (a) of the definition thereof will be deposited by the Trustee in the Revenue Fund promptly upon receipt. On or before each Interest Payment Date, the Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Revenue Fund),

the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Interest Account. On or before each Interest Payment Date, the Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all outstanding Bonds. All moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it will become due and payable (including accrued interest on any Bonds redeemed prior to maturity). All amounts on deposit in the 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 Bonds, will be withdrawn therefrom by the Trustee and transferred upon a written request of the Cities, either (a) credited on a pro-rata basis (based upon the Cities' respective responsibility for debt service as of the date of the withdrawal) towards any amounts to be paid by the Cities pursuant to the Loan Agreements, or (b) transferred to the Cities on a pro rata basis (based upon the Cities' respective responsibility for debt service as of the date of the transfer) to be used for any lawful purposes of the Cities.

(b) Principal Account. On or before each Interest Payment Date on which the principal of the Bonds will be payable, the Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit therein to equal the principal amount of the Bonds coming due and payable on such date, or the redemption price of the Bonds (consisting of the principal thereof and any applicable redemption premiums) required to be redeemed on such date. All moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of and redemption premium (if any) on the Bonds at the maturity thereof or upon the redemption thereof. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any outstanding Bonds then having come due and payable, will be withdrawn therefrom and transferred to the Cities on a pro rata basis (based upon the Cities' respective responsibility for debt service as of the date of the withdrawal) to be used for any lawful purpose of the Cities.

(c) Reserve Account. The amount on deposit in the Reserve Account shall be maintained at the Reserve Requirement at all times so long as the Loans remain unpaid. In the event that there is not on deposit with the Trustee the full amount required to be paid to Bondholders on or before the second (2nd) Business Day preceding any Interest Payment Date, on such Business Day the Trustee shall draw on the Reserve Account Surety and transfer to the Interest Account and the Principal Account, in such order, an amount equal to the difference between (a) the amount required to be on deposit in such accounts and (b) the amount actually on deposit in such accounts.

The Authority shall repay any draws under the Reserve Account Surety and pay all related reasonable expenses incurred by the Bond Insurer in connection with the Reserve Account Surety. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Bond Insurer at the Late Payment Rate. The Trustee shall immediately apply any late Loan payment received by it to reimburse the Bond Insurer for a draw on the Reserve Account Surety, to be applied as a credit against any amounts owed by the Authority to the Bond Insurer.

Repayment of Reserve Account Surety Costs shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Reserve Account Surety Costs related to such draw.

Amounts in respect of Reserve Account Surety Costs paid to the Bond Insurer shall be credited first to interest due, then to expenses due and then to principal due. As and to the extent that payments are made to the Bond Insurer on account of principal due, the coverage under the Reserve Account Surety will be increased by a like amount, subject to the terms of the Reserve Account Surety.

Investment of Funds

All moneys in any of the funds or accounts held by the Trustee under the Indenture will be invested by the Trustee solely in Permitted Investments that are available at the times required as directed by the Authority in advance of the making of such investments. In the absence of any such direction of the Authority, the Trustee will invest any such moneys solely in Federal Securities or money market funds described in paragraph (g) of the definition of Permitted Investments. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture will be deposited in the fund or account from which such investment was made.

Acquisition, Disposition and Valuation of Investments

(a) Except as otherwise provided in subsection (b) of this Section, the Authority covenants that all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Tax Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Tax Code) at Fair Market Value.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code shall be valued at their present value (within the meaning of section 148 of the Tax Code).

Payment Provisions Relating to Bond Insurance Policy

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall give notice to the Bond Insurer and to its designated agent (if any) (the "Bond Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Insured Bonds due on such Payment Date, the Trustee shall make a claim under the Bond Insurance Policy and give notice to the Bond Insurer and the Bond Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Insured Bonds and the amount required to pay principal of the Insured Bonds, confirmed in writing to the Bond Insurer and the Bond Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Bond Insurance Policy.

The Trustee shall designate any portion of payment of principal on the Insured Bonds paid by the Bond Insurer, whether by virtue of maturity or other advancement of maturity, on its books as a reduction in the principal amount of Insured Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Bond Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Authority on any Bond or the subrogation rights of the Bond Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal paid in respect of any Insured Bond. The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of holders of the Insured Bonds referred to herein as the “Policy Payments Account” and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Bond Insurance Policy in trust on behalf of holders of Insured Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to holders of the Insured Bonds in the same manner as principal and interest payments are to be made with respect to the Insured Bonds under the sections hereof regarding payment of Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything to the contrary otherwise set forth in the Indenture, and to the extent permitted by law, the Authority agrees to pay to the Bond Insurer (i) a sum equal to the total of all amounts paid by the Bond Insurer under the Bond Insurance Policy (the “Bond Insurer Advances”); and (ii) interest on such Bond Insurer Advances from the date paid by the Bond Insurer until payment thereof in full, payable to the Bond Insurer at the Late Payment Rate (collectively, the “Bond Insurer Reimbursement Amounts”). The Authority covenants and agrees that the Bond Insurer Reimbursement Amounts are secured by a lien on and pledge of the Net Revenues and payable from such Net Revenues on a parity with debt service due on the Insured Bonds.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the Bond Insurer.

Covenants of the Authority

Payment of Bonds. The Authority will punctually pay or cause to be paid the principal of and interest to become due on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, but only out of Revenues and other assets pledged for such payment as provided in the Indenture. The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are outstanding, except the pledge and assignment created by the Indenture.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness will be issued or incurred which are payable out of the Revenues in whole or in part.

Tax-Related Covenants. The Authority will not take, nor permit nor suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of any of the Bonds which would cause any of the Bonds to be “arbitrage bonds” or “private activity bonds” within the meaning of applicable federal tax law. The Authority will cause to be calculated annually all excess investment earnings which are required to be rebated to the United States of America under applicable federal tax law, and will cause all required amounts to be rebated from payments made by the Cities under the Loan Agreements.

Loan Agreements; Amendments Thereof. The Trustee will promptly collect all amounts due from the Cities pursuant to the Loan Agreements and will diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority thereunder and for the enforcement of all of the obligations of the Cities thereunder. The Authority, the Trustee and the Cities may at any time amend or modify any Loan Agreement with the written consent of the Bond Insurer, but only (a) if the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Bonds then outstanding to such amendment or modification, or (b) without the consent of any of the Bond Owners, if such amendment or modification is for any one or more of the following purposes-

- (a) to add to the covenants and agreements of the City contained in such Loan Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein reserved to or conferred upon the City; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in such Loan Agreement, or in any other respect whatsoever as the City may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners of the Bonds; or

(c) to amend any provision thereof relating to federal tax law, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on any of the Bonds under the federal tax law, in the opinion of nationally-recognized bond counsel.

Amendment of Indenture

The Indenture may be modified or amended at any time by a supplemental indenture with the written consent of the Bond Insurer and the Owners of a majority in aggregate principal amount of the Bonds then outstanding. No such modification or amendment may (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or redemption premiums (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

The Indenture may also be modified or amended at any time by a supplemental indenture, without the consent of any Bond Owners, to the extent permitted by law, with the written consent of the Bond Insurer, but only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the Authority, so long as such limitation or surrender of such rights or power does not adversely affect the interests of the Bond Owners; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Authority may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners of the Bonds in the reasonable judgment of the Authority; or

(c) to amend any provision of the Indenture relating to the federal tax law, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on any of the Bonds under federal tax law, in the opinion of nationally recognized bond counsel.

Events of Default

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

(a) Default in the due and punctual payment of the principal of any Bond when and as the same becomes due and payable (except that in determining whether a payment default has occurred under the Indenture, no effect shall be given to payments made under the Bond Insurance Policy), whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise (provided that in determining whether such payment has not been made, no effect shall be given to payments made under the Bond Insurance Policy).

(b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable (except that in determining whether

a payment default has occurred under the Indenture, no effect shall be given to payments made under the Bond Insurance Policy).

(c) Failure by the Authority to observe and perform any of the other covenants, agreements or conditions contained in the Indenture or in the Bonds, if such default continues for a period of 30 days after written notice thereof (unless such grace period is, with the consent of the Bond Insurer as to the Insured Bonds only, extended to 60 days) (the “Grace Period”), specifying such failure and requesting that it be remedied, has been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Bonds at the time outstanding; provided, however, that if in the reasonable opinion of the Authority the failure stated in such notice can be corrected, but not within such Grace Period, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time, and (only with respect to the Insured Bonds) if the Bond Insurer consents to extend the Grace Period, if corrective action is instituted by the Authority within such Grace Period and diligently pursued until such failure is corrected.

(d) Certain events relating to bankruptcy or insolvency of the Authority.

(e) An event of default has occurred under either of the Loan Agreements.

Remedies. Upon the occurrence and during the continuance of an Event of Default, the Trustee may pursue any available remedy at law or in equity (including an action in mandamus) to enforce the payment of the principal of, premium, if any, and interest on the outstanding Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture, subject to the prior written consent of the Bond Insurer. In the event the maturity of the Bonds is accelerated, the Bond Insurer may elect, in its sole discretion to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the Authority) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer’s obligations under the Bond Insurance Policy with respect to such Bonds shall be fully discharged. Upon the occurrence of an event of default and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and other amounts pledged thereunder, pending such proceedings, with such powers as the court making such appointment shall confer. If an event of default has occurred and is continuing and if requested to do so by the Bond Insurer and the Owners of at least 25% in aggregate principal amount of Bonds then outstanding and upon being indemnified as provided in the Indenture, the Trustee is, with the prior written consent of the Bond Insurer as to the Insured Bonds only (so long as the Bond Insurance Policy is in full force and effect), obligated to exercise such one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interests of the Bond Owners. No delay or omission to exercise any right or power accruing upon any event of default shall impair any such right or power or shall be construed to be a waiver of any such event of default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Indenture would adversely affect the security for the Bonds or the rights of the Bondholders, the Trustee shall consider the effect of any such amendment, consent, action or inaction as if there were no Bond Insurance Policy.

Application of Revenues and Other Funds After Default. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the Indenture shall be applied by the Trustee in the following order upon presentation of the Bonds -

First, to the payment of the costs and expenses of the Trustee in declaring such event of default and in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel; and

Second, to the payment of the whole amount of interest on and principal of the Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the outstanding 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:

- (a) first, to the payment of all installments of interest on the Bonds 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,
- (b) second, to the payment of principal of all installments of the Bonds 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,
- (c) third, to the payment of the redemption price (including principal and interest accrued to the redemption date) of the Bonds to be redeemed from Revenues derived from the acceleration of any Loan, on a pro rata basis in the event that the available amounts are insufficient to pay the redemption price of all such Bonds in full, and
- (d) fourth, to the payment of interest on overdue 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.

Limitation on Bond Owners' Right to Sue. No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under the Indenture without the prior written consent of the Bond Insurer, and not unless (a) such Owner has previously given to the Trustee written notice of the occurrence of an event of default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then outstanding have requested the Trustee in writing to exercise its powers under the Indenture; (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by the Trustee and said tender of indemnity is made to the Trustee.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or any Bond Owner will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds to exercise any right or power accruing upon any default will impair any such right or power or be construed to be a waiver of any such default or acquiesce therein.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an event of default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Bonds then outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an event of default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the outstanding Bonds opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Discharge of Indenture

The Authority may pay and discharge the indebtedness on any or all outstanding Bonds in any one or more of the following ways:

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

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit with the Trustee in the funds and accounts provided for in the Indenture and the Loan Agreements, is fully sufficient to pay such Bonds, including all principal, interest and premiums, if any; or

(c) by (i) irrevocably depositing with the Trustee or any other fiduciary, in trust, Federal Securities in such amount as an independent certified public accountant determines in a written report (a "Verification") will, together with the interest to accrue thereon and available moneys then on deposit with the Trustee in the funds and accounts provided for in the Indenture and the Loan Agreements, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and premiums, if any) at or before their respective maturity dates; (ii) delivering an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Bond Insurer), (iii) delivering an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under the Indenture and (iv) delivering a certificate of discharge of the Trustee with respect to the Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed to the Authority, the Trust and the Bond Insurer. The Bond Insurer shall be provided with final drafts of the above referenced documentation not less than five business days prior to the funding of the escrow;

Upon such payment, and notwithstanding that any Bonds have not been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture with respect to such Bonds, and all other pecuniary obligations of the Authority under the Indenture with respect to such Bonds, shall cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose. Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the Authority.

Removal of Trustee

The Owners of a majority in aggregate principal amount of the Outstanding Bonds may at any time, and the Authority may (and at the request of either City shall) so long as no Event of Default shall have occurred and then be continuing, remove the Trustee initially appointed, and any successor thereto, by an instrument or concurrent instruments in writing delivered to the Trustee, whereupon the Authority or such Owners, as the case may be, shall appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company meeting the requirements set forth in the Indenture.

LOAN AGREEMENTS

Terms of Loans; Payment of Principal and Interest

Pursuant to the Loan Agreements, the Authority agrees to restate the Loans made to the Cities on the Closing Date of the Prior Bonds. The principal of each Loan is payable in aggregate installments on March 1 in each of the years and in the amounts, and interest on each installment of the Loan is calculated at the rates per annum and is payable on each Interest Payment Date in the aggregate amounts, corresponding to the amounts of principal and interest then coming due with respect to the outstanding Bonds, including the principal amount of Bonds then subject to mandatory sinking fund redemption. Principal of and interest on the Loans is payable by the Cities to the Trustee, as assignee of the Authority under the Indenture, in immediately available funds, at least four (4) business days prior to each Interest Payment Date.

Payment of Loans

The Loans are not subject to optional prepayment.

Rate Covenant

Each City covenants that it shall prescribe, revise and collect such charges for the services and facilities provided by its wastewater collection system which, after allowances for contingencies and error in the estimates, shall produce Gross Revenues sufficient in each Fiscal Year to: (1) repay amounts drawn on the Reserve Account Surety as a result of the failure of the City to make a payment required under the applicable Loan Agreement, and (2) provide Net Revenues equal to at least 1.3 times the sum of (i) the Loan Installments coming due and payable during such Fiscal Year and (ii) all payments required with respect to Parity Debt due and payable during such Fiscal Year..

Parity Debt

Either City may issue or incur Parity Debt on a parity with its respective Loan, subject to the following conditions:

- (i) The City is not in default under the terms of its Loan Agreement;
- (ii) Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any more recent twelve (12) month period selected by the City ending not more than sixty (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 hereinafter in this subsection designated (1) and (2), shall have amounted to at least 1.3 times the sum of the maximum Loan Installments 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 Net Revenues for the purpose of applying the above-described restriction:

- (1) An allowance for revenues from any additions to or improvements or extensions of its wastewater collection system and the Enterprise 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 the City; and
- (2) An allowance for earnings arising from any increase in the charges made for service from its wastewater collection system and the Enterprise 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.

Additional Payments

In addition to the Loan Installments, the Cities shall pay, from Net Revenues, when due, their respective Proportionate Share of all costs and expenses incurred by the Authority to comply with the provisions of the Indenture of Trust and the Loan Agreements, including, without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), compensation due to the Trustee for its fees, costs and expenses incurred under the Indenture of Trust, including any amounts owed to the Bond Insurer, and all costs and expenses of the Trustee.

Payments to Reserve Account

In addition to the Loan Installments, each City will pay to the Trustee, from Net Revenues, such amounts as shall be required to repay the Bond Insurer for draws on the Reserve Account Surety in the event of a draw therefrom caused by the City's failure to pay Loan Installments due and payable under the applicable Loan Agreement in a timely manner, in accordance with the Indenture. In addition, each City shall reimburse the Authority for any expenses incurred by the Authority under the Indenture in the event of a draw on the Reserve Account Surety caused by the City's failure to pay Loan Installments on a timely basis.

Pledge of Net Revenues

(a) Pledge of Net Revenues. Each City agrees in its Loan Agreement that the payment of the Loan Installments shall be secured by a first and prior pledge, charge and lien upon Net Revenues, and Net Revenues sufficient to pay the Loan Installments as they become due and payable are pledged, charged, assigned, transferred and set over by each City to the Authority and its assigns for the purpose of securing payment of the Loan Installments. The Net Revenues shall constitute a trust fund for the security and payment of the Loan Installments. If Net Revenues are ever insufficient to pay Loan Installments as the same become due and payable, the City shall pay Loan Installments from funds of the City lawfully available therefor. The Cities further agree that none of the Net Revenues shall be transferred or paid into its general fund unless and until the then required payments of the Loan Installments have been made and the Cities' pro rata share (based upon the respective City's percentage share of debt service as of the date of transfer) of the Reserve Requirement deposit in the Reserve Account has been met.

(b) Transfer to Pay Loan Installments. In order to provide for the payment of Loan Installments when due, the City shall, on or before each Due Date, transfer to the Trustee for deposit into the Revenue Fund the amount indicated in the Loan Agreement as required for the next occurring Interest Payment Date; provided, however, that, to the extent interest or income earned on the Revenue Fund or moneys representing capitalized interest and funded from Bond proceeds are remaining in the Revenue Fund, the City's payment obligations for interest on such Due Date shall be paid from such interest, income or Bond proceeds.

Other Covenants of the Cities

Limitation on Superior Debt. Each City covenants in its Loan Agreement that, so long as its Loan remains unpaid, the 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 Net Revenues which is superior to or on a parity with the lien established under the Loan Agreement for the security of the Loan, excepting only Parity Debt issued pursuant to the Loan Agreement. Nothing herein is intended or shall be construed in any way to prohibit or impose any limitations upon the issuance by a City of loans, bonds, notes, advances or other indebtedness which are unsecured or which are secured either by a junior lien on the Net Revenues.

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 the City or upon the Net Revenues or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Restated Loan. Nothing herein contained shall require the City to make any such payment so long as the City in good faith shall contest the validity of said claims.

Books and Accounts; Financial Statements. Each City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City and the Authority, in which complete and correct entries shall be made of all transactions relating to the Net Revenues. 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 Bonds then Outstanding, or their representatives authorized in writing.

Each City will cause to be prepared and filed with the Trustee annually, within 6 months after the close of each Fiscal Year so long as any of the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Net Revenues, all disbursements from its wastewater collection system revenues and the financial condition of the City, including the balances in all funds and accounts relating to its wastewater collection system as of the end of such Fiscal Year. Each City will furnish a copy of such statements, upon reasonable request, to any Bond Owner. Each City shall review in each fiscal year, and take appropriate action to provide for, the future availability of sufficient Net Revenues for the timely payments of debt service on its respective Loan and any Parity Debt.

Protection of Security and Rights. Each City will preserve and protect the security of its Loan Agreement and the rights of the Trustee and the Bond Owners with respect to the Loan Agreement. From and after the Closing Date, the Loan Agreements shall be incontestable by either City.

Payments of 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 which may hereafter be lawfully imposed upon either City or the properties then owned by either City, when the same shall become due. Nothing herein contained shall require either City to make any such payment so long as either City in good faith shall contest the validity of said taxes, assessments or charges. Each City will duly observe and conform with all valid requirements of any governmental authority relative to its wastewater treatment system or any part thereof.

Operation of its Wastewater Collection System. Each City covenants to operate, or cause to be operated, its wastewater collection system in accordance with customary standards and practices applicable to similar facilities, and to cause the Authority to operate, or cause to be operated, the Enterprise in accordance with customary standards and practices applicable to similar facilities.

Payment of Expenses; Indemnification. Each City shall pay to the Trustee from time to time all compensation for all services rendered under its respective Loan Agreement and the Indenture, including but not limited to all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under its Loan Agreement and under the Indenture. Upon the occurrence of an Event of Default, the Trustee shall have a first lien on the Net Revenues 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 set forth in Article V of each Loan Agreement.

Compliance With Federal Tax Requirements. Neither City shall take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Loans which would cause any of the Bonds to be “arbitrage bonds” or “private activity bonds” under federal tax law. The Cities agree to furnish all information to, and cooperate fully with, the Authority, the Trustee and their respective officers, employees, agents and attorneys, in order to assure compliance with the provisions of federal tax law relating to the rebate of excess investment earnings. The Cities will pay to the Trustee from Net Revenues or any other source of legally available funds all amounts determined by the Authority to be subject to such rebate.

Continuing Disclosure. The Cities covenant and agree to comply with and carry out all of the provisions of the continuing Disclosure Certificate. Notwithstanding any other provision of the Loan Agreements, failure of the Cities to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee may (and, at the request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding bonds, shall) or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

No Termination of Agreement. The Cities will not terminate the Agreement so long as the Bonds are outstanding.

Amendment of Loan Agreements. The Loan Agreements may only be amended as provided in the Indenture. See “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -Indenture - Covenants of the Authority - Loan Agreement; Amendments Thereof” herein.

Events of Default and Remedies

The following events constitute events of default under each of the Loan Agreements:

(a) Failure by a City to pay the principal of or interest or prepayment premium (if any) on the related Loan or any Parity Debt when due and payable.

(b) Failure by a City to observe and perform any of the covenants, agreements or conditions on its part contained in such Loan Agreement, other than as referred to in the preceding clause (a), for a period of 60 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Trustee or to the City and the Trustee by the Bond Insurer or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds; provided, however, that if in the reasonable opinion of the 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 the 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, unless a longer cure period is consented to by the Bond Insurer, which consent shall not unreasonably be withheld.

(c) Certain events relating to bankruptcy or insolvency of the City.

If an event of default has occurred and is continuing under a Loan Agreement of which the Trustee has actual knowledge or is deemed to have knowledge under the Indenture,, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the outstanding Bonds the Trustee shall, with the written consent of the Bond Insurer, (a) declare the principal of the related 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, and (b) exercise any other remedies available to the Trustee in law or at equity. This provision, however, is subject to the condition that if, at any time after the principal of such 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, the City shall deposit with the Trustee a sum sufficient to pay all installments of principal of such Loan matured prior to such declaration and all accrued interest thereon, with interest on such overdue installments of principal and interest at the net effective rate then borne by the outstanding Bonds, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on such 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 the Owners of the majority in aggregate principal amount of the outstanding Bonds may, by written notice to the Trustee and the 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. The Bond Insurer shall have the right to institute or direct remedies pursuant to this paragraph.

Application of Funds Upon Default

All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of either Loan Agreement, or otherwise held by the Trustee upon the occurrence of any Event of Default, 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 provisions of such Loan Agreement relating to remedies, including reasonable compensation to its agents, attorneys and counsel; and

Second, to the payment of the whole amount of interest on and principal of such Loan then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the outstanding 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:

(a) first, to the payment of all installments of interest on such 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,

(b) second, to the payment of principal of all installments of such Loan then due and unpaid, other than principal having come due and payable solely by reason of acceleration, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full,

(c) third, to the payment of principal of such Loan then due and unpaid and having come due and payable solely by reason of acceleration, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full, and

(d) fourth, to the payment of interest on overdue 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 any Loan Agreement shall affect or impair the obligation of the City, which is absolute and unconditional, to pay from the Net Revenues and other amounts pledged thereunder, the principal of and interest and premium (if any) on the respective 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 the contract embodied in the Loan Agreement.

Any waiver under the Loan Agreement shall be consented to by the Bond Insurer, and a waiver of any default by the Trustee shall not affect any subsequent default or impair any rights or remedies on the 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 the Act or by the respective Loan Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

Discharge of Loan Agreements

If either City shall pay and discharge the entire indebtedness on its Loan in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) on such 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 Indenture or the related Loan Agreement, is fully sufficient to pay all principal of and interest and prepayment premiums (if any) on such 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 will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Indenture or the related Loan Agreement, be fully sufficient to pay and

discharge the indebtedness on such Loan (including all principal, interest and prepayment premiums) at or before maturity;

then, at the election of the City prepaying its Loan but only if all other amounts then due and payable under the applicable Loan Agreement shall have been paid or provision for their payment has been made, the pledge of and lien upon the Net Revenues and other funds provided for in the related Loan Agreement and all other obligations of the Trustee, the Authority and the City under the related Loan Agreement with respect to such Loan shall cease and terminate, except only the obligation of the 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 Loan and all expenses and costs of the Trustee.

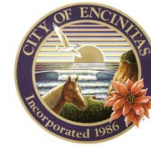
APPENDIX C

**AUDITED FINANCIAL STATEMENTS FOR THE LOCAL AGENCIES
FOR MOST RECENT FISCAL YEARS**

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CITY OF ENCINITAS
Comprehensive Annual Financial Report
For the Year Ended June 30, 2011

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City of Encinitas California

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Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2011

Issued by the Finance Department

505 South Vulcan Avenue • Encinitas, CA 92024 • 760-633-2600 •
www.cityofencinitas.org



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 63,000 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.

CITY COUNCIL MISSION STATEMENT

To guide and promote Encinitas as a diverse and vibrant community in a way that demonstrates:

- Leadership and vision for the city
- Respect for the individual
- A positive approach to solving problems
- Financial responsibility
- Commitment to providing essential services
- Balance and harmony within the City and our environment

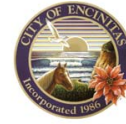
So that, in the long term, Encinitas remains an excellent place to live, work, and play.

ABOUT THE COVERS

On the front cover is pictured the statue “Magic Carpet Ride” created by Hemet sculptor Matthew Antichevich in 2007. This statue, located outside the San Elijo State Beach campground along Highway 101 in Cardiff-by-the-Sea, is known to local residents as the “Cardiff Kook”. On the back cover is pictured a bronze statue “Encinitas Child” created and donated by artist and local resident Manuelita Brown; and is located on South Coast Highway 101 in downtown Encinitas.

Photography: Front cover photography by Union Tribune’s Crissy Pascual and back cover photography by North County Times. Photographs on the title page are courtesy of the San Diego North Convention and Visitors Bureau.

Copies of this report are available at the City of Encinitas, 505 South Vulcan Avenue, Encinitas, California 92024.



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INTRODUCTORY

SECTION



City of Encinitas
505 South Vulcan Avenue • Encinitas CA 92024
760-633-2600 • www.cityofencinitas.org



November 18, 2011

Honorable Mayor, City Council and Citizens
of the City of Encinitas, California,

We are pleased to present the FY2010-11 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 as of and for the fiscal year ended June 30, 2011 and includes financial statements for the City, the Encinitas Housing Authority, the Encinitas Public Financing Authority, and the San Dieguito Water District.

This report fulfills State law requiring preparation of an annual financial report. It has been developed in conformance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The basic financial statements and related footnotes have been audited by the independent firm of Certified Public Accountants, Macias, Gini and O'Connell, whose report is included herein. The City received a clean/unqualified audit opinion for the fiscal year, and there were no findings or suggestions for improvement(s) made by the audit firm.

Management assumes full responsibility for the completeness and reliability of the information contained in this report. To the best of our knowledge, the data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of the operations of the City. We believe that we have included all disclosures necessary to enable the reader to gain an understanding of the City's financial activities and standing.

City management is responsible for establishing and maintaining a system of internal controls to ensure that assets are protected from loss, theft or misuse, and that adequate accounting data is maintained to prepare financial statements in accordance with generally accepted accounting principles. Management has implemented a comprehensive framework of controls to safeguard assets and provide reasonable assurance of proper recording of financial transactions. Because the cost of internal controls should not outweigh their benefits, the City's internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met.

The Finance Department is responsible for providing centralized financial services, including financial accounting and reporting, budgeting, accounts payable disbursement, accounts receivable collection, cash and investment management, debt management and procurement. The Director of Finance is appointed by the City Manager and supervises the Department's operations.

Budgetary controls have been established to ensure compliance with the annual appropriated budget approved by the City Council. The City Manager proposes an operating budget every two years, which is reviewed and revised on the "off year." The two-year operating budget (or second year revise on the off

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TRANSMITTAL LETTER • INTRODUCTORY SECTION

year) is adopted by the City Council prior to the beginning of each fiscal year after public input and discussion. The City Council may amend the budget throughout the year as needed. Primary responsibility for analysis of budgeted and actual expenses and revenue, as well as monitoring the fiscal status of programs and projects, rests with each operating department. Status reports are provided to the City Council on a quarterly basis.

Management's discussion and analysis (MD&A) provides an overview and analysis of financial activities for the year ended June 30, 2011 and should be read in conjunction with this letter of transmittal.

Federal financial assistance received by the City is audited under the provisions of the Single Audit Act of 1996, as amended. The Single Audit was designed to meet the special needs of federal grantor agencies. This report is available in the City's separately issued "Single Audit Report."

Copies of this report are available at:
City of Encinitas, Finance Department
505 S. Vulcan Avenue, Encinitas, CA 92024
www.cityofencinitas.org

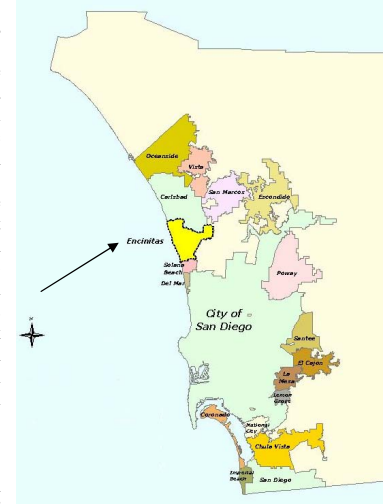


TRANSMITTAL LETTER • INTRODUCTORY SECTION

PROFILE OF THE CITY OF ENCINITAS

The City of Encinitas 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 the City of San Diego on the Southern California coast.

Encinitas covers approximately 21.4 square miles, along six miles of Pacific Ocean coastline, with a population of approximately 60,000. The City's character is defined by its surfing culture, laid back atmosphere, "funky vibe" and floral-agriculture heritage. The natural beauty of the surrounding area, including coastal beaches, steep bluffs and rolling hills, along with temperatures between 40 and 85 degrees year-round, make Encinitas a desirable place to live, work and recreate. Residents and visitors enjoy a wide range of amenities and activities. The downtown area along Coast Highway 101 is an eclectic coastal shopping district over 100 years old, featuring historic architecture, quaint shops, sidewalk cafes, and restaurants framed by beautiful flower baskets, celebrating Encinitas' floral-agriculture heritage. The beaches in Encinitas are undeniably some of the most beautiful in the world. Surfers can be found year-round on the stretches of beach that lie between Cardiff-by-the-Sea and Leucadia. The City is bordered by the San Elijo Lagoon Reserve to the south and the Batiquitos Lagoon along the north, where nature lovers can walk along trails and view an abundance of wildlife and vegetation. Golf enthusiasts enjoy the Encinitas Ranch Golf Course, a championship 18-hole course with panoramic ocean views.



The City's trademark is its flower growing industry, which is an important part of the City's culture and history. Named "The Flower Capital of the World," Encinitas has developed around the many floral-agricultural areas throughout the City. San Diego Botanic Garden, the only botanical garden in San Diego County, has one of the most diverse plant collections in the world. Scenic trails transport visitors to 20 unique gardens, a 60-foot waterfall in a tropical rain forest, North America's largest display of bamboo and the Hamilton Children's Garden.

CITY GOVERNANCE AND SERVICES

The City is governed by a five-member City Council under the Council-Manager form of government. The City Council is elected at large, on staggered four-year terms. The Mayor is selected annually by a majority of the City Council. The City Council appoints the City Manager and City Attorney. All other staff positions are appointed by the City Manager or his designee.

During incorporation, the San Dieguito Water District (SDWD) became a subsidiary of the City. SDWD provides potable and recycled water to portions of the City. The City provides and charges for certain management and administrative services to SDWD; the City Council also serves as the SDWD Board of

Directors. The City and SDWD are members of several joint power agencies providing services such as water treatment, wastewater treatment, issuing bonded debt and managing an emergency dispatch system.

The City/SDWD provides a full range of services such as:

Fire Protection and Prevention	Planning and Development Services
Marine Safety/Lifeguards	Parks and Open Space
Water Services and Delivery	Recreational Programs
Sewer System Maintenance	Streets, Traffic Circulation and Calming
Code Enforcement	Library and Arts Programs
Storm Water Monitoring and Treatment	Affordable Housing Programs

Many municipal services are provided contractually. Some of these contracted services include:

Law Enforcement and Traffic Patrol (contract with the County of San Diego Sheriff's Department)
Solid Waste Services (including recycling and household hazardous waste removal)
Landscape Maintenance
Streetlight and Traffic Signal Maintenance
Building Permit Services
Inspection Services

The City encourages public participation through various Commissions. The City's Commissions include the Planning Commission, Senior Citizen Commission, Parks and Recreation Commission, Youth Commission, Commission for the Arts, Traffic Commission and Environmental Commission. The purpose of each Commission is to provide guidance and advisory opinions to the Council and make recommendations regarding its functional areas. The City Council appoints the Commissioners and exercises oversight responsibility over each body.

BUDGET PROCESS

The City of Encinitas and SDWD maintain fifty-nine distinct funds. The General Fund is the City's largest and most discretionary fund and pays for many general governmental activities such as law enforcement, fire protection, parks, beaches and street maintenance. Each fund is considered a separate accounting entity, with a separate set of self-balancing accounts that record assets, liabilities, fund equity (e.g., fund balance), revenues and expenditures. The City Council adopts a two-year operating budget, with appropriations for the first year only. The annual budget provides for the general operations of the City. It includes all proposed expenditures and operating transfers, and the means of financing them. The City Council also approves any amendments to appropriations throughout the year, generally at the mid-year budget review in February. The legal level of budgetary control is the fund level.

Zero-Based Budgeting

The City utilizes a Zero-Based Budgeting (ZBB) methodology and develops quarterly spending plans. With ZBB, historical information is taken into consideration for assessing trends, but does not provide justification for future expenditures. ZBB is a more time-consuming process compared to incremental budgeting, but produces many advantages. The ZBB approach shifts budget attention away from adding to the current-year program and focuses consideration on priority programs and services. ZBB is successful in presenting to the City Council and upper-level management the nature and details of programs and/or services. The ZBB approach also encourages redirection of resources within the budget into more productive programs and activities.

Quarterly Spending Plans

The City Manager requires each Department to develop and submit quarterly spending plans with their budget proposals. The quarterly spending plans indicate when Departments expect to implement services and programs, and thereby expend resources. Following each quarter, the City Manager and Finance staff meet with Departments to evaluate their quarterly spending plans and determine whether Departments were able to achieve their objectives according to the prescribed schedule. This process allows for candid and frequent discussion on use of resources and allows for the timely redirection of resources when necessary.

FACTORS AFFECTING FINANCIAL CONDITION OF THE CITY

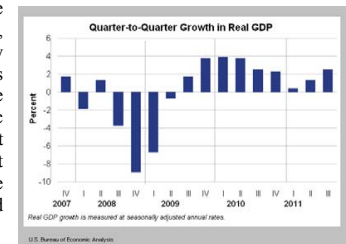
The nation is still recovering from the worst economy since the Great Depression. According to the National Bureau of Economic Research, the "Great Recession" officially ended in June 2009 but the nation, the State and the City of Encinitas are still feeling the impacts. Economic recovery appears to have lost momentum, however most economists feel that a "double dip" recession is unlikely and most credible forecasts tell a story of continued recovery, albeit meager, for the rest of 2011 and for 2012

National and State Economy

In August, the United States lost its top-tier AAA credit rating from Standard & Poors in an unprecedented blow to the world's largest economy. The move reflects the deterioration in the global economic standing of the U.S., which has held a AAA credit rating since 1941. The Federal Reserve and government officials have been under increasing pressure to improve an economy that still faces a stagnant unemployment rate, rising consumer prices, plunging stock prices, and a weak housing market. The latest government plan involves selling \$400 billion of short-term Treasury securities and purchasing long-term securities with the proceeds to "twist" the yield curve. Starting in October 2011 and ending in June 2012, the policy aims to lower long-term interest rates while leaving short-term rates essentially unchanged. The Fed also pledged to keep the federal funds rate near zero through mid-2013, where it has remained since 2008. With extended low interest rates, inflation has been a growing concern but energy and commodity prices seem to indicate that inflation has stabilized. The Fed continues to communicate its willingness to deploy additional policy tools, as expects "some pickup in the pace of recovery over coming quarters and anticipates that the unemployment rate will decline only gradually."

Key economic indicators do show signs of meager improvement to the economy. The nation's Gross Domestic Product (GDP), has increased over the past eight quarters, with the strongest growth in late 2009/early 2010.

The U.S. Leading Economic Index (LEI) continues to rise despite all the concerns about the national economy, increasing 0.3% in August, following a 0.6% increase in July and a 0.3% increase in June. The Conference Board believes that these leading indicators signal that "while risks to the current economic expansion are increasing...economic activity should continue to expand in the near-term, albeit at a modest pace." Figures from the Commerce Department show the overall economy grew at a 0.4% growth rate in the first quarter of 2011 and at a 1.3% annual rate in the second quarter.



Despite government's efforts to revive the economy, the unemployment rate continues to stagnate at high levels. The most recent figures show a national unemployment rate of 9.1% (down from 9.5% same time

last year), and a rate of 11.4% for the State of California (down from 12.1% same time last year). Even though there has been modest job growth, employment remains a serious concern and it will take a long time to regain the nearly eight million jobs lost during the recession. California labor markets deteriorated dramatically during the latter half of 2008 and the first six months of 2009, suffering their worst losses on record.

Consumer confidence stabilized in September 2011 at 45.4 as compared to a sharp decline in the prior month, when it bottomed out at 45.2. The sharp decline in August is likely due to the political battle over the extension of the debt ceiling and the downgrade of the U.S. government debt by Standard & Poor's. These confidence figures approach a two-year low, from when the economy was in the depths of recession. Low consumer confidence generally translates into a lower volume of taxable sales. State sales tax revenue was down 13% in FY2008-09 and down another 7.5% in FY2009-10. On September 2, 2011, the State Board of Equalization (BOE) announced that taxable sales in California totaled \$118.3 billion in the second quarter of 2010, up 4.6% from the same quarter the previous year. California taxable sales rose faster than personal income for the first time since 2005. More recent data indicate that a more pronounced recovery in taxable sales continued in second quarter 2011, an estimated 9% over the same period a year earlier. Gasoline station sales had the largest gain of any major category, mostly due to an increase in the price of gasoline, while motor vehicle and parts dealers increased 13.3%. The second quarter 2010 taxable sales report shows the Southern California region had some of the strongest growth.

The Labor Department Consumer Price Index increased 0.4% in August from July 2011. Gas prices rose 1.9% compared to a 4.7% jump in July, while food prices climbed 0.5%. The cost of shelter rose 0.2% and the cost of clothing rose 1.1%. Consumers are now paying 3.5% more for goods and services than they were a year ago. Furthermore, the "core" CPI, which excludes food and energy components, hit 2.0% over the last 12 months for the first time since November 2008.

The housing slump, which is at the heart of California's current economic troubles, also appears to be showing signs of recovery. After sliding dramatically throughout 2006, 2007 and 2008, home building in California appeared to bottom out during the second half of FY2008-09, with at least 30,000 permits issued each month (down 52% from a year earlier). By August 2011, new home construction continued to be led by strong growth in multi-family building. Residential permits were issued at a seasonally adjusted annual rate of 49,733, up nearly 21 percent from a year earlier (multi-family permitting was up 57%; conversely, single-family permits were down 8.2%). Nonresidential construction permitting slowed in August, but was up 9.5% from a year earlier. For the first eight months of 2011, nonresidential permitting was up 14% from the same months of 2010. August 2011 saw a modest rebound in existing California home markets. The median price of a existing, single-family homes sold in August also improved, rising to \$297,000 – the highest median price thus far in 2011.

California personal income which has been steadily declining since the first quarter of 2006 began rebounding in the third quarter of 2009. Personal income (a good measure of the State's economy) which was down 5.3% in 2009 (\$1.4 billion adjusted for inflation), increased by 2.2% in 2010 (\$1.43 billion adjusted for inflation).

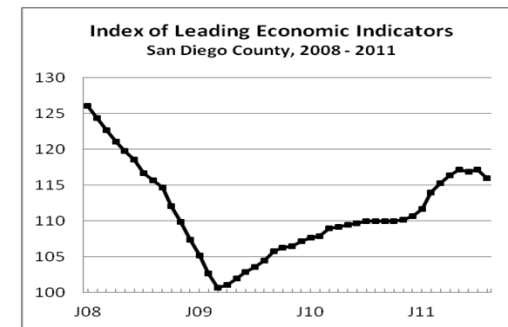
Despite signs of economic expansion, California continues to confront serious budgetary problems. The 2011-12 budget closes a \$26.6 billion budget gap and makes progress in addressing the state's long-term structural budget deficit. It includes \$15 billion in expenditure reductions, nearly \$1 billion in revenue increases and \$2.9 billion of other solutions. The revised budget reflects the state's continuing recovery from the Great Recession and assumes that tax receipts will continue to come in higher than originally anticipated. Recognizing this risk, if revenues fall short of expectations by more than \$1 billion, an additional \$600 million in cuts to higher education, health and human services, and public safety would

be implemented beginning in January 2012. If revenues fall short by more than \$2 billion an additional \$1.9 billion in education reductions would be implemented. By September 2011, revenues had fallen \$705.5 million behind what state leaders expected by that point, which does not guarantee that the triggers will be pulled, but does not paint a hopeful picture.

The leading credit rating agencies have lowered California's bond rating from A+ to BBB (just one level above junk bonds). Many economists now predict that California's economy will recover more slowly than the rest of the nation because of the poor fiscal condition of the state and many local governments.

Regional Economy

According to the Index of Leading Economic Indicators for San Diego County, the regional economy began a state of decline in April 2006, with an accelerated decline in September 2008. However, the region has experienced steady economic improvement since March 2009, with a recent slump in growth.



With the Index now having fallen for two of the last three months, there are serious questions about the near term outlook for the regional economy. Economists usually look for three consecutive changes in a leading index in one direction to signal a turning point in an economy. While that threshold has not yet been met, the magnitude of the decrease is troubling. The two measures of sentiment in the Index, local stock prices and consumer confidence, collapsed in August, indicating that both investors and consumers have serious concerns about the economy. For now, the authors of the index believe that the outlook remains positive, but will result in slow growth in the local economy through the first part of 2012.

Local Economy

The City of Encinitas is well positioned to weather these economic storms and has been evaluated and rated by internationally recognized third party reviewers. Standard & Poor's (S&P) reaffirmed the City's "AA+" (implied AAA) rating. In their rating analysis, S&P also evaluated the rigor of the City's financial management practices including managerial decisions, policies and practices that apply directly to the City's financial position and operations, debt burden and other key credit factors. They also looked at the City's ability to implement timely and sound financial operational decisions in response to economic and fiscal demands. Upon reviewing these seven areas, the City received the highest ranking of "strong" indicating that "practices are strong, well embedded and likely sustainable."

Property taxes, the City's largest revenue source, continued to grow, but at a slower pace than previous years. Like most cities in the United States, the City has seen a slowdown of sales, an increase in defaults

and foreclosures and a high volume of requests for reassessment of property values. Conversely, the market value of many homes in Encinitas are still above the assessed value and may add value to the tax rolls when sold. In addition, homes assessed below market value, but not sold, increase in assessed value by an inflator index per Proposition 13 and assessed accordingly.

From 2001 through much of 2006, favorable interest rates and strong demand for housing pushed property values to record highs. However, in recent years, market values of many homes in Encinitas have been declining, but appear to have bottomed out in Q1 2009. The total assessed value in Encinitas increased from \$11.34 billion (est.) in FY10-11 to \$11.52 billion (est.) in FY11-12. Encinitas was one of only three cities in the County to experience a gain. The median price of a single family home was \$835,000 in 2007, \$765,000 in 2008 and \$688,250 in 2009 and 700,500 in 2010. The most recent reports show that the median price of a single family resale home in Encinitas is \$779,500 (92024 zip code; Source: Dataquick News, September 2011).

Sales Taxes, the City's second largest revenue source, represents nearly 18% of the City's General Fund revenues and was up significantly from the previous year (9.9%†). Several factors contributed to the increase in this revenue source primarily from the sales of gasoline and motor vehicles. The City has a diversified retail sales tax base, and is not heavily dependent on any one business or industry. The current year budget assumption for sales tax is continued growth at a rate of 6%. The most recent sales tax reports are favorable and support the City's revenue estimates.

Development activity increased somewhat for FY2011, especially in the fourth quarter, but remains slow compared to historical activity levels. Residential building activity remains slow but increased compared to last year with 51 new dwelling units this year compared to 39 new dwelling units the year prior. Interest has been shown in some of the previously approved large subdivisions, including Shea Homes pursuing completion of the former Barratt project, Nantucket II (now called Seaside), which had languished for several years under foreclosure and bankruptcy, the 69-unit "Coral Cove" project on North Vulcan Avenue and the 72-unit Bahlmann property project just north of the Ecke holdings between Quail Gardens Drive and Saxony Road. Related to these projects, Shea also will be developing the Iris Apartments, a 20-unit affordable multi-family complex on North Vulcan Avenue. The "Quail Pointe" project (Far West Industries) on the west side of Quail Gardens Drive just north of Encinitas Boulevard is completed while Warmington Homes pursues completion of an 18-lot subdivision at Melba Road and Balour Drive and City Ventures has progressed on a 14-lot subdivision on Lake Drive in Cardiff and a 19-lot subdivision in Leucadia. Also in Leucadia, a 10-lot subdivision is under construction on Daphne Street and a 9-lot subdivision is close to obtaining building permits. On Requeza Street just east of Interstate 5, grading is under way on a 9-lot subdivision and construction of homes is expected to commence in the next several months. The large mixed-use project at E Street and Coast Highway 101, Pacific Station, has been completed and most retail spaces and residential units are occupied. The number of custom single-family residential projects in the planning review stage also increased over the year. With the increased subdivision and custom home development activity, building permit plan check activity for new dwelling units increased dramatically toward the end of the year and it is anticipated that a large number of building permits for new dwelling units will be issued early in FY2012.

Commercial development increased over the year with many of the formerly vacant retail spaces in the City now occupied or soon to be occupied by new tenants. The Big Lots on North El Camino Real (former Circuit City site) is now open. Plans for tenant improvements for a Wal-Mart in the former Home Depot Expo site at the Plaza at Encinitas Ranch have been submitted and a permit has been issued. The store is scheduled to open in Spring 2012. Expansion of the Target at Encinitas Town Center has been completed, adding additional retail space and a new grocery area to the store. Right next door, Buy Buy Baby has submitted plans for improvement of the majority of the former Linens and Things store. Kohl's tenant improvements are under construction in the former Albertsons site on North El Camino Real and the store is expected to

open soon. At Pacific Station, Whole Foods opened as the fiscal year came to a close, as did two boutique shops in the smaller retail spaces. One space remains vacant while another is currently being improved to accommodate a day spa use, and the restaurant use on the site, Solace and the Moonlight Lounge, is expected to open by the end of summer. On North Coast Highway 101 in Leucadia, a four-unit mixed-use project is under construction, and just down the street a new bakery is also under construction. Unfortunately, the large office complex partially constructed on the north side of Encinitas Boulevard just east of Quail Gardens Drive remains idle.

Long Term Financial Planning

It is the Council's goal to ensure the long-term fiscal sustainability of the City. To assist in this process, the City develops a six-year financial plan biennially and updates the plan during off-cycle years. The Financial Plan includes a forecast of the City's estimated operating and capital requirements and anticipates financial issues that may impact the long term forecast. During the Council's Strategic Goal Setting Session, staff provides an update on the City's long-term fiscal sustainability and any challenges to that goal. In addition, the City budgets conservatively and typically experiences a "surplus" at the end of the year, due to revenues coming in higher than projected and expenses lower than projected. At the end of FY2010-11, the budget surplus was \$2.6 million due to conservative revenue estimates and careful monitoring of spending. By Council policy the surplus is allocated first to restore any depleted reserves.

Relevant Financial Policies

General Fund Reserve Policy - Sound financial management includes the practice of maintaining an appropriate reserve for contingencies. The City maintains fund or working capital balances to preserve the City's credit worthiness and to adequately provide for:

- Economic uncertainties, local disasters or catastrophic events, and other financial hardships or downturns in the local or national economy
- Contingencies for unforeseen operating or capital needs
- Uninsured losses
- Cash flow requirements

As such, the Council has designated three tiers of General Fund Reserves: a contingency reserve (equal to 20% of operating expenditures); a budget stabilization reserve (equal to 2% of operating revenues); and a project reserve (remaining undesignated fund balance). All reserves currently meet or exceed Council designated reserve targets.

Sanitary Division Reserve Policies – The City Council has established reserve policies for the Cardiff Sanitary Division and Encinitas Sanitary Division. The policies include provisions for an Operating Cash Flow Reserve (set at 25% of the following year's operating expenses), a Rate Stabilization Fund (minimum of \$800,000) and Capital Replacement Reserves (minimum of \$2.5 million). All reserves currently meet or exceed Council designated reserve targets.

Debt Management Policy – the City has a comprehensive Debt Management Policy that sets the parameters for issuing debt and managing outstanding debt, provides debt-management guidelines to Council and establishes standards regarding the timing and purposes for which debt may be issued, the types and amounts of permissible debt, the methods of sale that may be used and the structural features that may be incorporated. The City's current debt service payment is \$4.2 million (debt ratio of 8.4%) which is well below the City's debt capacity and rating agency standards.

Investment Policy - The City maintains a comprehensive Investment Policy, which places restrictions on the types and amounts of authorized and suitable investments allowed that is more restrictive than the California Government Code. The primary objective of the City's Investment Program is safety of the

investment principal, both in terms of default risk and the interest rate risk (the risk that adverse changes in interest rates will negatively impact the market value of investments held). At June 30, 2011, the City's investments of approximately \$107 million consisted of the State Treasurer's Fund (LAIF), several institutional money market mutual funds, and Federal Agency securities. These investment types are considered extremely safe, even in today's turbulent financial markets.

Risk Management Policy - The City maintains a self-insurance fund within the General Fund to account for and finance its risks of loss. The City is a member of the San Diego Pooled Insurance Program, which is a separate legal entity formed by the participating municipalities to provide pooled excess liability coverage to its members. The City is self-insured for liability claims and losses up to \$150,000 per occurrence and up to \$350,000 for workers' compensation claims. The San Dieguito Water District is a member of the Association of California Water Agencies – Joint Powers Insurance Authority. Additional information about the City's insurance programs can be found in the notes to the financial statements.


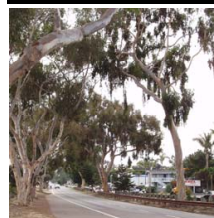
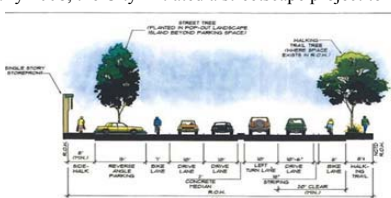
Fraud Prevention Policy – The City is committed to protecting its revenue, property, information and other assets from any attempt, either by member of the public, contractors, subcontractors, agents, intermediaries, or its own employees, to fraudulently gain financial or other benefits. The City has formally adopted and distributed to all employees a zero tolerance policy regarding fraud. The policy sets forth and defines the prohibited acts, such as embezzlement, misappropriation, theft or falsification of documents, and use of position for personal gain. The policy also explains the process for reporting suspected fraud and the penalties for committing fraud.

MAJOR INITIATIVES

Encinitas Community Park Development – Final design detail and construction drawings for a 44-acre community park, located off of Santa Fe Drive and immediately west of Interstate 5 on the former Hall Property, are nearly complete. The plans for the park include multi-use ball fields (including two baseball/softball fields and multiple soccer fields), a skate park, teen center, dog park, aquatics center, children's play areas, gardens, trails, and a scenic overlook. The project is expected to be completed in phases. The City expects to go out to bid on Phase I of the project in late 2011. Phase I of the project includes all required park infrastructure, athletic fields, passive use green space, a dog park, a skate park and the landscaped buffer. Bid alternates will be included so as to tailor the park construction to available funds. The City is also working with the non-profit group Patrons of Encinitas Parks (PEP) for community fundraising. City Council is expected to consider bids in early 2012, and construction will take about 15 months after bids are awarded.



North Coast Highway 101 Streetscape Project – In early 2008, the City initiated a streetscape project to enhance the North Coast Highway 101 corridor. The extensive public workshop process has been completed and resulted in a preferred streetscape concept, referred to as Plan 4A for the 2.5 mile stretch of North Coast Highway 101 from A Street to La Costa Avenue. The key design characteristics include roundabouts, increased parking, a “road diet” (predominately one north bound lane), reduced travel



lane widths, bike lanes, sidewalks, and preservation/restoration of the existing tree canopy. In order to focus on walkability, the tree canopy, and traffic calming measures along the entire corridor as much as feasible. City Council directed staff to implement the refined Phase 1 to include full improvements from A Street to North Court, construction of the La Costa Roundabout, infrastructure installation for Hawk Pedestrian Crossing signals, road diet striping, tree plantings, discussions and negotiations with NCTD regarding right-of-way encroachments. Staff continues to refine the preliminary design and complete further traffic analysis as part of the discretionary permit process and discussions with involved agencies. The planting of 101 trees is to be initiated, in fall 2011, in feasible locations without conflicting with future phases of work. The City was recently honored for the project with the Golden Footprint Award for Local Jurisdictions by Walk San Diego.

2035 Comprehensive General Plan Update – In January 2010, the City initiated a Comprehensive General Plan Update (CGPU) to strengthen existing policies and to address new policy issues that have arisen since the original General Plan was adopted in 1989, including sustainable communities, healthy communities, climate change, storm water cleansing, and green building. Throughout the first phase of the CGPU and a series of workshops, community participants raised a substantial range of issues and opportunities. All public input that was received was consolidated and formalized into a Vision Summary Report. The second phase of the work program focused on key policy issues and policy directions for the City. Additional input was also received from surveys, various stakeholder meetings, tool-kit feedback, and the General Plan Advisory Committee. The draft General Plan was released on September 1, 2011. Releasing the draft General Plan ends one component of the outreach program and initiates the next phase of the work program (one that will allow the public to review, comment and have a meaningful impact on policy language). The draft policy document has not been reviewed or approved by the Planning Commission or City Council.

Pavement Overlay - The 2010-2011 Pavement Rehabilitation and Overlay project resulted in the repair and restoration of 18 City streets. Included in the streets which were overlaid were Leucadia Boulevard from Hermes Avenue to Hymettus Avenue and Vulcan Avenue from Santa Fe Drive to Encinitas Boulevard. The project involved 5 inch dig outs, variable cold plane, 1.5 inch to 2 inch AC Overlay, traffic loop replacement, valve and manhole adjustments to grade, and restriping. The overall construction cost for the project was \$1,604,152.

Olivenhain Wastewater Pump Station Improvements – The Olivenhain Sewer Pump Station at the intersection of Manchester Avenue and the northbound off ramp from Interstate 5 is located in an environmentally sensitive area adjacent to San Elijo Lagoon. The station collects raw wastewater from the Olivenhain Trunk Sewer and the Solana Beach Trunk Sewer and then conveys raw wastewater through a 10-inch sewer force main and discharges into the San Elijo JPA Wastewater Treatment Plant.



The pump station was built in 1971 and has reached the end of its service life. Maintenance issues plague the current pump station and the Olivenhain Pump Station Replacement Project is intended to address problems including: clogged pumps; lack of safety redundancies against spills; difficulties accessing the wet well for routine maintenance; outdated electrical panel boards and water infiltrating electrical wiring, all of which lead to operational challenges. In addition, because the Olivenhain Sewer Pump Station is located in

the 100 year floodplain there is susceptibility to power failures in the pump station itself whenever the San Elijo Lagoon floods. The existing transformer that feeds power to the Olivenhain Sewer Pump Station is located in the 100 year floodplain and is susceptible to shorting out whenever the San Elijo Lagoon floods. An inadequate transformer prevents the City from installing a third pump that is recommended for the pump station operation.

The ongoing problems and failures mean there is an immediate need to construct a new pump station. Design was completed in FY2011 and all permits were obtained. A construction contract was awarded for the project in February 2011 and construction is underway. Construction is anticipated to take nearly two years with an estimated completion date of November 2012. Total project cost including design and construction is estimated to be \$6.7 million.

Downtown Parking Lots – Due to the growing popularity of downtown shopping and dining and the downtown transit station, the demand for convenient parking in the area has far exceeded the supply. To accommodate the growing need for parking spaces, the City proposed construction of two new downtown parking lots. The first parking lot, located at the northeast corner of Vulcan Avenue and E Street (adjacent to City Hall) was completed on July 17, 2009 and includes 22 parking spaces. A second parking lot located at the southwest corner of Vulcan Ave. and E Street was completed in December 2010. The 79 space parking lot will include five (5) ADA compliant handicap parking spaces. The parking lot is designed to complement the ambiance of the downtown area, including a split-faced masonry block retaining wall, decorative parking lights and bollards, pygmy date palm trees, soft-tipped agave and hummingbird sage, and groundcover such as ice plant and rosemary.

Safe Routes to Schools Program - Facilities such as sidewalk, curb ramps, and traffic calming features encourage children to walk and bike to school, and enhance the pedestrian environment within the City. The Engineering Department actively applies for grant funds from both the Federal and State Safe Routes to School programs. The City has been awarded over \$1 million in grant funding through these programs in the past three years and continues to annually apply for additional grant funding.



The Cardiff Elementary Safe Routes to School was completed in FY2011. The project constructed sidewalk, curb, gutter and curb ramps along Westminister Drive and Summit Avenue, between Verdi Avenue and Montgomery Avenue. In addition, the project incorporated traffic calming features such as a crosswalk speed table, pop-outs, and reconfigured the intersection of Montgomery Avenue at Westminster Drive.

Construction of the Melba Road Safe Routes to School (South side) Project was also completed in FY2011 and involved the construction of sidewalk, curb, gutter, and street parking along the south side of Melba Road, between Nardo Road and Bonita Drive. The Melba Road (North side) Project is funded through CDBG and was constructed simultaneously with the Melba Road Safe Routes to School Project. Sidewalk, curb, gutter, and curb ramps were installed as part of this project to replace an existing deteriorated asphalt walkway along the north side of Melba Road, between Nardo Road and Bonita Drive. The construction of the project was completed in July 2011.

The Balour Drive Sidewalk project will utilize CDBG funds to construct approximately 1,100 linear feet of sidewalk, curb, gutter, and curb ramps, along the east side of Balour Drive, between Santa Fe Drive and Melba Road. The project includes 125 linear feet of 24" RCP storm drain and a curb inlet to accommodate the drainage in the area was initiated in FY2011. Design of the Balour Drive Sidewalk project was completed during the fiscal year.

The Santa Fe Drive Sidewalk and Drainage Improvements project will construct approximately 1,100 linear feet of sidewalk, curb, gutter, and curb ramps, along the east side of Balour Drive, between Santa Fe Drive and Melba Road. The project includes 125 linear feet of 24" RCP storm drain and a curb inlet to accommodate the drainage in the area. Design was completed in FY2011 with construction to be completed by December 2011.



Leucadia Boulevard Railroad Crossing - The Leucadia Boulevard railroad crossing between Vulcan Avenue and North Coast Highway 101 is a vital link in the pedestrian route to and from Paul Ecke Elementary School and for pedestrians traveling to and from the beach. Existing facilities were in poor condition and not compliant with ADA (Americans with Disabilities Act) regulations. In 2008, the City of Encinitas received grant funding allocation in the amount of \$451,290 from the Federal Railroad Administration (FRA) and the Federal Highway Administration (FHWA) for railroad grade crossing hazard elimination. Improvements include the construction of a concrete median on Leucadia Boulevard between Vulcan Avenue and North Coast Highway 101, curb and gutter on both sides of the crossing, a sidewalk and pedestrian ramps on the north side of the crossing, signal improvements, and landscaping. The project also includes the reconstruction of a portion of sidewalk on the west side of North Coast Highway 101 adjacent to the Leucadia Roadside Park, including new ADA-compliant curb ramps, curb and gutter, decorative traffic signals and lights, and landscaping. Design of this project was completed in FY2011 and the project was put out to bid for construction.

Construction of Fire Station No. 2 - Construction began on August 17, 2011, for reconstruction and relocation of Encinitas Fire Station No. 2, located west of I-5 at 618 Birmingham Drive. The new station spans 6,330 square feet and will have the capacity to house one fire engine and one private company ambulance. The firefighter dorm rooms will have the ability to house additional firefighters in the event of large-scale disasters like flooding or wildfires. Construction is expected to take 14 months and the building will incorporate sustainable design elements that will align with LEED 'Silver' certification, such as regional building materials and energy conscious interior day lighting. The project also includes site sustainable design elements such as storm water control and drought tolerant landscaping.



Information Technology and Geographical Information Systems

- **New City Website** – The City will be launching a comprehensive new website aimed at facilitating public access and promoting awareness of City services. The new design incorporates ease-of-use enhancements, advanced search capability, an improved City calendar and access to the City's social media. The City's most frequently visited online services – including webcasts of City meetings, access to public documents, zoning lookup, water bill payment, class registration, and more – will be directly accessible from the home page. A new content management system will enable staff to more easily update website content.
- **Enterprise Resource Planning System** – The City is implementing Tyler Technologies MUNIS, an advanced enterprise resource planning (ERP) system, for improved efficiencies and operations. The system is being implemented in phases and will replace the City's legacy mainframe system. The first phase for Finance applications is currently underway, with Human Resources and Payroll targeted to begin next year. The project is expected to improve business workflow and staff productivity through the elimination of manual, redundant, and inefficient processes, and access to information across departments. Other objectives are to enhance customer service including support for web/online e-business capabilities and to increase decision making capabilities with more comprehensive and timelier access to information.
- **Comprehensive Property Boundary & Recording Information** – The City has completed a comprehensive mapping of a variety of recorded instruments defining legal boundaries for property within the City. This highly accurate legal land layer resides in the Geographic Information System (GIS) used by departments throughout the City. All boundary information was tied to ground control (using known coordinates on property corners) and property lines were entered into the system using record length and direction. The property information for the plat maps is comprehensive starting from the late 1800s to present day. This new legal layer was used as a basis to align the tax parcels and other information, such as zoning boundaries. Additionally, the legal layer is currently being enhanced with the addition of city owned and privately held easements. The property and easement data will be available on an internal web application to all staff.

“Green Initiatives” – The City strives to be a leader in environmental sustainability and energy efficiency. This year, the City embarked on several initiatives to further promote this high priority goal including:

- **Environmental Action Plan** – On July 20, 2011, City Council approved the Environmental Commission's proposed Environmental Action Plan which promotes a City that:
 - Provides Outreach and Education
 - Builds, Plans & Plants Wisely
 - Cleans the Air
 - Moves Smartly
 - Uses Energy Wisely
 - Minimizes Waste

The City implemented several programs/projects to promote environmental stewardship such as:

- **Trees**
 - The City planted approximately 98 new trees on various City right-of-ways
 - The City is in the process of becoming a “Tree City USA”
 - The City received the prestigious “Gold Leaf Award” From the International Society of Arborist for our Department-sponsored community tree planting event
- **Safe and Clean Water**
 - The San Dieguito Water District received a grant from the San Diego County Water Authority to train 20 Encinitas School District teachers to teach water related curriculum related to environmental education
 - SDWD became an EPA “Water Sense Partner”
 - SDWD Worked cooperatively with the San Elijo JPA, Encinitas Ranch Golf Assoc. to develop a “Surplus Recycled Water Agreement” that was beneficial to all parties
- **Recycling/Energy**
 - Due to numerous energy-conserving saving upgrades at City Hall, the Civic Center was awarded an “Energy Star” and the Civic Center rating increased a 86 rating to a 96 rating.
 - In coordination with the City's Environmental Commission and local grocers, sponsored Encinitas third “Day Without a Bag” event where approximately 4,000 reusable shopping bags were given to residents free of charge
 - The City sponsored the first “Rise Above Disposables” school poster contest. Three poster winners were recognized at a City Council Meeting

For more information about the City's environmental program and activities, please visit the City's website at:

www.cityofencinitas.org/Government/CommissionsAC/Environmental+Committee

AWARDS AND ACKNOWLEDGEMENTS

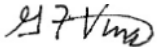
The Government Finance Officers Association (GFOA) awarded their Certificate of Achievement for Excellence in Financial Reporting to the City of Encinitas for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the seventh time the City had achieved this type of award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and all applicable legal requirements.

The City also received Certificate of Award for Excellence in Operating Budget Award from the California Society of Municipal Finance Officers, as well as the Certificate of Excellence by the Association of Public Treasurers of the United States and Canada for the City's Investment Policy.

The compilation of this report could not have been accomplished without the dedication of your highly qualified staff. We would like to express our appreciation to all staff in the Finance Department who assisted in and contributed to the preparation of this report. We would also like to acknowledge the efforts of all City and San Dieguito Water District Departments for following good financial management practices and in providing information and assistance during the preparation of this report.

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.

Respectfully submitted,



Gus Vina
City Manager



Jennifer H. Smith
Finance Director

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, 2010

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



President



Executive Director

LIST OF CITY OFFICIALS

CITY COUNCIL

June 30, 2011

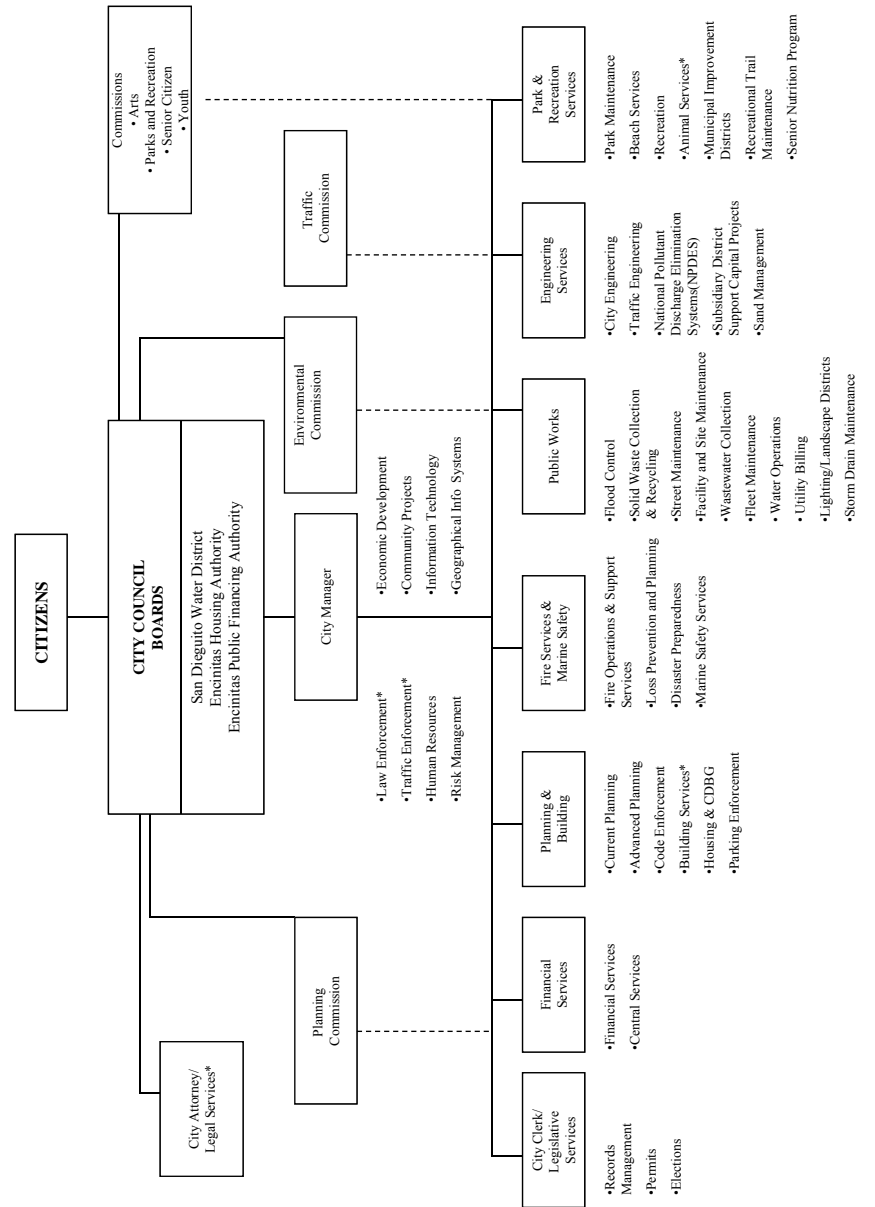
James Bond Mayor
Jerome Stocks Deputy Mayor

Teresa Barth
Maggie Houlihan
Kristin Gaspar

ADMINISTRATION AND DEPARTMENT DIRECTORS

Gus Vina	City Manager
Jennifer Smith	Finance
Deborah Cervone	City Clerk
Peter Cota-Robles	Engineering
Interim	Parks & Recreation
Mark Muir	Fire & Marine Safety
Patrick Murphy	Planning & Building
Lawrence Watt	Public Works
Glenn Sabine	City Attorney

City of Encinitas



FINANCIAL

SECTION

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City of Encinitas
505 South Vulcan Avenue • Encinitas CA 92024
760-633-2600 • www.cityofencinitas.org

The Honorable City Council of
the City of Encinitas, California

Independent Auditor's Report

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 (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Encinitas's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2011, 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* and should be considered in assessing the results of our audit.

As discussed in Note 2 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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Sacramento
CA 95816

2121 N. California Blvd.
Suite 750
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CA 94596

505 14th Street
5th Floor
Oakland
CA 94612

2029 Century Park East
Suite 500
Los Angeles
CA 90067

4675 MacArthur Ct.
Suite 600
Newport Beach
CA 92660

225 Broadway
Suite 1750
San Diego
CA 92101

USING THIS ANNUAL REPORT

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule – General Fund, the Schedule of Funding Progress of CalPERS and the Other Postemployment Benefits Schedules of Funding Progress, as listed in the table of contents, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, the combining and individual nonmajor fund financial statements and schedules listed as supplementary information in the table of contents 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 relates directly to the underlying accounting and other records used to prepare the 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 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 information is fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion or provide any assurance on them.

Macias Jini & O'Connell LLP

San Diego, California
November 18, 2011

This section of the *Comprehensive Annual Financial Report* (CAFR) issued by the City of Encinitas (the "City") presents an overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. 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 (the "Water District"). The City presents its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), which the City adopted in 2002.

This annual report consists of a series of financial statements. The **Government-Wide Financial Statements** consist of the *Statement of Net Assets* and the *Statement of Activities*, which provide information about the government-wide activities of the City as a whole and present a longer-term view of the City's finances. **Fund Financial Statements** report the City's operations in more detail by providing information about the City's most significant funds, how services were financed in the short term, and what remains for future spending. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Government-Wide Financial Statements

Analysis of the City's financial position as a whole begins with the *Statement of Net Assets* and the *Statement of Activities*. 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 to answer this question. The *Statement of Net Assets* includes all of the assets and liabilities of the City using the accrual basis of accounting similar to most private-sector companies. The *Statement of Activities* depicts all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets, the difference between assets and liabilities, which is one way to measure the City's financial health. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. The reader will also need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the *Statement of Net Assets* and *Statement of Activities*, two types of activities are depicted:

- **Governmental Activities** - Most of the City's basic services are reported here, including law enforcement, fire suppression, public works, planning and building, engineering, parks and recreation departments, and general administration. Property and sales taxes, franchise fees, and state and federal grants finance most of these activities.
- **Business-Type Activities** - The City charges a fee to customers to help cover all or most of the cost of certain services it provides. Business-type activities include the Water and Wastewater operations as well as the City's Affordable Housing Program involving the rental of City-owned residential units to qualified low-income tenants.

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant funds, not the City as a whole. Some funds are required by State law and by bond covenants. The City Council has also established other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes and other monies. 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, 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 using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily 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 helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is included in the pages following the respective statements.
- **Business-Type 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 way that all activities are reported in *Statement of Net Assets* and the *Statement of Activities*. The City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information such as cash flows for proprietary funds. Internal service funds (the other component of proprietary funds) report activities that provide supplies and services to other City's programs and activities-such as the City's vehicle replacement program.

The City as Trustee - Reporting of the City's Agency Funds

The City acts as an agent for the Community Facilities District No. 1 (the Encinitas Ranch Development), and the Requeza Street Assessment District No. 93-1. These activities are reported in the Statement of Fiduciary Assets and Liabilities – Agency Funds, and are not a part of the City's financial activities because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets in these funds are used for their intended purposes.

REPORTING THE CITY AS A WHOLE

Table 1
Summarized Statement of Net Assets
(millions of dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 65.1	\$ 64.4	\$ 46.0	\$ 42.4	\$ 111.1	\$ 106.8
Capital assets (net)	179.1	176.3	40.6	40.0	219.7	216.3
Other non-current assets	7.0	7.3	41.7	40.9	48.7	48.2
Total Assets	251.2	248.0	128.3	123.3	379.5	371.3
Current liabilities	11.5	9.2	3.6	1.4	15.1	10.6
Long-term debt	43.3	48.9	22.0	25.0	65.3	73.9
Total Liabilities	54.8	58.1	25.6	26.4	80.4	84.5
Net Assets:						
Invested in capital assets, net of related debt	139.6	130.9	30.1	28.6	169.7	159.5
Restricted	0.0	4.2	0.0	0.0	0.0	4.2
Unrestricted	56.8	54.8	72.6	68.3	129.4	123.1
Total Net Assets	\$ 196.4	\$ 189.9	\$ 102.7	\$ 96.9	\$ 299.1	\$ 286.8

The City's assets exceeded its liabilities (**net assets**) at the end of the fiscal year by \$299 million, compared to \$287 million in the previous year. Of this amount, \$111 million represents total current assets, which are generally available to meet current and future obligations. The balance of \$187 million generally represents assets of a long-term nature, such as capital assets and investment in other agencies, which are not generally convertible into cash and are not available to fund current or foreseeable obligations. The City enjoyed an increase in net assets of \$11.6 million this fiscal year. Due in part to positive cash flows in many operational areas, current assets increased by \$4.3 million and net capital investment increased by \$3.4 million.

REPORTING THE CITY AS A WHOLE

Table 2
Summarized Statement of Activities
(millions of dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
<u>Program Revenues:</u>						
Charges for services	\$ 6.6	\$ 5.4	\$ 20.4	\$ 19.1	\$ 27.0	\$ 24.5
Operating grants	7.0	5.4	-	-	7.0	5.4
Capital grants	4.9	3.4	0.7	0.2	5.6	3.6
<u>General Revenues:</u>						
Property taxes	32.3	32.3	0.7	0.7	33.0	33.0
Sales and use taxes	10.2	8.8	-	-	10.2	8.8
Other taxes and intergovernmental	4.9	4.0	-	-	4.9	4.0
Other general revenue	2.3	3.3	0.8	0.6	3.1	3.9
Total Revenues	68.2	62.6	22.6	20.6	90.8	83.2
<u>Program Expenses:</u>						
General government	10.9	12.1	-	-	10.9	12.1
Public safety	22.3	22.3	-	-	22.3	22.3
Public works	11.0	9.5	-	-	11.0	9.5
Planning and building	5.5	5.5	-	-	5.5	5.5
Engineering services	3.7	3.9	-	-	3.7	3.9
Parks and recreation	6.3	6.6	-	-	6.3	6.6
Interest on long-term debt	2.0	2.3	-	-	2.0	2.3
Cardiff Sanitary Division	-	-	3.7	3.6	3.7	3.6
San Dieguito Water District	-	-	11.6	11.6	11.6	11.6
Encinitas Sanitary Division	-	-	2.0	1.8	2.0	1.8
Affordable Housing	-	-	0.2	0.3	0.2	0.3
Total Expenses	61.7	62.2	17.5	17.3	79.2	79.5
Increase in Net Assets	6.5	0.4	5.1	3.3	11.6	3.7
Beginning Net Assets, as Restated	189.9	189.5	97.6	93.6	287.5	283.1
Ending Net Assets	\$ 196.4	\$ 189.9	\$ 102.7	\$ 96.9	\$ 299.1	\$ 286.8

Analysis of Governmental Activities

Revenues from Governmental Activities increased \$5.6 million, or about 9% year-over-year. The City's primary source of general revenue, property taxes, totaled \$32.3 million in both 2011 and 2010. While many other local cities experienced declines in assessed valuation (AV), the City's AV increased modestly (less than 1%) this year. Property tax delinquencies have increased only slightly in the past four years, and remain at less than 3% annually. Virtually all property tax assessments are eventually collected and remitted to the City. The most significant increase in general revenues came from sales and use taxes. Those taxes had been declining for several years, but showed an increase of \$1.4 million (or about 15%) this year. A combination of factors contributed to the increase, including the lease-up of several vacant retail properties within the City. Sales tax revenues have returned to 2007 levels, and are expected to continue to increase over the next several years as more retail outlets are reopened and

contributing to overall sales tax growth. Overall, grant revenue increased \$3.1 million year-over-year. The change is mainly due to the timing of receipt of grant funds for transportation projects, which fluctuates from year to year. There were moderate declines in general revenues, principally investment income, which has been negatively impacted by historically low interest rates.

Expenses for Governmental Activities declined a modest \$0.5 million, or about 1% year-over-year. The City experienced savings in general government expenses for both personnel and non-personnel categories. Personnel expenses were lower due to several existing positions remaining vacant for part of all of the fiscal year. Non-personnel expenses were positively impacted by several cost savings initiatives, including savings on contract services and supplies. There were also savings in the engineering and parks and recreation departments. The difference in reported spending for the public works function of \$1.5 million consists mainly of allocated depreciation expense on capital improvements, and thus, has no current year economic impact.

Overall, net assets increased by \$6.5 million this year, compared to only \$0.4 million last year, primarily as a result higher revenues in the current year.

There were no significant changes related to the City's business-type activities. However, the City did recognize an increase in charges for services revenue, as a result of the water rate increase that was effective January 1, 2011.

THE CITY'S FUND FINANCIAL STATEMENTS

As the City completed the year, the *governmental funds* reported a combined fund balance of \$63.4 million, which is \$2.6 million higher than last year's ending balance of \$60.8 million. The General Fund fund balance increased a modest \$0.4 million, while the total of the nonmajor funds increased by \$2.2 million. All sub-groups of nonmajor funds (except debt service) experienced increases in fund balances this year, with the most significant increases coming from the development impact fee group of funds. Despite those increases, development fee revenue remains lower than historical levels due to continued weakness in housing and real estate development markets.

General Fund Budgetary Highlights

Fiscal year 2010-11 was the second year of the City's two-year operating budget cycle. The City continues to budget conservatively and strictly limited any increases in operating expenses to areas given very high priority by the City Council. Management continued to monitor actual revenues and expenditures throughout the year, and the City Council is provided with updates on a quarterly basis.

General Fund Revenues were \$1.6 million higher than projected. Most categories of general revenues were above projections, with the most significant being in sales and use taxes and charges for services. Sales and use taxes were positively impacted by strong sales in general consumer goods, fuel and motor vehicles. Charges for services were above projections in most categories, with the most significant being building permits and inspection services. The completion of the new Pacific Station, a large multi-use development in downtown Encinitas, was a significant contributor to current year building inspection revenues.

General Fund Expenditures were \$0.9 million under budget for the year. All departments and most divisions (except building services) were under budget. Since the City of Encinitas contracts for building services, the over budget amounts for this Division are offset by additional revenues, as discussed above. Both Law Enforcement, which is contracted with the San Diego County Sheriff's Department) and Fire

MANAGEMENT'S DISCUSSION AND ANALYSIS • FINANCIAL SECTION

Both Law Enforcement, which is contracted with the San Diego County Sheriff's Department) and Fire and Marine Safety, were significantly under budget. The total of about \$625,000 of savings was achieved without any reductions to service levels.

General Fund Transfers were about \$2.6 million over budget. This difference is mainly attributed to the budgeting method utilized for transfers. The majority of *transfers out* are to fund approved capital projects; the expenditures for those projects are recorded in the Capital Improvement Capital Projects Fund, with monthly transfers to fund the expenditures. The current year budget for transfers out is based on the amounts of funding set aside in that budget cycle, as opposed to an estimate of actual capital spending in that period.

The City maintains both a Contingency Reserve and a Budget Stabilization Reserve in its "internal accounts." Both of those reserves were maintained at or above City Council mandated funding levels.

All other City funds and programs were maintained at financially healthy and sustainable levels, both at the end of the current year and for the foreseeable future.

CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAMS

As of June 30, 2011, the City had approximately \$220 million invested in a broad range of capital assets, including road and drainage systems, parks and beach facilities, public buildings, water and wastewater treatment, collection and distribution systems and affordable housing stock. There was no significant change in the City's overall (net) investment in capital assets of \$220 million. However, further analysis shows that there were both increases and decreases in the investment balance that merit further attention.

There were additions to the capital assets of the *governmental activities* of \$7.8 million during the year, including \$6.5 million of construction-in-progress and \$1.3 million for vehicles and equipment. Construction-in-progress is mainly current year spending on capital projects related to streets and roads, public facilities, and other public improvements. The principal addition to vehicles and equipment was actually the (replacement) purchase of a Pierce Arrow Aerial Ladder fire apparatus. This appears as an addition because the existing unit had reached its useful life and was fully depreciated. The effect of current year depreciation allowance resulted in a net increase in capital assets of about \$3.3 million.

DEBT ISSUANCE AND ADMINISTRATION

As of June 30, 2011, the City had a total of \$71.8 million of long-term debt obligations, consisting of bonded debt, capital leases obligations, claims payable and compensated absences. Of that amount, about \$66 million is classified as bonded debt, which includes certificates of participation, lease revenue bonds, and enterprise revenue bonds. About \$1.6 million of that total is an Encinitas Housing Authority (EHA) Note Payable to a commercial bank, related to sixteen affordable housing units owned by the EHA. The City of Encinitas is not obligated in any way for repayment of principal or payment of interest on this Note.

The *governmental activities* had \$42.7 million of bonded debt and \$3.0 million of capital lease obligations. During this fiscal year the Encinitas Public Financing Authority (EPFA), on behalf of the City, refunded in full its \$19.2 million of 2001 Lease Revenue Bonds (Park Property) and issued \$19.5 million of 2010 Lease Revenue Refunding Bonds. The transaction generated net present value savings of \$1.3 million or an average of \$100,000 per year over the remaining 21 year period. The City also

MANAGEMENT'S DISCUSSION AND ANALYSIS • FINANCIAL SECTION

financed the (replacement) purchase of its Aerial Ladder Fire Apparatus with a \$1.1 million capital lease with a commercial provider. The lease has a term of seven years and bears interest at a rate of 2.48%.

There were no changes during the year to long-term obligations of the *business-type funds*, other than the regularly scheduled repayments of principal.

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 City adopts its operating budget in a two-year cycle, with appropriations set for the first year only. The also adopts a six-year financial plan each year, which includes capital appropriations for the next fiscal year. Those two documents, taken together, are referred to herein as the "two-year budget."

The two-year budget was adopted by the City Council in May 2011. The budget for the General Fund for FY 2011-12 estimates \$52.5 million of revenue, \$49.9 million of operating expenditures, and \$1 million of capital appropriations. The budget for revenues is considered to be conservative, and is several million dollars lower than three to four years ago.

Budgets are prepared for all other City funds, but not including Agency funds. There are no significant items to report for any other City fund budgets.

The budgets for the City's enterprise operations (primarily water and wastewater) continue to show that there will be adequate revenues from charges to cover all costs of operations and maintenance. The San Dieguito Water District budget reflects a very small expected drawdown in reserves (\$350,000) in the next fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money 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.cityofencinitas.org and review the Finance Department section.

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BASIC FINANCIAL STATEMENTS

CITY OF ENCINITAS
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-type Activities	Total
Assets:			
Current assets:			
Cash and investments	\$ 59,706,839	\$ 43,521,808	\$ 103,228,647
Cash and investments with fiscal agents-restricted	633,245	18,042	651,287
Receivables	4,632,565	2,291,264	6,923,829
Other assets	145,686	144,524	290,210
Total current assets	<u>65,118,335</u>	<u>45,975,638</u>	<u>111,093,973</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments with fiscal agent	3,402,860	1,040,739	4,443,599
Internal balances	185,000	(185,000)	-
Long-term receivable	650,000	-	650,000
Investment in other agencies	-	40,242,971	40,242,971
Other assets, net of accumulated amortization	2,729,622	588,915	3,318,537
Capital assets not being depreciated	74,626,800	10,663,309	85,290,109
Capital assets, net of accumulated depreciation	104,446,404	29,923,805	134,370,209
Total noncurrent assets	<u>186,040,686</u>	<u>82,274,739</u>	<u>268,315,425</u>
Total assets	<u>251,159,021</u>	<u>128,250,377</u>	<u>379,409,398</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	3,813,049	1,391,974	5,205,023
Accrued interest payable	448,711	264,528	713,239
Unearned revenues	435,768	-	435,768
Due to other governments	627,986	-	627,986
Deposits and other liabilities	1,250,716	337,251	1,587,967
Long-term liabilities - due within one year	4,888,512	1,557,173	6,445,685
Noncurrent liabilities:			
Long-term liabilities - due in more than one year	43,318,502	22,014,434	65,332,936
Total liabilities	<u>54,783,244</u>	<u>25,565,360</u>	<u>80,348,604</u>
Net assets:			
Invested in capital assets, net of related debt	139,575,875	30,076,172	169,652,047
Unrestricted	56,799,902	72,608,845	129,408,747
Total net assets	<u>\$ 196,375,777</u>	<u>\$ 102,685,017</u>	<u>\$ 299,060,794</u>

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See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
General government	\$ 10,912,556	\$ 2,453,152	\$ -	\$ 31,211
Public safety	22,324,624	98,202	116,484	57,917
Public works	10,981,355	-	3,655,821	4,238,784
Planning and building	5,539,148	1,816,765	3,133,920	-
Engineering services	3,646,306	1,063,822	-	-
Parks and recreation	6,243,769	1,149,350	57,828	526,481
Interest on long term debt	2,029,477	-	-	-
Total governmental activities	61,677,235	6,581,291	6,964,053	4,854,393
Business-type activities:				
Cardiff Sanitary Division	3,715,529	4,830,204	-	223,692
San Dieguito Water District	11,622,126	12,438,502	-	216,123
Encinitas Sanitary Division	1,992,334	2,895,879	-	273,012
Affordable Housing	244,748	216,723	-	-
Total business-type activities	17,574,737	20,381,308	-	712,827
Total primary government	<u>\$ 79,251,972</u>	<u>\$ 26,962,599</u>	<u>\$ 6,964,053</u>	<u>\$ 5,567,220</u>

General revenues:

Taxes:

Property taxes and transfer fees

Transient occupancy taxes

Franchise taxes

Sales tax

Intergovernmental - unrestricted

Use of money and property

Other general revenues

Total general revenues

Change in net assets

Net assets, Beginning, as restated

Net assets, Ending

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (8,428,193)	\$ -	\$ (8,428,193)
(22,052,021)	-	(22,052,021)
(3,086,750)	-	(3,086,750)
(588,463)	-	(588,463)
(2,582,484)	-	(2,582,484)
(4,510,110)	-	(4,510,110)
(2,029,477)	-	(2,029,477)
(43,277,498)	-	(43,277,498)
-	1,338,367	1,338,367
-	1,032,499	1,032,499
-	1,176,557	1,176,557
-	(28,025)	(28,025)
-	3,519,398	3,519,398
(43,277,498)	3,519,398	(39,758,100)
32,292,988	706,175	32,999,163
1,276,980	-	1,276,980
2,108,420	-	2,108,420
10,244,506	-	10,244,506
1,488,770	-	1,488,770
657,796	508,089	1,165,885
1,695,520	401,013	2,096,533
49,764,980	1,615,277	51,380,257
6,487,482	5,134,675	11,622,157
189,888,295	97,550,342	287,438,637
\$ 196,375,777	\$ 102,685,017	\$ 299,060,794

See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Balance Sheet
Governmental Funds
June 30, 2011

	<u>General</u>	<u>Capital Improvement Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and investments	\$ 43,967,292	\$ 513,802	\$ 13,356,787	\$ 57,837,881
Receivables	3,097,889	94,943	1,439,389	4,632,221
Due from other funds	1,910,749	-	-	1,910,749
Other assets	2,026,537	-	145,686	2,172,223
Advance to other funds	-	-	185,000	185,000
Long-term receivable	650,000	-	-	650,000
Cash and investments with fiscal agent - restricted	633,245	-	3,402,860	4,036,105
	<u>\$ 52,285,712</u>	<u>\$ 608,745</u>	<u>\$ 18,529,722</u>	<u>\$ 71,424,179</u>
Liabilities and fund balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 2,664,356	\$ 608,745	\$ 466,929	\$ 3,740,030
Interest payable	-	-	46,568	46,568
Deferred revenue	346,932	-	88,836	435,768
Due to other governments	627,986	-	-	627,986
Due to other funds	-	-	1,910,749	1,910,749
Deposits and other liabilities	1,239,946	-	10,770	1,250,716
	<u>4,879,220</u>	<u>608,745</u>	<u>2,523,852</u>	<u>8,011,817</u>
Fund balances:				
Nonspendable	2,648,338	-	145,686	2,794,024
Restricted	633,245	-	8,290,163	8,923,408
Committed	42,274,327	-	7,570,021	49,844,348
Unassigned	1,850,582	-	-	1,850,582
	<u>47,406,492</u>	<u>-</u>	<u>16,005,870</u>	<u>63,412,362</u>
Total liabilities and fund balances	<u>\$ 52,285,712</u>	<u>\$ 608,745</u>	<u>\$ 18,529,722</u>	<u>\$ 71,424,179</u>

See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2011

Fund balances - total governmental funds \$ 63,412,362

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund balance sheet, but are reported in the governmental activities of the Statement of Net Assets:

Land	\$ 58,870,960	
Construction in progress	15,755,840	
Public facilities	45,352,234	
Parkland - improvements	12,073,620	
Fire apparatus equipment	391,716	
Equipment and machinery	1,503,468	
Office furniture and equipment	587,626	
Infrastructure	93,977,509	
Less: Accumulated depreciation	<u>(52,288,365)</u>	176,224,608

Internal Service funds are used by management to charge the costs of personnel support, fleet maintenance and vehicle replacement to individual funds. The assets and liabilities of the internal service funds are not included in the fund financial statements, but are included in governmental activities in the Statement of Net Assets.

3,537,324

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term are reported in the Statement of Net Assets:

2006 Fire apparatus lease	\$ (54,248)	
2007 Vac Con cleaner lease	(108,339)	
2008 Lease Roof Replacement	(1,766,757)	
1997 Refunding COPs - Series A	(3,130,000)	
2002 ABAG financing	(2,145,000)	
2006 Lease Revenue Bonds, net of unamortized discount	(18,525,000)	
2010 Lease Revenue Refunding Bonds, net of unamortized premium	(18,841,535)	
Claims payable	(565,098)	
Compensated absences	<u>(1,963,482)</u>	(47,099,459)

Bond issuance costs applicable to newly issued debt are current period expenditures, but are capitalized in the Statement of Net Assets, net of current period amortization.

703,085

Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.

(402,143)

Net assets of governmental activities \$ 196,375,777

See Accompanying Notes to Financial Statements.

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CITY OF ENCINITAS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	<u>General</u>	<u>Capital Improvement Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes and assessments	\$ 45,679,536	\$ -	\$ 2,421,232	\$ 48,100,768
Licenses and permits	205,031	-	-	205,031
Intergovernmental	747,582	-	7,621,989	8,369,571
Development impact fees	-	-	2,354,211	2,354,211
Charges for services	6,376,261	-	-	6,376,261
Fines, forfeitures, and penalties	856,392	-	-	856,392
Use of money and property	546,051	-	111,747	657,798
Other	807,105	-	437,580	1,244,685
Total revenues	<u>55,217,958</u>	<u>-</u>	<u>12,946,759</u>	<u>68,164,717</u>
Expenditures:				
Current:				
General government	10,092,490	-	63,242	10,155,732
Public safety	21,991,208	-	116,484	22,107,692
Public works	2,400,158	-	3,651,095	6,051,253
Planning and building	3,684,504	-	1,854,644	5,539,148
Engineering services	3,646,306	-	-	3,646,306
Parks and recreation	5,187,256	-	106,408	5,293,664
Capital outlay	-	8,559,193	-	8,559,193
Debt service:				
Principal	-	-	2,481,223	2,481,223
Interest and fiscal charges	-	-	2,056,501	2,056,501
Bond issuance costs	395,404	-	-	395,404
Total expenditures	<u>47,397,326</u>	<u>8,559,193</u>	<u>10,329,597</u>	<u>66,286,116</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,820,632</u>	<u>(8,559,193)</u>	<u>2,617,162</u>	<u>1,878,601</u>
Other financing sources (uses):				
Transfers in	333,846	8,559,193	4,240,185	13,133,224
Transfers out	(8,442,795)	-	(4,690,429)	(13,133,224)
Issuance of debt	19,530,000	-	-	19,530,000
Premium on debt	215,515	-	-	215,515
Payment to refunded bond escrow agent	(19,040,000)	-	-	(19,040,000)
Total other financing sources (uses)	<u>(7,403,434)</u>	<u>8,559,193</u>	<u>(450,244)</u>	<u>705,515</u>
Net change in fund balances	417,198	-	2,166,918	2,584,116
Fund balances - Beginning of year	46,989,294	-	13,838,952	60,828,246
Fund balances - End of year	<u>\$ 47,406,492</u>	<u>\$ -</u>	<u>\$ 16,005,870</u>	<u>\$ 63,412,362</u>
See Accompanying Notes to Financial Statements.				

CITY OF ENCINITAS
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011

Net change in fund balances - total governmental funds \$ 2,584,116

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 are allocated over their estimated useful lives as depreciation expense. The amount by which capital outlay exceeded depreciation in the current period:

Capital outlay	\$ 6,502,737	
Depreciation expense	<u>(4,615,058)</u>	1,887,679

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of the principal of long term debt consumes the current financial resources of governmental funds, neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

These differences are as follows:

Principal payments	\$ 2,481,223	
Payment to refunded bond escrow agent	19,040,000	
Issuance of long-term debt	(19,530,000)	
Premium on issuance of long-term debt	(215,515)	
Deferral of bond issuance costs	395,404	
Amortization of bond issuance costs	(29,187)	
Amortization of bond discounts and premiums	<u>3,980</u>	2,145,905

Internal service funds are used by management to charge the costs of engineering, administrative and operational support to individual funds. The net expense of internal service funds is reported with governmental activities.

(219,736)

Some expenses reported on the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Net change in accrued interest	\$ 52,231	
Net change in compensated absences	(77,275)	
Net change in claims payable	<u>114,562</u>	<u>89,518</u>

Change in net assets of governmental activities	\$	<u><u>6,487,482</u></u>
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See Accompanying Notes to Financial Statements.

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CITY OF ENCINITAS
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-type Activities Enterprise Funds	
	Cardiff Sanitary Division	San Dieguito Water District
Assets:		
Current assets:		
Cash and investments	\$ 18,692,351	\$ 13,839,458
Cash with fiscal agent	-	-
Accounts and taxes receivable	245,905	1,904,388
Interest receivable	21,411	15,727
Inventory	-	144,524
Total current assets	<u>18,959,667</u>	<u>15,904,097</u>
Noncurrent assets:		
Restricted assets:		
Cash and investments with fiscal agent	<u>-</u>	<u>1,040,739</u>
Other noncurrent assets:		
Prepaid pension asset, net of accumulated amortization of \$392,608	-	588,915
Investment in other agencies	<u>17,948,239</u>	<u>18,904,822</u>
Total other noncurrent assets	<u>17,948,239</u>	<u>19,493,737</u>
Capital assets:		
Land easements	1,358,591	2,714,097
Public Works facility right of use	-	3,378,700
Construction in progress	1,760,013	517,687
Capacity rights, net of accumulated amortization	-	223,541
Utility, plant, vehicles, and equipment, net of accumulated depreciation	<u>3,992,641</u>	<u>12,149,436</u>
Total capital assets (net of accumulated depreciation)	<u>7,111,245</u>	<u>18,983,461</u>
Total noncurrent assets	<u>25,059,484</u>	<u>39,517,937</u>
Total assets	<u>44,019,151</u>	<u>55,422,034</u>

	Business-type Activities Enterprise Funds			Governmental Activities - Internal Service Funds
	Encinitas Sanitary Division	Nonmajor Affordable Housing	Total Enterprise Funds	
\$ 10,624,308	\$ 365,691	\$ 43,521,808	\$ 1,868,958	
-	18,042	18,042	-	
88,989	2,258	2,241,540	344	
12,167	419	49,724	-	
-	-	144,524	-	
<u>10,725,464</u>	<u>386,410</u>	<u>45,975,638</u>	<u>1,869,302</u>	
-	-	1,040,739	-	
-	-	588,915	-	
<u>3,389,910</u>	<u>-</u>	<u>40,242,971</u>	<u>-</u>	
<u>3,389,910</u>	<u>-</u>	<u>40,831,886</u>	<u>-</u>	
451,070	-	4,523,758	-	
-	-	3,378,700	-	
483,151	-	2,760,851	-	
-	-	223,541	-	
<u>10,248,818</u>	<u>3,309,369</u>	<u>29,700,264</u>	<u>2,848,596</u>	
<u>11,183,039</u>	<u>3,309,369</u>	<u>40,587,114</u>	<u>2,848,596</u>	
<u>14,572,949</u>	<u>3,309,369</u>	<u>82,459,739</u>	<u>2,848,596</u>	
<u>25,298,413</u>	<u>3,695,779</u>	<u>128,435,377</u>	<u>4,717,898</u>	

See Accompanying Notes to Financial Statements.

(Continued)

CITY OF ENCINITAS
Statement of Net Assets
Proprietary Funds (Continued)
June 30, 2011

	Business-type Activities Enterprise Funds	
	Cardiff Sanitary Division	San Dieguito Water District
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	226,929	918,171
Accrued interest payable	85,000	179,528
Deposits	-	320,361
Current portion of long-term debt	490,000	1,019,926
Current portion of advances from other funds	-	90,000
	<u>801,929</u>	<u>2,527,986</u>
Total current liabilities		
	<u>801,929</u>	<u>2,527,986</u>
Noncurrent liabilities:		
Revenue bonds payable	-	9,365,000
Notes and mortgages payable	4,810,000	6,295,000
Capital lease obligation	-	-
Advances from other funds	-	95,000
	<u>4,810,000</u>	<u>15,755,000</u>
Total noncurrent liabilities		
	<u>4,810,000</u>	<u>15,755,000</u>
Total liabilities	<u>5,611,929</u>	<u>18,282,986</u>
Net assets:		
Invested in capital assets, net of related debt	7,111,245	10,064,200
Unrestricted	31,295,977	27,074,848
	<u>\$ 38,407,222</u>	<u>\$ 37,139,048</u>

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Encinitas Sanitary Division	Nonmajor Affordable Housing	Total Enterprise Funds	
	246,523	351	1,391,974	73,019
	-	-	264,528	-
	-	16,890	337,251	-
	-	47,247	1,557,173	146,766
	-	-	90,000	-
	<u>246,523</u>	<u>64,488</u>	<u>3,640,926</u>	<u>219,785</u>
	-	-	9,365,000	-
	-	1,544,434	12,649,434	-
	-	-	-	960,789
	-	-	95,000	-
	<u>-</u>	<u>1,544,434</u>	<u>22,109,434</u>	<u>960,789</u>
	<u>246,523</u>	<u>1,608,922</u>	<u>25,750,360</u>	<u>1,180,574</u>
	11,183,039	1,717,688	30,076,172	1,741,041
	13,868,851	369,169	72,608,845	1,796,283
	<u>\$ 25,051,890</u>	<u>\$ 2,086,857</u>	<u>\$ 102,685,017</u>	<u>\$ 3,537,324</u>

See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities Enterprise Funds	
	Cardiff Sanitary Division	San Dieguito Water District
Operating revenues:		
Charges for services	\$ 4,830,204	\$ 12,438,502
Rental income	-	-
Internal support services	-	-
Other revenues	331,244	67,968
Total operating revenues	5,161,448	12,506,470
Operating expenses:		
Source of supply	-	3,394,569
General operations and maintenance	1,070,596	2,778,836
Facility operations and maintenance	1,193,741	2,244,442
Depreciation	174,158	498,947
Amortization	758,115	697,060
Administrative support	-	-
Operational support services	-	-
General and administrative	251,386	1,272,196
Total operating expenses	3,447,996	10,886,050
Operating income (loss)	1,713,452	1,620,420
Nonoperating revenues (expenses):		
Use of money and property	355,974	110,617
Property taxes	-	706,175
Gain (loss) on sale of capital assets	(8,575)	1,080
Interest expense on revenue bonds	-	(452,244)
Interest expense on notes payable	(267,533)	(264,592)
Interest expense on advances from other funds	-	(9,100)
Other nonoperating expenses	-	(2,645)
Total nonoperating revenues (expenses), net	79,866	89,291
Income (loss) before capital contributions	1,793,318	1,709,711
Capital contributions		
Contribution of capital assets	47,423	148,143
Connestion fees	176,269	67,980
Change in net assets	2,017,010	1,925,834
Total net assets - Beginning of year, as restated	36,390,212	35,213,214
Total net assets - End of year	\$ 38,407,222	\$ 37,139,048

	Business-type Activities Enterprise Funds		Governmental Activities - Internal Service Funds
	Encinitas Sanitary Division	Nonmajor Affordable Housing	Total Enterprise Funds
\$ 2,895,879	\$ -	\$ 20,164,585	\$ -
-	216,723	216,723	-
-	-	-	1,557,814
1,801	-	401,013	-
2,897,680	216,723	20,782,321	1,557,814
-	-	3,394,569	-
580,896	92,161	4,522,489	-
670,650	-	4,108,833	-
281,732	100,538	1,055,375	440,406
288,204	-	1,743,379	-
-	-	-	94,688
-	-	-	1,277,668
169,552	-	1,693,134	-
1,991,034	192,699	16,517,779	1,812,762
906,646	24,024	4,264,542	(254,948)
40,077	1,421	508,089	-
-	-	706,175	-
-	-	(7,495)	35,212
-	-	(452,244)	-
-	(52,049)	(584,174)	-
(1,300)	-	(10,400)	-
-	-	(2,645)	-
38,777	(50,628)	157,306	35,212
945,423	(26,604)	4,421,848	(219,736)
-	-	195,566	-
273,012	-	517,261	-
1,218,435	(26,604)	5,134,675	(219,736)
23,833,455	2,113,461	97,550,342	3,757,060
\$ 25,051,890	\$ 2,086,857	\$ 102,685,017	\$ 3,537,324

See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Business-type Activities Enterprise Funds	
	Cardiff Sanitary Division	San Dieguito Water District
Cash flows from operating activities:		
Receipts from users	\$ 5,189,438	\$ 12,473,720
Payments to employees	-	(2,503,820)
Payments to suppliers and vendors	(2,291,483)	(6,945,842)
Net cash provided by operating activities	2,897,955	3,024,058
Cash flows from noncapital financing activities:		
Proceeds from property taxes	-	715,642
Cash flows from capital and related financing activities:		
Capital contributions received - connection/capacity fees	176,269	67,980
Proceeds from sale of capital assets	-	1,080
Repayment of advances from the City	-	(85,000)
Interest payments on advance from the City	-	(9,100)
Principal payments on bonds and notes payable	(470,000)	(925,000)
Interest payments on bonds and notes payable and trustee fees	(273,800)	(727,294)
Capital related payments to other agencies	(917,434)	(644,743)
Purchase of capital assets	(870,095)	(173,762)
Net cash (used) by capital and related financing activities	(2,355,060)	(2,495,839)
Cash flows from investing activities:		
Investment income received	371,009	120,464
Net increase in cash and cash equivalents	913,904	1,364,325
Cash and cash equivalents, Beginning of year	17,778,447	13,515,872
Cash and cash equivalents, End of year	<u>\$ 18,692,351</u>	<u>\$ 14,880,197</u>

See Accompanying Notes to Financial Statements.

Business-type Activities Enterprise Funds			Governmental
Encinitas Sanitary Division	Nonmajor Affordable Housing	Total Enterprise Funds	Activities - Internal Service Funds
\$ 2,910,215	\$ 217,272	\$ 20,790,645	\$ 1,557,470
-	(6,406)	(2,510,226)	(1,034,322)
(1,315,775)	(85,725)	(10,638,825)	(322,472)
1,594,440	125,141	7,641,594	200,676
-	-	715,642	-
273,012	-	517,261	-
-	-	1,080	35,212
(65,000)	-	(150,000)	-
(1,300)	-	(10,400)	-
-	(47,136)	(1,442,136)	-
-	(52,049)	(1,053,143)	-
(157,698)	-	(1,719,875)	-
(376,299)	-	(1,420,156)	(180,278)
(327,285)	(99,185)	(5,277,369)	(145,066)
46,996	1,695	540,164	-
1,314,151	27,651	3,620,031	55,610
9,310,157	356,082	40,960,558	1,813,348
<u>\$ 10,624,308</u>	<u>\$ 383,733</u>	<u>\$ 44,580,589</u>	<u>\$ 1,868,958</u>

(Continued)

CITY OF ENCINITAS
Statement of Cash Flows
Proprietary Funds (Continued)
For the Year Ended June 30, 2011

	Business-type Activities Enterprise Funds	
	Cardiff Sanitary Division	San Dieguito Water District
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 1,713,452	\$ 1,620,420
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	923,698	1,196,007
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	36,565	(43,719)
(Increase) in inventory	-	(19,093)
Increase in accounts payable and accrued liabilities	224,240	284,718
Increase in deposits	-	10,969
(Decrease) in compensated absences	-	(25,244)
Net cash provided by operating activities	<u>\$ 2,897,955</u>	<u>\$ 3,024,058</u>
Noncash from capital and related financing activities:		
Acquisition of capital assets through capital lease	\$ -	\$ -
Contribution of capital assets	<u>47,423</u>	<u>148,143</u>
Schedule of cash and cash equivalents:		
Current assets:		
Cash and investments	\$ 18,692,351	\$ 13,839,458
Cash with fiscal agent	-	-
Noncurrent restricted assets:		
Cash and investments with fiscal agent	<u>-</u>	<u>1,040,739</u>
Total cash and cash equivalents	<u>\$ 18,692,351</u>	<u>\$ 14,880,197</u>

See Accompanying Notes to Financial Statements.

	Business-type Activities Enterprise Funds		Total Enterprise Funds	Governmental Activities Internal Service Funds
	Encinitas Sanitary Division	Nonmajor Affordable Housing		
	\$ 906,646	\$ 24,024	\$ 4,264,542	\$ (254,948)
	569,936	100,538	2,790,179	440,406
	12,535	549	5,930	(344)
	-	-	(19,093)	-
	105,323	30	614,311	15,562
	-	-	10,969	-
	-	-	(25,244)	-
	<u>\$ 1,594,440</u>	<u>\$ 125,141</u>	<u>\$ 7,641,594</u>	<u>\$ 200,676</u>
	\$ -	\$ -	\$ -	\$ 1,107,555
	<u>-</u>	<u>-</u>	<u>195,566</u>	<u>-</u>
	\$ 10,624,308	\$ 365,691	\$ 43,521,808	\$ 1,868,958
	-	18,042	18,042	-
	-	-	1,040,739	-
	<u>\$ 10,624,308</u>	<u>\$ 383,733</u>	<u>\$ 44,580,589</u>	<u>\$ 1,868,958</u>

CITY OF ENCINITAS
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2011

Assets:

Current assets:

Cash and investments	\$ 2,457,180
Interest receivable	2,828
Current assessments receivable	<u>37,117</u>

Total current assets	<u>2,497,125</u>
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Noncurrent assets:

Restricted assets:

Cash and investments with fiscal agent	2,794,213
Special assessments receivable	<u>36,990,000</u>

Total noncurrent assets	<u>39,784,213</u>
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Total assets	<u><u>\$ 42,281,338</u></u>
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Liabilities:

Due to bondholders	<u><u>\$ 42,281,338</u></u>
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See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Notes to Financial Statements
For the Year Ended June 30, 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) 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, the Encinitas Housing Authority (EHA), the Encinitas Public Financing Authority (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 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, or because the component unit will 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 Financial Statements (Continued)
June 30, 2011

(b) Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the *statement of net assets* and the *statement of activities*) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements and eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The *statement of net assets* includes all assets and liabilities of the primary government, including capital assets, long-term debt, and other long-term liabilities. The *statement of activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation:

"Measurement Focus" is a term used to describe *which* transactions are recorded within the various financial statements. "Basis of Accounting" refers to *when* transactions are recorded regardless of the measurement focus applied.

The *government-wide 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The City accrues interest in the Debt Service Fund when resources have been set aside for repayment that occurs early in the following year. Property taxes, transient occupancy taxes, franchise taxes, sales tax, licenses, intergovernmental revenues and interest

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 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, as well as self-insurance, recreation programs, and other administrative functions.

The **Capital Improvement Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major property, equipment, or facilities (other than those financed by proprietary funds), as well as a variety of "work projects," generally large consultant studies.

The City reports the following nonmajor governmental fund types:

The **Special Revenue Funds** are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The **Debt Service Fund** is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of principal and interest on long-term debt.

The City reports the following major proprietary funds:

The **Cardiff Sanitary Division (CSD)** provides wastewater collection and treatment services to approximately 6,000 customers in the southern portion of the City.

The **San Dieguito Water District (SDWD)** provides potable and reclaimed water and services to approximately 11,000 customers in Encinitas. The Olivenhain Municipal Water District, a

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

separate legal entity not under the oversight of the City, serves the remaining portions of Encinitas.

The **Encinitas Sanitary Division (ESD)** provides wastewater collection and treatment services to approximately 5,000 customers in the northern portion of the City. The Leucadia Wastewater District (LLWD) provides wastewater collection and treatment services to the balance of Encinitas' residents and businesses. LLWD is an independent reporting entity and does not appear in the City's basic financial statements.

The City reports the following nonmajor proprietary funds:

The **Affordable Housing Fund** is utilized to account for the ownership and operation of 16 affordable housing units that are rented to qualified low-income households by the EHA. In addition to the rental income collected, the fund is also supported by rental voucher payments from the U.S. Department of Housing and Urban Development (HUD).

The **Internal Service Funds** are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. These funds include Wastewater Support, Vehicle Maintenance and Vehicle Replacement.

The City reports the following fiduciary funds:

The **Agency Funds** are used to account for money and property held by the City as trustee or custodian. The Agency Funds are custodial in nature (assets equal liabilities). These funds include one Assessment District and one Community Facilities (Mello-Roos) District.

Application of accounting principles:

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the government-wide and proprietary fund financial statements, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins. The City has elected not to apply subsequent private-sector guidance for its business-type activities and enterprise funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) fees and charges to customers, applicants, and citizens; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments for capital purposes. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Program revenues and expenses are classified by function. Each function is defined as a major department with a department head and separate budget.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the funds. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

(d) Assets, Liabilities and Net Assets or Fund Balances:

Cash, Cash Equivalents and Investments:

Investments are stated at fair value. All investment income is reported as revenue in the operating statement. The City's Enterprise and Internal Service Funds participate in the pooling of City-wide cash and investments. As amounts are available to these funds on demand, all cash and investments in these funds are considered to be cash and cash equivalents for statement of cash flow purposes.

Investment in Other Agencies:

Investment in San Elijo Joint Powers Authority (San Elijo) by CSD - The investment in San Elijo is accounted for using the equity method of accounting. CSD makes periodic contributions to cover its share of capital and operating costs. Contributions for capital are accounted for as an increase in the investment account. Contributions for operations are accounted for as operating expenses under the classification: *facility operations and maintenance*. Amortization expense on Plant operations that is charged to CSD is accounted for as an operating expense under the classification: *amortization expense*.

Investment in R.E. Badger Water Facilities Financing Authority (the "Financing Authority")

SDWD's investment in the Financing Authority is accounted for using the equity method of accounting. The equity interest is comprised primarily of bond reserve funds held by a fiscal agent and unamortized bond discounts and issuance costs. Changes in the investment account result primarily from interest revenues on reserve funds and amortization expense on the bond discounts and issuance costs. These items are classified as nonoperating revenues and expenses in the accompanying *statement of revenues, expenses and changes in net assets*.

Investment in R.E. Badger Filtration Plant (the "Joint Facilities")

SDWD's investment in the Joint Facilities is accounted for using the equity method of accounting. SDWD makes periodic contributions to cover its share of capital and operating costs. Contributions for capital are accounted for as an increase in the investment account. Contributions for operations are accounted for as operating expenses under the classification *facility operations and maintenance*. Amortization expense on Plant operations that is charged to SDWD is accounted for as an operating expense under the classification *amortization expense*.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Investment in Encina Water Pollution Control Facility (Encina) by ESD - The investment in Encina is accounted for using the equity method of accounting. ESD makes periodic contributions to cover its share of capital and operating costs. Contributions for capital are accounted for as an increase in the investment account. Contributions for operations are accounted for as operating expenses under the classification *facility operations and maintenance*. Amortization expense on Plant operations that is charged to ESD is accounted for as an operating expense under the classification *amortization expense*.

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 all amounts are considered to be collectible in the normal course of business.

Other Assets:

Other current assets include inventories, which are stated at cost, which is not in excess of fair value. Inventory applies only to SDWD, and includes such items as water meters and other materials used in the repair of capital facilities. Cost has been determined on an average-cost basis. Other assets also includes bond issuance costs and prepaid pension costs (refer to Note 6).

Capital Assets and Depreciation Expense:

Capital assets are recorded as expenditures in the various governmental funds at the time of purchase and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets include land, land easements, construction in progress, buildings, building improvements, furniture and equipment, vehicles, and infrastructure assets (e.g., roads, streets and sidewalks, bridges, curbs and gutters, drainage systems, lighting systems and similar assets). All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Proprietary fund capital assets include land, land easements, construction in progress, public works facility right of use, 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. Cost includes materials, direct labor, and such indirect items as engineering and supervision, employee fringe benefits and interest during construction on borrowed funds related to plant under construction.

Depreciation is provided using the straight-line method over the estimated useful service lives of the related assets:

Structures and improvements	20 - 45 years
Equipment, machinery and vehicles	5 - 20 years
Infrastructure	20 - 50 years
Collection and distribution	50 years

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

The City's capitalization threshold for capital assets is \$5,000 for non-infrastructure assets and \$100,000 for infrastructure assets.

Current Liabilities:

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 are incurred by the City on these projects, 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 to guarantee required performance by an applicant. 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 at the balance sheet date is reported as a *current liability* in the *Statement of Net Assets*. Non-cash securities are not reported as liabilities, as the corresponding surety is not an asset of the City as of the *statement of net assets/balance sheet* date.

Unearned and Deferred Revenues - Unearned revenues generally consist of amounts collected from customers prior to June 30, 2011 for recreation programs that begin in fiscal year 2012, and unearned revenues can also result from donations or cash collected from other agencies for capital or work projects, for which the related expenditures have not yet been incurred.

Deferred revenues generally consist of federal and state grants for which monies have been received but the related expenditures have not yet occurred or where expenditures have been incurred but reimbursement for those expenditures did not occur within the defined availability period of 60 days, and are deferred in the governmental fund statements.

Long Term Obligations:

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount.

Long-term lease obligations that meet all applicable criteria are accounted for as capital leases. Leases not meeting the criteria are accounted for as operating leases.

In governmental funds, compensated absences (accrued vacation and sick leave for firefighters) are recorded as expenditures in the year paid or when due and payable at year-end and are charged to general government and public safety, respectively. Unpaid liabilities are recorded in the *statement of net assets*. Unpaid compensated absences of proprietary funds are recorded as a liability in those funds as the vested benefits to the employees accrue.

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.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Classification of Net Assets:

On the *statement of net assets*, net assets are classified into three components which are defined as follows:

- **Invested in capital assets, net of related debt** - This component of net assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent debt proceeds at year-end, those amounts are included in the calculation of net capital assets.
- **Restricted assets** - This component of net assets consists of constraints placed on net asset use externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Balances:

Fund balances presented in the governmental fund financial statements represent the difference between assets and liabilities. GASB Statement No. 54 requires that the fund balances be classified into the following categories based upon the type of restrictions imposed on the use of funds:

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - This classification includes amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - This classification includes amounts that can be used only for the specific purposes determined by a formal action by the entity's highest level of decision-making authority.

Assigned - This classification includes amounts intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned - This classification is the residual amount for the City's general fund and includes all spendable amounts not contained in the other classifications.

The City reduces restricted amounts first when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available. The City reduces committed amounts first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Property Taxes:

Under California law, property taxes are assessed and collected by the counties up to 1% of the assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. The City considers only the taxes which are received within 60 days after year-end to be revenue in the governmental funds.

The County of San Diego's property tax calendar is as follows:

Lien date	January 1
Levy date	July 1
Due dates	November 1 and February 1
Delinquent dates	December 10 and April 10

(2) NEW GOVERNMENTAL ACCOUNTING STANDARD:

Effective, July 1, 2010, the City implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 improves the financial reporting by providing fund balance categories and classifications that are more easily understood. The reserved components of fund balance are eliminated and replaced with restricted, committed, assigned, or unassigned classifications to enhance the consistency between the information reported in the government-wide and the governmental fund financial statements to avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance disclosures seek to give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated.

(3) BUDGETARY INFORMATION:

(a) Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information and other supplementary combining budgetary comparison schedules:

The City Council adopts a two-year operating budget, with appropriations for the first year only. This annual budget provides for the general operations of the City. It includes all proposed expenditures and interfund transfers, and the means of financing them. The Council also approves any amendments to appropriations throughout the year, generally at the mid-year budget review in February. This "appropriated budget" covers substantially all City expenditures, with the exception of capital improvement projects, which expenditures constitute a legally authorized "non-appropriated budget". The legal level of budgetary control is at the fund level. The budgetary amounts used in the required supplementary information are both original and final budgeted amounts. The final budget amounts include any amendments adopted during the year.

Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations which are unencumbered at

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

year-end lapse. City Council approval is required to include any unencumbered appropriations at year-end in the following fiscal year's budget as continuing appropriations. Continuing appropriations only apply to the first year of the two-year budget cycle.

Budgets for the general and special revenue funds are adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America. Accordingly, actual revenue and expenditures can be compared with related budgeted amounts without any significant reconciling items. No budgetary comparisons are presented for the debt service, capital projects or proprietary funds, as the City is not legally required to adopt an annual budget for those types of funds.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must be either refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. Further, Section 5 of Article XIII B allows the City to designate a portion of fund balance for general contingencies to be used in future years without limitation.

(4) CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2011, are classified in the accompanying financial statements as follows:

	Government- wide Statement of Net Assets	Statement of Fiduciary Assets and Liabilities	Total
Current assets:			
Cash and investments	\$ 103,228,647	\$ 2,457,180	\$ 105,685,827
Cash and investments with fiscal agents	651,287	-	651,287
Noncurrent Assets:			
Restricted assets:			
Cash and investments with fiscal agents	4,443,599	2,794,213	7,237,812
Total Cash and Investments	<u>\$ 108,323,533</u>	<u>\$ 5,251,393</u>	<u>\$ 113,574,926</u>

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Cash and investments at June 30, 2011, consisted of the following:

Cash on hand	\$ 3,525
Deposits with financial institutions - book balance	22,039,383
Investments	<u>91,532,018</u>
Total Cash and Investments	<u>\$ 113,574,926</u>

Investments Authorized by the California Government Code and the City's Adopted Investment Policy:

The table below identifies the allowable investment types authorized by the California Government Code (the "Gov't Code") and the City's adopted Investment Policy (the "Investment Policy"). The table also identifies certain restrictions related to interest rate risk, and concentration of credit risk. The Investment Policy restricts the City Treasurer to investing in only the types of investments listed herein, which is more restrictive than the Gov't Code, as the City's policy does not allow certain investments to be purchased which are permitted under the Gov't Code.

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	No Limit	No Limit
Local Agency Investment Fund (LAIF)	Yes	N/A	No Limit	No Limit
Local Agency Bonds	No	5 years	None	None
Other Governmental Managed Investment Pools	Yes	N/A	No Limit	No Limit
Money Market Mutual Funds	Yes	N/A	20%	10%
Certificates of Deposit	Yes	5 years	No Limit	No Limit
Negotiable Certificates of Deposit	Yes	5 years	30%	No Limit
Bankers' Acceptances	Yes	180 days	40%	30%
U.S. Treasury Bills, Notes and Bonds	Yes	5 years	No Limit	No Limit
U.S. Government Sponsored Enterprises	Yes	5 years	No Limit	No Limit
Commercial Paper	Yes	270 days	25%	10%
Commercial Medium-Term Notes	Yes	5 years	30%	No Limit

Investments Authorized by Debt Agreements:

The investment of the proceeds of debt issues, which are 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 table below identifies the investment types that are authorized and currently utilized by the City. The table also identifies certain restrictions related to interest rate risk, and concentration of credit risk.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Authorized Investment Type	Maximum Maturity	Maximum Percentage or Amount of Portfolio	Maximum Investment in One Issuer
Guaranteed Investment Contracts	N/A	No Limit	No Limit
Money Market Mutual Funds	N/A	No Limit	No Limit

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 following table that shows the distribution by maturity.

Investment Type	Total	Remaining Maturity (in Months)		
		12 Months or Less	13-60 Months	More Than 60 Months
Investments:				
Local Agency Investment Fund	\$ 34,186,712	\$ 34,186,712	\$ -	\$ -
California Asset Management Program	9,998,923	9,998,923	-	-
Money Market Mutual Funds	60,283	60,283	-	-
U.S. Treasury Bills	19,977,900	19,977,900	-	-
U.S. Government Sponsored Enterprise Securities	19,437,142	6,038,820	13,398,322	-
Total Investments	83,660,960	70,262,638	13,398,322	-
Investments with Fiscal Agents:				
Guaranteed Investment Contracts	619,500	-	-	619,500
Money Market Mutual Funds	7,251,558	7,251,558	-	-
Total Investments with Fiscal Agents	7,871,058	7,251,558	-	619,500
Total	<u>\$ 91,532,018</u>	<u>\$ 77,514,196</u>	<u>\$ 13,398,322</u>	<u>\$ 619,500</u>

The City does not have any investments as of June 30, 2011, whose fair values are highly sensitive to interest rate fluctuations.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

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 on the following page is the minimum rating required by (where applicable) the Gov't Code, the Investment Policy, or the debt agreements, and the actual rating as of year-end for each investment type.

Investment Type	Totals	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End	
				AAA/ Aaa	Not Rated
Investments:					
Local Agency Investment Fund	\$ 34,186,712	N/A	\$ -	\$ -	\$ 34,186,712
California Asset Management Program	9,998,923	N/A	-	9,998,923	-
Money Market Mutual Funds	60,283	AAA	-	-	60,283
U.S. Treasury Bills	19,977,900	None	19,977,900	-	-
U.S. Government Sponsored Enterprise Securities	19,437,142	None	-	19,437,142	-
Total-Investments	83,660,960		19,977,900	29,436,065	34,246,995
Trustee Investments:					
Guaranteed Investment Contracts	619,500	N/A	-	-	619,500
Money Market Mutual Funds	7,251,558	AAA	-	7,251,558	-
Total-Trustee Investments	7,871,058		-	7,251,558	619,500

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	Reported Amount
Federal Farm Credit	U.S. Government Sponsored Enterprise Securities	\$ 8,033,280
Federal Home Loan Bank	U.S. Government Sponsored Enterprise Securities	7,391,442

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Disclosures Relating to Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Gov't 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 provisions for deposits: The Gov't 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2011, the City deposits (bank balances) were insured by the Federal Depository Insurance Corporation up to \$250,000 and the remaining balance of the deposits were collateralized under California Law.

Disclosures Related to the State Local Agency Investment Fund (LAIF):

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

The total amount invested by all public agencies in LAIF as of June 30, 2011 was \$23.9 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2011 had a balance of \$66.4 billion, of that amount, 5.01% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 237 days as of June 30, 2011.

Disclosures Related to the 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. At June 30, 2011, CAMP had a balance of \$2.0 billion with an average maturity of 52 days. The value of the pool shares in CAMP, which may be withdrawn, is determined on an amortized cost basis, which is the same as the fair value of the City's portion in the pool.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

(5) INVESTMENT IN OTHER AGENCIES:

Investment in other agencies is accounted for as *other noncurrent assets* in the *Statement of Net Assets*, and consists of the following amounts at June 30, 2011:

City Agency	Investment In	Amount
Cardiff Sanitary Division	San Elijo Joint Powers Authority	\$ 17,354,853
San Dieguito Water District	R.E. Badger Filtration Plant	18,046,989
San Dieguito Water District	R.E. Badger Financing Authority	857,833
Encinitas Sanitary Division	Encina Wastewater Authority	3,389,910
		<u>\$ 39,649,585</u>

Cardiff Sanitary Division – Investment in San Elijo Joint Powers Authority:

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 "Facilities"). In 1987, CSD and Solana Beach agreed to establish the *San Elijo Joint Powers Authority (San Elijo)*, a separate legal entity whose function it is to manage and operate the 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 *San Elijo*. The Ocean outfall is jointly owned by *San Elijo* (21% interest) and the City of Escondido (79% interest).

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, 2011, CSD's share of operations and maintenance costs (net of charges to outside agencies) was \$1,216,385.

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:

San Dieguito Water District	Santa Fe	Facilities
45%	55%	Filtration Plant
31%	69%	Filtered Water Reservoir
39%	61%	Joint Pipeline
42%	58%	San Dieguito Reservoir

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

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, 2011, SDWD's share of operations and maintenance costs was \$2,244,442.

San Dieguito Water District - Investment in R.E. Badger Water Facilities Financing Authority (the "Financing Authority"):

In 1999, the 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. The 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 the SDWD's share of the debt reserve funds held by a fiscal agent and unamortized bond discounts and issuance costs.

Refer to Note 7 for more information on the Financing Authority.

Encinitas Sanitary Division - Investment in Encina Water Pollution Control Facility:

ESD is one of six participants in the operations of the Encina Water Pollution Control Facility (the "Facility"), which is administered by the Encina Wastewater Authority (Encina). ESD owns approximately 5% of the Facility, affording it capacity rights of 2.0 million gallons/day, which is in excess of current needs and sufficient to meet all projected future needs.

Encina is responsible for the operations and maintenance of the Facility, 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 through the Facility. For the year ended June 30, 2011, ESD's share of those costs was \$670,650.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

(6) OTHER ASSETS, NET OF ACCUMULATED AMORTIZATION

Governmental Activities:

Bond Issuance Costs:

On October 1, 2006, the Encinitas Public Financing Authority (EPFA) issued 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 library located on 2.1 acres immediately above the City's Civic Center. \$381,360 of bond issuance costs were incurred in conjunction with the debt issuance. On the *government-wide statement of net assets*, under Governmental Activities, (Other assets, net of accumulated amortization), these issuance costs are being amortized over the 30 year life of the debt. The unamortized balance at June 30, 2011 was \$324,156.

During the current year, the Encinitas Public Financing Authority 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 the 2001 Lease Revenue Bonds, Series A. Bond issuance costs of \$395,404 were incurred in conjunction with this debt issuance. On the *government-wide statement of net assets*, under Governmental Activities, (Other assets, net of accumulated amortization), these issuance costs are being amortized over remaining life of the debt. The unamortized balance at June 30, 2011 was \$378,929.

Prepayment of Pension Side Fund to the California Public Retirement System (CalPERS):

The City fire department and marine safety pension plans, which each have less than 100 active members, were required to enroll in a CalPERS risk-sharing pool in 2003. As part of that enrollment process, CalPERS calculated the funded status of each Plan and compared that amount to the funded status of the risk pool at inception. The difference (side-fund liability) for these Plans was being financed by CalPERS over an 8 year period at the assumed rate of return of the CalPERS pooled investment fund (7.75%). On June 27, 2007, via City Council action, the City elected to prepay the full amount of \$3,325,189. This amount has been capitalized as *other noncurrent assets*, and is being amortized on a straight-line basis over a 10 year period. At June 30, 2011, the unamortized portion of the *prepaid pension asset* was \$1,995,113, and amortization expense for the fiscal year was \$332,519.

Business-type Activities:

Prepayment of Pension Side Fund to the California Public Retirement System (CalPERS):

SDWD's pension plan, which has less than 100 active members, was required to enroll in a CalPERS risk-sharing pool in 2003. As part of that enrollment process, CalPERS calculated the funded status of the Plan and compared that amount to the funded status of the risk pool at inception. The difference (side-fund liability) was being financed by CalPERS over a 17 year period at the assumed rate of return of the CalPERS pooled investment fund (7.75%). On June 27, 2007, the Board of Directors elected to prepay the full amount of \$981,523. This amount has been capitalized as an *Other noncurrent assets*, and is being amortized on a straight-line basis over a 10 year period. At June 30, 2011, the unamortized portion of the prepaid pension asset was \$588,915. Amortization for the fiscal year was \$98,152.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

(7) CAPITAL ASSETS AND DEPRICIATION:

A summary of changes in the Governmental Activities capital assets for the year ended June 30, 2011, is as follows:

	Balance at July 1, 2010	Additions and Transfers In	Deletions and Transfers Out	Balance at June 30, 2011
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 19,462,218	\$ -	\$ -	\$ 19,462,218
Parkland - vacant	39,408,742	-	-	39,408,742
Construction in progress	10,873,808	6,482,787	(1,600,755)	15,755,840
Total capital assets, not being depreciated	69,744,768	6,482,787	(1,600,755)	74,626,800
Capital assets, being depreciated:				
Public facilities	45,352,234	-	-	45,352,234
Parkland - improvements	12,073,620	-	-	12,073,620
Fire apparatus and equipment	3,296,638	1,124,003	-	4,420,641
Equipment and machinery	3,191,280	125,407	(77,926)	3,238,761
Office furniture and equipment	587,626	-	-	587,626
Vehicles	1,746,228	58,373	(23,141)	1,781,460
Infrastructure	92,376,754	1,600,755	-	93,977,509
Total capital assets, being depreciated	158,624,380	2,908,538	(101,067)	161,431,851
Less accumulated depreciation for:				
Public facilities	(8,285,153)	(1,425,199)	-	(9,710,352)
Parkland - improvements	(6,104,036)	(627,605)	-	(6,731,641)
Fire apparatus and equipment	(2,189,198)	(208,302)	-	(2,397,500)
Equipment and machinery	(2,245,678)	(237,778)	77,926	(2,405,530)
Office furniture and equipment	(456,065)	(50,227)	-	(506,292)
Vehicles	(1,494,769)	(95,070)	23,141	(1,566,698)
Infrastructure	(31,256,151)	(2,411,283)	-	(33,667,434)
Total accumulated depreciation	(52,031,050)	(5,055,464)	101,067	(56,985,447)
Total capital assets being depreciated, net	106,593,330	(2,146,926)	-	104,446,404
Governmental activities Capital assets, net	\$ 176,338,098	\$ 4,335,861	\$ (1,600,755)	\$ 179,073,204

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

A summary of changes in the Business-type Activities capital assets for the year ended June 30, 2011, is as follows:

Business-Type Activities:	Balance at July 1, 2010	Additions and Transfers In	Deletions and Transfers Out	Balance at June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 8,575	\$ -	\$ (8,575)	\$ -
Land easements	4,476,072	47,686	-	4,523,758
Public Works facility right of use	3,378,700	-	-	3,378,700
Construction in progress	1,896,818	1,418,816	(554,783)	2,760,851
Capital assets, not being depreciated	9,760,165	1,466,502	(563,358)	10,663,309
Capital assets, being depreciated:				
Structures and improvements	13,948,892	247,627	-	14,196,519
Collection and distribution	45,031,576	455,036	-	45,486,612
Machinery and equipment	2,419,924	9,915	-	2,429,839
Capacity rights	323,190	-	-	323,190
Total capital assets, being depreciated	61,723,582	712,578	-	62,436,160
Less accumulated depreciation for:				
Structures and improvements	(3,439,958)	(318,118)	-	(3,758,076)
Collection and distribution	(27,180,242)	(575,986)	-	(27,756,228)
Machinery and equipment	(743,594)	(154,808)	-	(898,402)
Capacity rights	(93,186)	(6,463)	-	(99,649)
Total accumulated depreciation	(31,456,980)	(1,055,375)	-	(32,512,355)
Total capital assets being depreciated, net	30,266,602	(342,797)	-	29,923,805
Business-type activities capital assets, net	\$ 40,026,767	\$ 1,123,705	\$ (563,358)	\$ 40,587,114

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Depreciation expense was charged to the functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 794,111
Public safety	216,932
Public works	2,653,910
Parks and recreation	950,105
Capital assets held by the internal service funds	<u>440,406</u>
Total depreciation expense - governmental activities	<u>\$ 5,055,464</u>

Business-Type Activities:

Cardiff Sanitary Division	\$ 174,158
San Dieguito Water District	498,947
Encinitas Sanitary Division	281,732
Nonmajor Affordable Housing	<u>100,538</u>
Total depreciation expense - business-type activities	<u>\$ 1,055,375</u>

Capacity Rights (SDWD):

On September 21, 1992, SDWD and the Santa Fe Irrigation District entered into an agreement with the San Diego County Water Authority (SDCWA) to increase the delivery capacity to R.E. Badger Filtration Plant. SDCWA planned, designed and constructed the system with funds provided 45% by SDWD and 55% by Santa Fe Irrigation District. SDCWA owns and operates the system, which was placed in service May 1995. SDWD's cost of the capacity rights totaled \$323,190. At June 30, 2011, the unamortized portion of the *capacity rights* was \$223,541, and amortization expense for the fiscal year was \$6,463.

Public Works Facility Right of Use:

In September 2007, the City purchased a 4.4 acre commercial site and related improvements for use as a joint Public Works facility with SDWD. The facility was purchased for a total of \$9.6 million, of which \$8.6 million is land value, \$1.0 million is the value of the improvements, and \$100,000 represents the purchase of various equipment and fixtures. In conjunction with that purchase, SDWD was granted a perpetual right-of-use of the joint facility in exchange for a one-time payment to the City of \$3,378,700. Due to its perpetual nature, this asset is not being amortized.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

(8) LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011	Due Within One Year
Governmental Activities:					
Capital Leases:					
2004 Fire Apparatus Lease	\$ 56,158	\$ -	\$ (56,158)	\$ -	\$ -
2006 Fire Apparatus Lease	106,235	-	(51,987)	54,248	54,248
2011 Fire Apparatus Lease	-	1,107,555	-	1,107,555	146,766
2007 Vac Con Cleaner Lease	141,250	-	(32,911)	108,339	34,463
2008 Lease Roof Replacement	1,881,924	-	(115,167)	1,766,757	119,455
Bonded Debt:					
1997 Refunding Certificates	3,565,000	-	(435,000)	3,130,000	460,000
2001 Lease Revenue Bonds	19,040,000	-	(19,040,000)	-	-
2002 ABAG Financing	2,625,000	-	(480,000)	2,145,000	490,000
2006 Lease Revenue Bonds	19,210,000	-	(415,000)	18,795,000	430,000
less: (bond discount amount):	(275,000)	-	5,000	(270,000)	-
2010 Lease Revenue Bonds	-	19,530,000	(895,000)	18,635,000	625,000
add: (bond premium amount):	-	215,515	(8,980)	206,535	-
Subtotal of governmental capital leases and bonded debt	46,350,567	20,853,070	(21,525,203)	45,678,434	2,359,932
Claims payable	679,660	333,643	(448,205)	565,098	565,098
Compensated absences	1,886,207	1,963,482	(1,886,207)	1,963,482	1,963,482
Total Governmental Activities	<u>48,916,434</u>	<u>23,150,195</u>	<u>(23,859,615)</u>	<u>48,207,014</u>	<u>4,888,512</u>
Business-type Activities:					
2003 CSD Note Payable to SEJPA	5,770,000	-	(470,000)	5,300,000	490,000
2004 SDWD Water Revenue Bonds	10,535,000	-	(575,000)	9,960,000	595,000
2007 SDWD Note Payable Badger	7,010,000	-	(350,000)	6,660,000	365,000
2004 EHA Housing Mortgage Note	1,638,817	-	(47,136)	1,591,681	47,247
Subtotal of business-type notes payable and bonded debt	24,953,817	-	(1,442,136)	23,511,681	1,497,247
Compensated absences	85,170	59,926	(85,170)	59,926	59,926
Total Business-type Activities	<u>25,038,987</u>	<u>59,926</u>	<u>(1,527,306)</u>	<u>23,571,607</u>	<u>1,557,173</u>
Long-term liabilities total	<u>\$ 73,955,421</u>	<u>\$ 23,210,121</u>	<u>\$ (25,386,921)</u>	<u>\$ 71,778,621</u>	<u>\$ 6,445,685</u>

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Governmental Activities:

Capital Leases:

2004 Fire Apparatus Lease:

The City entered into a long-term lease arrangement in fiscal year 2003-04 to finance the purchase of a replacement fire engine for \$362,264. The lease has a term of seven (7) years, an interest rate of 2.85%, and annual payments of \$57,759. 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 2011.

2006 Fire Apparatus Lease:

The City entered into a long-term lease arrangement in fiscal year 2005-06 to finance the purchase of a 2006 American LaFrance Eagle Pumper Fire Apparatus for \$358,544. The lease has a term of seven (7) years, an interest rate of 4.35%, and annual payments of \$56,607. 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 2012.

2007 Vac-Con Cleaner Lease:

The City entered into a long-term lease arrangement in fiscal year 2006-07 to finance the purchase of a new 2007 Vac-Con combination sewer and storm drain cleaner for \$231,358. The lease has a term of seven (7) years, an interest rate of 4.66%, and semi-annual payments of \$19,557. The City will own the equipment at the end of the lease term in fiscal year 2014.

2008 Civic Center Roof Replacement and Energy Optimization Project-Lease Financing:

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.

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 \$1,107,555. The lease has a term of seven (7) years, an interest rate of 2.48%, and annual payments of \$173,329. 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.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Capital assets and accumulated depreciation held under capital leases are as follows:

	Governmental Activities		
	Cost	Accumulated Depreciation	Net Capital Assets
Public facilities	\$ 3,543,258	\$ (295,272)	\$ 3,247,986
Fire apparatus and equipment	1,844,812	(298,820)	1,545,992
Equipment and machinery	231,358	(188,942)	42,416

Bonded Debt:

1997 Refunding Certificates of Participation (COP's)-Series A (Encinitas Civic Center):

In December 1991, the EPFA (on behalf of the City of Encinitas) issued the 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 \$275,000 to \$590,000. Interest is payable semi-annually with rates ranging from 3.70% to 5.05%. The certificates are not subject to optional redemption prior to maturity.

2001 Lease Revenue Bonds (Park Project):

On April 1, 2001 the EPFA (on behalf of the City of Encinitas) issued its 2001 Lease Revenue Bonds-Series A in the amount of \$22,645,000 to provide funds for the acquisition of and improvements to a 43-acre proposed Parksite. The bonds consist of \$12,995,000 of serial bonds maturing from 2003 to 2023 in annual installments of \$952,758 to \$1,513,000, \$2,055,000 of term bonds maturing in 2025 and \$7,595,000 term bonds maturing in 2031. Interest is payable semi-annually with rates ranging from 4.00% to 5.25%.

These bonds were refinanced in fiscal year 2010-11 with the issuance of the 2010 Lease Revenue Refunding Bonds-Series A (refer to the following page).

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 serially on July 1 from 2004 through 2018 in amounts ranging from \$240,000 to \$670,000. The Term Bonds due July 1, 2022 and 2032 are subject to mandatory sinking fund requirements. Interest is due and payable semi-annually at rates ranging from 3.00% to 4.65%.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

The City advanced funds to the Encinitas Sanitary Division and the San Dieguito Water District, which are being repaid to the City according to the underlying terms of the bond issue. The remaining balances owed to the City are summarized in Note 9.

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), together with accrued interest thereon.

Redemption Period	Redemption Price
July 1, 2012 through June 30, 2013	101%
July 1, 2013 through June 30, 2014	100.5%
July 1, 2014 and thereafter	100%

2006 Lease Revenue Bonds (Public Library):

On October 1, 2006 the EPFA (on behalf of the City of Encinitas) issued 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 library located on 2.1 acres immediately above the Encinitas Civic Center. The bonds consist of \$10,405,000 of serial bonds and \$9,595,000 in term bonds. The serial bonds mature from 2008 to 2026 in annual installments ranging from \$390,000 to \$755,000. The term bonds mature from 2027 to 2036 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 4.375%.

The bonds were issued at a discount of \$300,000, and the City paid \$381,360 in bond issuance costs (see Note 6). The bond discount is being amortized over the life of the bond issue.

The Bonds maturing on or after October 1, 2015 are subject to optional redemption beginning on or after October 1, 2014 at the following respective redemption prices:

Redemption Period	Redemption Price
October 1, 2014 through September 30, 2015	102%
October 1, 2015 through September 30, 2016	101%
October 1, 2016 and thereafter	100%

2010 Lease Revenue Refunding Bonds (Park Project):

On September 1, 2010, the EPFA (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 2001 Issue funded the acquisition of a 43 acre future park site and certain pre-development costs of the Project. The transaction qualified as a current refunding under all applicable laws and regulations. The proceeds of the sale were deposited into an escrow account to: (1) redeem all of the existing outstanding bonds from the 2001 Issue, (2) fund a new debt service reserve fund, and (3) pay qualified costs of issuance. The existing 2001 Bonds were called in full on September 1, 2010.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

The 2010 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 0.50% to 4.85%.

The Bonds maturing on or before April 1, 2017 shall not be subject to redemption prior to their respective stated maturities. The Bonds maturing on or after April 1, 2018, shall be subject to optional redemption on any date after April 1, 2017, without premium.

The purpose of the refunding was to save money on future interest costs. No new funds were raised in the issuance. The City realized an economic gain (net present value savings) of \$1,311,000, or 6.88% on the refunded bonds. This results in an average annual savings through 2031 of \$100,000. The City paid issuance costs of approximately \$400,000, which is being capitalized and amortized over the remaining life of the 2010 Bonds.

The debt service requirements to maturity of the capital leases and the bonded debt, excluding claims payable and compensated absences, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 2,359,932	\$ 1,874,257	\$ 4,234,189
2013	2,215,420	1,724,166	3,939,586
2014	2,195,489	1,705,859	3,901,348
2015	2,256,334	1,608,627	3,864,961
2016	2,355,242	1,508,219	3,863,461
2017-2021	9,188,696	7,064,786	16,253,482
2022-2026	8,670,784	4,688,699	13,359,483
2027-2031	10,260,000	2,715,131	12,975,131
2032-2036	3,980,000	753,040	4,733,040
2037	2,260,002	99,969	2,359,971
Totals	<u>\$ 45,741,899</u>	<u>\$ 23,742,753</u>	<u>\$ 69,484,652</u>

Business-type Activities:

2003 CSD Note Payable to San Elijo Joint Powers Authority (SEJPA):

In April 2003, the SEJPA issued Refunding Revenue Bonds in the amount of \$18,640,000 for the purpose of refunding its 1993 Revenue Bonds. The proceeds of the original issue were loaned to its two member agencies (CSD and the City of Solana Beach) to finance and upgrade the jointly-owned wastewater treatment plant. CSD's portion of the 2003 Refunding Revenue Bonds, in the form of an amended loan agreement, totaled \$8,735,000. Principal is due and payable annually in amounts ranging from \$395,000 to \$705,000. Interest is payable semi-annually with rates ranging from 2.00% to 5.00%. CSD accounts for its share of the Bonds as a Note Payable to SEJPA.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

CSD has pledged net revenues to pay for the outstanding debt mentioned above.. Net revenues are computed as gross revenues less operations and maintenance costs. CSD has covenanted to have net revenues at least equal to 110% of the annual debt service of the bonds. Total principal and interest outstanding as of June 30, 2011 is \$6,584,400. During the year, principal and interest paid was \$743,800 and net revenues were \$3,146,749, or 353% of annual debt service.

2004 SDWD Water Revenue Refunding Bonds:

On January 22, 2004, SDWD issued \$13,845,000 of Water Revenue Refunding Bonds, Series 2004, to redeem all of the outstanding 1993 Water Revenue Refunding Bonds. The Bonds consist of \$10,170,000 of serial bonds maturing from 2004 through 2019 in annual installments of \$505,000 to \$820,000 and one term bond of \$3,675,000 maturing on October 1, 2023. The Term Bond is subject to sinking fund requirements. Interest is payable semi-annually at rates ranging from 2.5% to 5.0%. The Bonds maturing on or after October 1, 2015 are subject to optional redemption at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

2007 SDWD Note Payable to R.E. Badger Water Facilities Financing Authority (WFFA):

On November 20, 2007, the WFFA issued \$20,685,000 of 2007 Water Revenue Refunding Bonds while concurrently redeeming all of its outstanding 1999 Water Revenue Bonds, on behalf of its member agencies, the Santa Fe Irrigation District and the San Dieguito Water District. The transaction was a current refunding intended to save the member agencies future interest costs due to lower market interest rates, new Installment Purchase Agreements were executed. The overall Bond Issue consists of \$20,685,000 of serial bonds maturing from 2008 through 2024. The SDWD portion of the refinancing totaled \$7,705,000. 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%. SDWD accounts for its share of the bonds as a Note Payable to R.E. Badger WFFA. The bonds maturing on or before October 1, 2017 are not subject to optional redemption prior to maturity. The bonds maturing on October 1, 2018 and thereafter are subject to redemption prior to their stated maturity at the option of the Authority, as a whole or in part on any date, by such maturities as are selected by the Authority from any available source of funds on or after October 1, 2017 at a redemption price equal to the principal amount of the bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption.

SDWD has pledged its net revenues to pay the debt service of the 2004 Water Revenue Refunding Bonds and 2007 Note Payable. Net revenues are computed as gross revenues less operations and maintenance costs, which do not include depreciation, amortization and interest expense. SDWD has covenanted to have net revenues to at least equal to 115% of the annual debt service of the bonds. Total principal and interest outstanding of the above mentioned debts as of June 30, 2011 is \$22,085,393. During the year, principal and interest was \$1,652,294 and net revenue was \$3,699,634, or 232% of annual debt service.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

2004 EHA Housing Mortgage Note Payable:

In conjunction with the purchase of 16 affordable housing units in 2004, the EHA executed a mortgage loan payable with a local commercial lender of \$1,905,338, secured by a first trust deed on the subject property. The note bears interest at 90% of the ten-year Treasury note, adjustable every six years, with a final maturity of March 15, 2034. Payments of principal and interest are due and payable monthly. EHA is solely responsible for repayment on this note. The City of Encinitas is not obligated to repay this note under any circumstances.

The debt service requirements to maturity for the Business-type Activities, excluding compensated absences, were as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 1,497,247	\$ 1,011,387	\$ 2,508,634
2013	1,549,008	952,307	2,501,315
2014	1,605,684	779,157	2,384,841
2015	1,677,417	818,823	2,496,240
2016	1,744,083	745,507	2,489,590
2017-2021	9,245,022	2,464,872	11,709,894
2022-2026	5,509,972	573,281	6,083,253
2027-2031	419,989	81,336	501,325
2032-2034	263,259	12,796	276,055
Totals	<u>\$ 23,511,681</u>	<u>\$ 7,439,466</u>	<u>\$ 30,951,147</u>

(9) OPERATING LEASES:

The City has various operating leases for office equipment with remaining terms of one year, a value at inception of approximately \$600,000, and future payments due of \$64,658.

(10) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

Due To and Due From:

Individual interfund receivables and payables at June 30, 2011, were as follows:

	Due From Other Funds	Due To Other Funds
Governmental Funds:		
General Fund	\$ 1,910,749	\$ -
Nonmajor Funds	<u>-</u>	<u>1,910,749</u>

The amounts due to the General Fund are all short-term borrowings in anticipation of grant revenue or debt service payments not yet received.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Advances To and Advances From:

Advances receivable and payable between funds at June 30, 2011, were as follows:

	Advances To Other Funds	Advances From Other Funds
Governmental Funds:		
Nonmajor Funds	\$ 185,000	\$ -
Enterprise Funds:		
San Dieguito Water District	<u>-</u>	<u>185,000</u>

During fiscal year 2002-03, the City advanced funds to the enterprise funds from the proceeds of the ABAG financing to fund the refinancing of sewer fund debt and to finance SDWD's meter replacement and automation program. The advances are repayable semi-annually at principal and interest amounts consistent with the underlying financing. Repayments to the City during the year totaled \$85,000 for SDWD and \$65,000 for ESD. This was the final year of repayment for ESD.

Transfers In and Out:

Transfers in and out between funds for the year ended June 30, 2011, were as follows:

	Transfers Out		
	General Fund	Nonmajor Funds	Total All Funds
Transfers In:			
General Fund	\$ -	\$ 333,846	\$ 333,846
Capital Improvement Capital Projects Fund	4,202,610	4,356,583	8,559,193
Nonmajor governmental funds	<u>4,240,185</u>	<u>-</u>	<u>4,240,185</u>
Total all funds	<u>\$ 8,442,795</u>	<u>\$ 4,690,429</u>	<u>\$ 13,133,224</u>

Transfers in to the General Fund consist of reimbursements 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, there was a one-time transfer in from the State Gasoline Tax fund balance, which will be used to fund future street maintenance expenditures.

All capital improvement expenditures related to governmental-type funds are recorded in a separate Capital Improvement Projects Fund, which is reimbursed on a monthly basis by the Fund(s) which are providing the source funding.

Transfers to nonmajor governmental funds are primarily amounts being transferred to the City's debt service fund, by the fund responsible for payment, for payment of all governmental debt service obligations.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

(11) FUND BALANCE CLASSIFICATIONS:

The City of Encinitas classifies fund balances, as shown on the *Balance Sheet – Governmental Funds* at June 30, 2011 as follows:

	General Fund	Total Nonmajor Funds	Totals
Nonspendable	\$ 2,648,338	\$ 145,686	\$ 2,794,024
Restricted	633,245	8,290,163	8,923,408
Committed	42,274,327	7,570,021	49,844,348
Unassigned	<u>1,850,582</u>	<u>-</u>	<u>1,850,582</u>
Total Fund Balances	<u>\$ 47,406,492</u>	<u>\$ 16,005,870</u>	<u>\$ 63,412,362</u>

Nonspendable amounts in the above classifications are generally representative of long-term notes receivable and prepaid items, which represents a portion of fund balance that is not in spendable form.

Restricted amounts are fiscal agent cash and investments in the General Fund category, which are restricted to qualified capital expenditures in a specified City project. Amounts in the Nonmajor Funds category are generally funds that are not committed to capital projects, but which are restricted for expenditures related to the specific allowable purpose of each special revenue fund.

Committed amounts in both fund categories are generally amounts committed by City Council action(s) to the City's capital program. These amounts may either be previously appropriated and unspent at the balance sheet date or committed to specific capital projects in the City's six-year Capital Plan. The amounts shown in the General Fund category also include certain established reserves, which are discussed further below.

Unassigned amounts are funds not otherwise categorized. The only city Fund with an unassigned balance is the City's General Fund.

The City of Encinitas established, via City Council action in 1994, a requirement that the City's General Fund include a specified amount as a Contingency Reserve. This reserve was to be set-aside and used only in exceptional circumstances, such as catastrophic events that could negatively impact the financial condition of the City. This Policy essentially sets a minimum fund balance for the City's General Fund in any particular year. This practice has been followed in all ensuing years. The amount of the contingency reserve has been increased over the years, via formal City Council action(s), and now represents 20% of the next year's operating expenditures.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

(12) COMMITMENTS AND CONTINGENCIES:

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 maintains a self-insurance fund, within the general fund, to account for and finance its self-insured risks of loss. Based upon information received from the City's contract attorney and the self-insurance administrator, the estimated liability under such claims would be adequately covered by self-insurance reserves and insurance coverage. The City, which includes CSD and ESD, are members of the San Diego Pooled Insurance Program Authority (SANDPIPA). 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.

SDWD is a member of the Association of California Water Agencies - Joint Powers Insurance Authority (JPIA). Coverage includes general liability, property, and workers' compensation, with self-insured retention levels of \$10,000 to \$25,000. At June 30, 2011, in the opinion of the District's management, there were no material claims, which would require accrual in the accompanying financial statements. For liability and workers' compensation, SDWD pays a premium commensurate with the level of self-insured retention level requested. Property coverage premiums are based on values declared for property. SDWD carries a self-insured retention of \$10,000.

The City is self-insured for liability claims and losses up to \$150,000 per occurrence, and is covered for losses between \$150,000 and \$2,000,000 by the SANDPIPA reserve pool. The members share the risk of claims in excess of reserves. For claims incurred prior to July 1, 1992, SANDPIPA reimburses the member a proportionate amount of expenses incurred (mainly legal expenses), based on the percentage of the cost of the claim. 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 \$2,000,000 and \$47,000,000 via excess insurers. Losses in excess of \$47,000,000 are not covered and are self-funded by the City.

The City is self-insured for worker's compensation claims and losses up to \$350,000 per occurrence. Coverage for claims between \$350,000 and \$5,000,000 is provided by the Local Agency Workers Compensation Excess (LAWCX), a California Joint Powers Insurance Authority. Excess worker's compensation and commercial coverage between \$5,000,000 and \$45,000,000 is provided through contract reinsurance. City departments contribute premiums to the self-insurance fund (which is a part of the general fund for financial statement purposes) based on annual rates set for each work class.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

The claims liability of \$565,098 (for both workers' compensation and general liability) reported in long-term liabilities at June 30, 2011, is based on the requirements of GASB Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The City has committed in the general fund, fund balance of \$2,642,040 for future claims.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended June 30, 2011	Year Ended June 30, 2010
Unpaid Claims, Beginning of Fiscal Year	\$ 679,660	\$ 1,207,928
Incurred Claims	333,643	160,235
Claim Payments	(448,205)	(688,503)
Unpaid Claims, End of Fiscal Year	<u>\$ 565,098</u>	<u>\$ 679,660</u>

There have been no claim settlements in the last three years that have exceeded insurance coverage.

(13) PUBLIC EMPLOYEES RETIREMENT SYSTEM

California Public Employees Retirement System (Cal PERS):

Plan Description:

The City and SDWD (collectively, the "City") have entered into a total of four (4) separate defined benefit pension plans covering miscellaneous and safety employees with the California Public Employees Retirement System (CalPERS). The *Miscellaneous Plan of the City of Encinitas* is an agent multiple-employer Plan. The *Miscellaneous Plan of the San Dieguito Water District*, the *Safety Fire Plan of the City of Encinitas*, and the *Safety Lifeguard Plan of the City of Encinitas* are cost-sharing multiple employer Plans, in which the City participates with other local agencies with the same benefit formulas. The four Plans are referred to herein as the "Plans."

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 ordinance. CalPERS issues a separate comprehensive annual financial report, which can be obtained from the CalPERS Executive Office, Lincoln Plaza North - 400 Q Street - Sacramento, CA 95811.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Funding Policy:

Active plan members are required to contribute 8% for miscellaneous members and 9% for safety members of their annual covered salary (the "employee contribution"). The City makes those contributions on behalf of the employees, which are credited to their individual accounts. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (the "employer contribution"). All miscellaneous members are required under existing labor agreements to reimburse the City for a portion of the cost of providing retirement benefits. In fiscal year 2010-2011, the miscellaneous employees reimbursed the City at a rate of 3.8% of their covered payroll.

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The employee contribution requirements are established by State statute, and the employer contribution rates are established by the CalPERS Board of Administration on an annual basis.

Annual Pension Costs:

For fiscal year 2010-2011, the annual pension cost was \$2,250,038 for the agent employer Plan and \$1,069,315 for the cost-sharing employer plans. The City's annual pension cost for the Plans of the City and SDWD were equal to the annual required contributions. The required contribution for fiscal year 2010-2011 was determined as part of the June 30, 2008 actuarial valuation using the entry-age normal actuarial cost method with the contributions determined as a percent of pay.

The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for the miscellaneous plan (3.55% to 10.75% and 11.15% for the Safety Fire and Safety Lifeguard plans, respectively), and (c) 3.25% cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). CalPERS' unfunded actuarial accrued liability (or excess assets) are being amortized as a level percentage of projected payroll on a closed basis, depending on the size of investment gains and/or losses.

Fiscal Year-End	Agent Multiple- Employer Plan		Cost-Sharing Multiple- Employer Plans	
	Annual Pension Cost (APC)	Percentage of APC Contributed	Annual Pension Cost (APC)	Percentage of APC Contributed
6/30/2009	\$ 2,072,529	100%	\$ 949,015	100%
6/30/2010	2,081,450	100%	1,093,868	100%
6/30/2011	2,250,038	100%	1,069,315	100%

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Schedule of Funding Progress for the Agent Multiple-Employer Plan:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B-A/C)
6/30/2010	\$ 45,537,530	\$ 61,709,285	\$ 16,171,755	73.8%	\$ 13,394,687	120.7%

The Schedule of Funding Progress presented as Required Supplementary Information following the Notes to the Financial Statements, presents 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. The assumptions for the June 30, 2009 actuarial valuation for the funded status were the same as those of the June 30, 2008 valuation that determined the required contributions.

(14) OTHER POSTEMPLOYMENT BENEFITS

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.) Information on each of the Plans is presented below.

(a) City of Encinitas

Plan Description:

The City provides postretirement health care benefits through the CalPERS healthcare program (PEMHCA) 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.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Funding Policy and Actuarial Methods and Assumption:

The actual contributions of the City to the Trust were established by City Council action. The contribution requirements are established via an actuarial valuation of the City's Retiree Healthcare Plan as of June 30, 2009, performed in conformance with the requirements of GASB Statement No. 45. The required contribution is measured on an accrual basis rather than on a pay-as-you-go basis. The actuarial cost method used to determine the benefit obligations is the entry-age cost method. The valuation is determined using a discount rate of 7.75%, which is the discount rate established for the Trust by CalPERS. Other key assumptions include: (1) medical premiums increases of 10% to 11% depending on type of plan and (2) an average retirement age of 60. The unfunded actuarial accrued liability is being amortized over a closed thirty-year period.

Annual OPEB Cost (ARC):

The ARC for fiscal year 2010-11 of \$781,000 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 its ARC of \$781,000 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 to the plan, and the net OPEB obligation as of and for the year ended June 30, 2011 and the preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/09	\$ 857,000	100%	\$ -
6/30/10	857,000	100%	-
6/30/11	781,000	100%	-

Funded Status and Funding Progress:

The latest information available on the funding status comes from the actuarial study dated June 30, 2009. Information is in thousands (000's):

Actuarial accrued liability (AAL)	\$ 9,990
Actuarial value of Plan assets	467
Unfunded actuarial accrued liability (UAAL)	<u>\$ 9,523</u>
Funded ratio (actuarial value of plan assets/AAL)	4.67%
Covered payroll (active Plan members)	17,138
UAAL as a percentage of covered payroll	55.57%

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

(b) San Dieguito Water District:

Plan Description:

SDWD provides postretirement health care benefits through PEMHCA to eligible employees who retire directly from SDWD. SDWD pays the cost for the PEMHCA minimum benefit. 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.

SDWD has also elected to join the Trust, which provides a means to fund the ARC. SDWD makes an annual contribution to the Trust, pays benefits through PEMHCA during the year, and then seeks reimbursement for these pay-as-you-go expenses from the Trust.

Funding Policy:

The contributions of SDWD to the Trust are established by action of the Board of Director's. The contribution requirements were established via an actuarial valuation of SDWD's Retiree Healthcare Plan as of June 30, 2009. The required contribution is measured on an accrual basis rather than on a pay-as-you-go basis. The valuation is determined using a discount rate of 7.75%, which is the discount rate established for the Trust by CalPERS. Other key assumptions include: (1) medical premiums increases of 10% to 11% depending on type of plan and (2) an average retirement age of 60. The unfunded actuarial accrued liability is being amortized over a closed thirty-year period.

Annual OPEB Cost (ARC):

The ARC for fiscal year 2010-11 of \$24,000 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 SDWD contributed its ARC of \$24,000 to the Trust, and received reimbursement for actual pay-as-you-expenses incurred during the year.

SDWD's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of and for the year ended June 30, 2011 and the preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/09	\$ 25,000	100%	\$ -
6/30/10	25,000	100%	-
6/30/11	24,000	100%	-

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

Funded Status and Funding Progress:

The latest information available on the funding status comes from the actuarial valuation dated June 30, 2009. Information is in thousands (000's omitted):

Actuarial accrued liability (AAL)	\$ 302
Actuarial value of Plan assets	13
Unfunded actuarial accrued liability (UAAL)	<u>\$ 289</u>
Funded ratio (actuarial value of plan assets/AAL)	4.30%
Covered payroll (active Plan members)	1,049
UAAL as a percentage of covered payroll	27.55%

(c) General Information:

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 Schedules of Funding Progress for the City and SDWD Retiree Health Care Plan are presented as Required Supplementary Information following the Notes to the Financial Statements. These schedules present 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.

(15) JOINT VENTURE

The Encinitas Ranch Golf Authority (the Authority) is a joint powers authority formed by the City of Encinitas (the City) and the 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 Carltas 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 JC Resorts, LLC (the Operator), a privately-held company specializing in the management and operation of golf courses.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

The 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 2026, when the Golf Course bonded debt is expected to be paid off. The debts and obligations of the Authority are not the debts and obligations of the City or SDWD. Separate audited financial statements of the Authority are available at City's administrative office.

(16) SPECIAL TAXES AND ASSESSMENTS – AGENCY DEBT

City of Encinitas - Assessment District 93-1: Requeza Street area

During fiscal year 1997-98, the City (acting as the agent for the District) issued \$1,356,400 of limited obligation bonds to finance and pay for infrastructure improvements to the Requeza Street Assessment District. The bonds were issued in two series: (1) Series A bonds totaling \$945,000 were sold to the public; and (2) Series B (subordinated) bonds totaling \$411,000 were sold directly to the City. The Series B bonds have since been retired in full. At June 30, 2011, the outstanding balance on this Agency debt was \$385,000.

City of Encinitas - Community Facilities District (CFD) #1: Encinitas Ranch Community

During fiscal year 1996-97, the City (acting as the agent for the District) issued \$23,000,000 of Special Tax Bonds, Series 1995-A, to finance and pay for Phase I infrastructure improvements of the CFD #1.

During fiscal year 1998-99, the City (acting as the agent for the District) issued Special Tax Refunding Bonds in two series: (1) \$39,590,000 of 1998 Special Tax Bonds, Series A, and (2) \$3,000,000 of 1998 Special Tax Bonds, Series B, to provide funds for the complete defeasance and refunding of the Special Tax Bonds, Series 1995-A and to finance and pay for Phase II infrastructure improvements to the CFD #1.

During fiscal year 2003-04, the City (acting as the agent for the District) issued 2004 Special Tax Bonds, Series A, to provide funds for the complete defeasance and refunding of the 1998 Special Tax Bonds.

At June 30, 2011, the outstanding balance on the 2004 Special Tax Bonds was \$36,605,000.

The City acts solely as an agent for these special districts. The City has no duty or obligation to pay any liabilities or potential liabilities of these districts. 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 Agency Bonds. Therefore, such bonds are not considered to be a liability of the City and are not included in the accompanying basic financial statements.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2011

(17) RESTATEMENT OF NET ASSETS

During the year ended June 30, 2011, the City determined that the net assets of its Cardiff Sanitary Division (CSD) were understated. Specifically, CSD's investment in the San Elijo Water Reclamation facility was understated, due to the timing of receipt of audited financial information from San Elijo.

Net assets have been restated herein, as follows:

	Cardiff Sanitary Division	Total Business-type Activities
Net assets as of July 1, 2010 - as previously reported	\$ 35,770,815	\$ 96,930,945
Restatement of Investment in SEJPA	<u>619,397</u>	<u>619,397</u>
Net assets as of July 1, 2010 - as restated	<u><u>\$ 36,390,212</u></u>	<u><u>\$ 97,550,342</u></u>

REQUIRED SUPPLEMENTARY SECTION

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CITY OF ENCINITAS
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Over (Under) Variance with Final Budget
	Original	Final		
Revenues:				
Taxes:				
Property	\$ 31,795,479	\$ 32,016,185	\$ 31,907,978	\$ (108,207)
Sales	9,216,669	9,616,669	10,244,506	627,837
Franchise	2,146,850	2,146,850	2,108,420	(38,430)
Real property transfer	280,000	280,000	385,012	105,012
Transient occupancy	922,568	922,568	1,033,620	111,052
Total taxes	44,361,566	44,982,272	45,679,536	697,264
Licenses and permits	224,400	224,400	205,031	(19,369)
Intergovernmental	508,904	583,023	747,582	164,559
Charges for services	5,256,618	5,876,663	6,376,261	499,598
Fines, forfeitures and penalties	838,150	800,030	856,392	56,362
Use of money and property	864,563	633,181	546,051	(87,130)
Other	342,700	496,860	807,105	310,245
Total revenues	52,396,901	53,596,429	55,217,958	1,621,529
Expenditures:				
General government:				
Community enhancement	54,000	54,000	53,312	(688)
City council	389,878	378,278	335,406	(42,872)
City manager	3,871,364	3,834,328	3,639,089	(195,239)
City clerk	590,618	588,618	567,967	(20,651)
Legal and risk management	1,842,286	1,845,308	1,818,664	(26,644)
Finance	1,779,392	1,797,565	1,638,690	(158,875)
Non-departmental	2,245,022	2,047,192	2,039,362	(7,830)
Total general government	10,772,560	10,545,289	10,092,490	(452,799)
Public safety:				
Law enforcement	12,707,673	11,350,000	10,988,375	(361,625)
Fire and marine safety	11,032,807	11,265,708	11,002,833	(262,875)
Total public safety	23,740,480	22,615,708	21,991,208	(624,500)
Public works:				
Administration	258,582	115,431	102,411	(13,020)
Environmental Programs	-	118,000	113,171	(4,829)
Street maintenance	523,239	505,239	512,812	7,573
Facility maintenance	958,283	914,414	911,438	(2,976)
Stormwater	805,194	777,244	760,326	(16,918)
Total public works	2,545,298	2,430,328	2,400,158	(30,170)

See Accompanying Note to Required Supplementary Information.

CITY OF ENCINITAS
Budgetary Comparison Schedule
General Fund (Continued)
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Over (Under) Variance with Final Budget
	Original	Final		
Planning and building:				
Planning	\$ 2,306,419	\$ 2,122,303	\$ 2,038,488	\$ (83,815)
Code enforcement	452,247	463,497	448,761	(14,736)
Building services	617,674	983,323	1,197,255	213,932
Total planning and building	3,376,340	3,569,123	3,684,504	115,381
Engineering services:				
City engineering	2,524,493	2,252,261	2,215,685	(36,576)
Traffic engineering	774,038	768,729	742,447	(26,282)
Stormwater	757,614	751,004	688,174	(62,830)
Total engineering services	4,056,145	3,771,994	3,646,306	(125,688)
Parks and recreation:				
Administration	525,283	530,283	480,604	(49,679)
Park services	1,281,355	1,174,255	1,156,361	(17,894)
Beach services	509,909	470,909	465,939	(4,970)
Recreational trails	108,407	99,807	91,513	(8,294)
Recreational services	1,637,015	1,568,661	1,556,466	(12,195)
Community and senior center	1,174,692	1,152,157	1,117,885	(34,272)
Animal regulation	343,905	349,905	318,488	(31,417)
Total parks and recreation	5,580,566	5,345,977	5,187,256	(158,721)
Debt service:				
Bond issuance costs	-	-	395,404	(395,404)
Total expenditures	50,071,389	48,278,419	47,397,326	(881,093)
Excess of revenues over expenditures	2,325,512	5,318,010	7,820,632	2,502,622
Other financing sources (uses):				
Transfers in	50,007	518,908	333,846	(185,062)
Transfers out	(4,989,051)	(5,819,410)	(8,442,795)	2,623,385
Proceeds of bond issuance	-	-	19,745,515	(19,745,515)
Use of bond proceeds	-	-	(19,040,000)	19,040,000
Total other financing sources (uses)	(4,939,044)	(5,300,502)	(7,403,434)	2,102,932
Net change in fund balance	(2,613,532)	17,508	417,198	399,690
Fund balance - Beginning of year	46,989,294	46,989,294	46,989,294	-
Fund balance - End of year	\$ 44,375,762	\$ 47,006,802	\$ 47,406,492	\$ 399,690

CITY OF ENCINITAS
Note to Required Supplementary Information
June 30, 2011

(1) BUDGETARY INFORMATION:

(a) Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information and other supplementary information budgetary comparison schedules:

The City Council adopts a two-year operating budget, with appropriations for the first year only. This annual budget provides for the general operations of the City. It includes all proposed expenditures and inter-fund transfers, and the means of financing them. The Council also approves any amendments to appropriations throughout the year, generally at the mid-year budget review in February. This "appropriated budget" covers substantially all City expenditures, with the exception of capital improvement projects, which expenditures constitute a legally authorized "non-appropriated budget". The legal level of budgetary control is the fund level. The budget figures used in the required supplementary information are both original and final budgeted amounts. The final budget amounts include any amendments adopted during the year.

Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations which are unencumbered at year-end lapse. City Council approval is required to include any unencumbered appropriations at year-end in the following fiscal year's budget as continuing appropriations.

Budgets for the general and special revenue funds are adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America. Accordingly, actual revenue and expenditures can be compared with related budgeted amounts without any significant reconciling items. No budgetary comparisons are presented for the debt service, capital projects or proprietary funds, as the City is not legally required to adopt an annual budget for those types of funds.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must be either refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. Further, Section 5 of Article XIII B allows the City to designate a portion of fund balance for general contingencies to be used in future years without limitation.

CITY OF ENCINITAS
Required Supplementary Information
Other Postemployment Benefits Schedules of Funding Progress
June 30, 2011

City Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/2007	\$ -	\$ 10,045,000	\$ 10,045,000	0.00%	\$ 16,599,000	60.52%
6/30/2009	467,000	9,990,000	9,523,000	4.67%	17,138,000	55.57%

SDWD Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/2007	\$ -	\$ 344,000	\$ 344,000	0.00%	\$ 1,016,000	33.86%
6/30/2009	13,000	302,000	289,000	4.30%	1,049,000	27.55%

CITY OF ENCINITAS
Required Supplementary Information
Schedule of Funding Progress for CalPERS
June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Overfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B-A/C)
6/30/2008	\$ 35,862,082	\$ 47,091,832	\$ 11,229,750	76.2%	\$ 12,567,367	89.4%
6/30/2009	40,484,775	55,662,304	15,177,529	72.7%	13,267,844	114.4%
6/30/2010	45,537,530	61,709,285	16,171,755	73.8%	13,394,687	120.7%

SUPPLEMENTARY INFORMATION

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CITY OF ENCINITAS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue Funds		
	Grants and Housing	Development Impact	Lighting and Landscaping
Assets:			
Cash and investments	\$ 2,274,818	\$ 6,671,389	\$ 2,324,512
Receivables	464,584	7,640	42,612
Other assets	145,686	-	-
Advance to other funds	-	-	-
Cash and investments with fiscal agent - restricted	-	-	-
Total assets	<u>\$ 2,885,088</u>	<u>\$ 6,679,029</u>	<u>\$ 2,367,124</u>
Liabilities and fund balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 199,047	\$ -	\$ 185,865
Interest payable	-	-	-
Deferred revenue	-	-	-
Due to other funds	229,281	-	-
Deposits and other liabilities	-	10,770	-
Total liabilities	<u>428,328</u>	<u>10,770</u>	<u>185,865</u>
Fund balances:			
Nonspendable	145,686	-	-
Restricted	1,975,589	1,136,533	2,081,045
Committed	335,485	5,531,726	100,214
Total fund balances	<u>2,456,760</u>	<u>6,668,259</u>	<u>2,181,259</u>
Total liabilities and fund balances	<u>\$ 2,885,088</u>	<u>\$ 6,679,029</u>	<u>\$ 2,367,124</u>

Infrastructure Improvements Special Revenue	Debt Service Fund	Total Nonmajor Governmental Funds
\$ 2,086,068	\$ -	\$ 13,356,787
924,553	-	1,439,389
-	-	145,686
-	185,000	185,000
-	3,402,860	3,402,860
<u>\$ 3,010,621</u>	<u>\$ 3,587,860</u>	<u>\$ 18,529,722</u>
\$ 82,017	\$ -	\$ 466,929
-	46,568	46,568
88,836	-	88,836
1,237,172	444,296	1,910,749
-	-	10,770
<u>1,408,025</u>	<u>490,864</u>	<u>2,523,852</u>
-	-	145,686
-	3,096,996	8,290,163
1,602,596	-	7,570,021
<u>1,602,596</u>	<u>3,096,996</u>	<u>16,005,870</u>
<u>\$ 3,010,621</u>	<u>\$ 3,587,860</u>	<u>\$ 18,529,722</u>

CITY OF ENCINITAS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue Funds		
	Grants and Housing	Development Impact	Lighting and Landscaping
Revenues:			
Taxes and assessments	\$ 194,816	\$ -	\$ 1,983,059
Intergovernmental	2,607,112	-	-
Development impact fees	-	2,354,211	-
Use of money and property	2,033	22,749	45,017
Other	366,470	-	45,247
Total revenues	3,170,431	2,376,960	2,073,323
Expenditures:			
Current:			
General government	63,242	-	-
Public safety	116,484	-	-
Public works	476,536	-	1,870,242
Planning and building	1,854,644	-	-
Parks and recreation	106,408	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	2,617,314	-	1,870,242
Excess (deficiency) of revenues over (under) expenditures	553,117	2,376,960	203,081
Other financing sources (uses):			
Transfers in	25,850	-	-
Transfers out	(346,611)	(538,991)	(43,703)
Total other financing sources (uses)	(320,761)	(538,991)	(43,703)
Net change in fund balances	232,356	1,837,969	159,378
Fund balances - Beginning of year	2,224,404	4,830,290	2,021,881
Fund balances - End of year	\$ 2,456,760	\$ 6,668,259	\$ 2,181,259

Infrastructure Improvements Special Revenue	Debt Service Fund	Total Nonmajor Governmental Funds
\$ 243,357	\$ -	\$ 2,421,232
5,004,475	10,402	7,621,989
-	-	2,354,211
874	41,074	111,747
25,863	-	437,580
5,274,569	51,476	12,946,759
-	-	63,242
-	-	116,484
1,304,317	-	3,651,095
-	-	1,854,644
-	-	106,408
-	2,481,223	2,481,223
-	2,056,501	2,056,501
1,304,317	4,537,724	10,329,597
3,970,252	(4,486,248)	2,617,162
39,500	4,174,835	4,240,185
(3,761,124)	-	(4,690,429)
(3,721,624)	4,174,835	(450,244)
248,628	(311,413)	2,166,918
1,353,968	3,408,409	13,838,952
\$ 1,602,596	\$ 3,096,996	\$ 16,005,870

CITY OF ENCINITAS
Budgetary Comparison Schedule
Grants and Housing Special Revenue Fund
For the Year Ended June 30, 2011

	Final Budget	Actual	Over (Under) Variance With Final Budget
Revenues:			
Taxes and assessments	\$ 130,800	\$ 194,816	\$ 64,016
Intergovernmental	3,279,121	2,607,112	(672,009)
Use of money and property	4,933	2,033	(2,900)
Other	348,000	366,470	18,470
Total revenues	<u>3,762,854</u>	<u>3,170,431</u>	<u>(592,423)</u>
Expenditures:			
General government	49,428	63,242	13,814
Public safety	116,484	116,484	-
Public works	530,794	476,536	(54,258)
Planning and building	2,740,656	1,854,644	(886,012)
Parks and recreation	138,539	106,408	(32,131)
Total expenditures	<u>3,575,901</u>	<u>2,617,314</u>	<u>(958,587)</u>
Excess of revenues over expenditures	186,953	553,117	366,164
Other financing sources (uses):			
Transfers in	46,539	25,850	20,689
Transfers out	<u>(282,224)</u>	<u>(346,611)</u>	<u>64,387</u>
Total other financing sources (uses)	(235,685)	(320,761)	85,076
Net change in fund balance	(48,732)	232,356	281,088
Fund balance - Beginning of year	<u>2,224,404</u>	<u>2,224,404</u>	<u>-</u>
Fund balance - End of year	<u>\$ 2,175,672</u>	<u>\$ 2,456,760</u>	<u>\$ 281,088</u>

CITY OF ENCINITAS
Budgetary Comparison Schedule
Development Impact Special Revenue Fund
For the Year Ended June 30, 2011

	Final Budget	Actual	Over (Under) Variance With Final Budget
Revenues:			
Development impact fees	\$ 1,638,112	\$ 2,354,211	\$ 716,099
Use of money and property	44,075	22,749	(21,326)
Total revenues	<u>1,682,187</u>	<u>2,376,960</u>	<u>694,773</u>
Other financing (uses):			
Transfers out	<u>(369,167)</u>	<u>(538,991)</u>	<u>169,824</u>
Net change in fund balance	1,313,020	1,837,969	524,949
Fund balance - Beginning of year	<u>4,830,290</u>	<u>4,830,290</u>	<u>-</u>
Fund balance - End of year	<u>\$ 6,143,310</u>	<u>\$ 6,668,259</u>	<u>\$ 524,949</u>

CITY OF ENCINITAS
Budgetary Comparison Schedule
Lighting and Landscaping Special Revenue Fund
For the Year Ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Variance With Final Budget</u>
Revenues:			
Taxes and assessments	\$ 1,893,250	\$ 1,983,059	\$ 89,809
Use of money and property	43,010	45,017	2,007
Other	-	45,247	45,247
Total revenues	<u>1,936,260</u>	<u>2,073,323</u>	<u>137,063</u>
Expenditures:			
Public works	<u>1,906,148</u>	<u>1,870,242</u>	<u>(35,906)</u>
Excess of revenues over expenditures	30,112	203,081	172,969
Other financing (uses):			
Transfers out	<u>(78,800)</u>	<u>(43,703)</u>	<u>(35,097)</u>
Net change in fund balance	(48,688)	159,378	208,066
Fund balance - Beginning of year	<u>2,021,881</u>	<u>2,021,881</u>	<u>-</u>
Fund balance - End of year	<u>\$ 1,973,193</u>	<u>\$ 2,181,259</u>	<u>\$ 208,066</u>

CITY OF ENCINITAS
Budgetary Comparison Schedule
Infrastructure Improvements Special Revenue Fund
For the Year Ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Variance with Final Budget</u>
Revenues:			
Taxes and assessments	\$ 231,548	\$ 243,357	\$ 11,809
Intergovernmental	2,947,788	5,004,475	2,056,687
Use of money and property	9,554	874	(8,680)
Other	-	25,863	25,863
Total revenues	<u>3,188,890</u>	<u>5,274,569</u>	<u>2,085,679</u>
Expenditures:			
Public works	<u>1,344,228</u>	<u>1,304,317</u>	<u>(39,911)</u>
Excess of revenues over expenditures	1,844,662	3,970,252	2,125,590
Other financing sources (uses):			
Transfers in	39,500	39,500	-
Transfers out	<u>(2,127,411)</u>	<u>(3,761,124)</u>	<u>1,633,713</u>
Total other financing sources (uses)	<u>(2,087,911)</u>	<u>(3,721,624)</u>	<u>1,633,713</u>
Net change in fund balance	(243,249)	248,628	491,877
Fund balance - Beginning of year	<u>1,353,968</u>	<u>1,353,968</u>	<u>-</u>
Fund balance - End of year	<u>\$ 1,110,719</u>	<u>\$ 1,602,596</u>	<u>\$ 491,877</u>

CITY OF ENCINITAS
Combining Statement of Net Assets
Internal Service Funds
June 30, 2011

	<u>Wastewater Support</u>	<u>Vehicle Maintenance</u>	<u>Vehicle Replacement</u>	<u>Total Internal Service</u>
Assets:				
Current assets:				
Cash and investments	\$ 46,761	\$ 25,914	\$ 1,796,283	\$ 1,868,958
Accounts receivable	344	-	-	344
Total current assets	<u>47,105</u>	<u>25,914</u>	<u>1,796,283</u>	<u>1,869,302</u>
Noncurrent Assets:				
Capital assets:				
Vehicles and equipment	-	-	7,545,678	7,545,678
Accumulated depreciation	-	-	(4,697,082)	(4,697,082)
Total capital assets, net	<u>-</u>	<u>-</u>	<u>2,848,596</u>	<u>2,848,596</u>
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>2,848,596</u>	<u>2,848,596</u>
Total assets	<u>47,105</u>	<u>25,914</u>	<u>4,644,879</u>	<u>4,717,898</u>
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	47,105	25,914	-	73,019
Current portion of long-term debt	-	-	146,766	146,766
Total current liabilities	<u>47,105</u>	<u>25,914</u>	<u>146,766</u>	<u>219,785</u>
Noncurrent liabilities:				
Capital lease obligation	-	-	960,789	960,789
Total liabilities	<u>47,105</u>	<u>25,914</u>	<u>1,107,555</u>	<u>1,180,574</u>
Net Assets				
Invested in capital assets, net of related debt	-	-	1,741,041	1,741,041
Unrestricted	-	-	1,796,283	1,796,283
Total net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,537,324</u>	<u>\$ 3,537,324</u>

CITY OF ENCINITAS
Combining Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Funds
For the Year Ended June 30, 2011

	<u>Wastewater Support</u>	<u>Vehicle Maintenance</u>	<u>Vehicle Replacement</u>	<u>Total Internal Service</u>
Operating revenues:				
Administrative support	\$ 94,688	\$ -	\$ -	\$ 94,688
Operational support services	825,220	452,448	-	1,277,668
Contribution from users	-	-	185,458	185,458
Total operating revenues	<u>919,908</u>	<u>452,448</u>	<u>185,458</u>	<u>1,557,814</u>
Operating expenses:				
Depreciation	-	-	440,406	440,406
Administrative support	94,688	-	-	94,688
Operational support services	825,220	452,448	-	1,277,668
Total operating expenses	<u>919,908</u>	<u>452,448</u>	<u>440,406</u>	<u>1,812,762</u>
Operating loss	<u>-</u>	<u>-</u>	<u>(254,948)</u>	<u>(254,948)</u>
Nonoperating revenues				
Gain on sale of capital assets	-	-	35,212	35,212
Change in net assets	-	-	(219,736)	(219,736)
Net assets - Beginning of year	<u>-</u>	<u>-</u>	<u>3,757,060</u>	<u>3,757,060</u>
Net assets - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,537,324</u>	<u>\$ 3,537,324</u>

CITY OF ENCINITAS
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2011

	<u>Wastewater Support</u>	<u>Vehicle Maintenance</u>	<u>Vehicle Replacement</u>	<u>Total Internal Service</u>
Cash flows from operating activities:				
Receipts from users	\$ 919,564	\$ 452,448	\$ 185,458	\$ 1,557,470
Payments to employees	(722,041)	(312,281)	-	(1,034,322)
Payments to suppliers and vendors	(188,843)	(133,629)	-	(322,472)
Net cash provided by operating activities	<u>8,680</u>	<u>6,538</u>	<u>185,458</u>	<u>200,676</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	-	-	35,212	35,212
Purchases of capital assets	-	-	(180,278)	(180,278)
Net cash (used) by capital and related financing activities	-	-	(145,066)	(145,066)
Net increase in cash and cash equivalents	8,680	6,538	40,392	55,610
Cash and cash equivalents - Beginning of year	<u>38,081</u>	<u>19,376</u>	<u>1,755,891</u>	<u>1,813,348</u>
Cash and cash equivalents - End of year	<u>\$ 46,761</u>	<u>\$ 25,914</u>	<u>\$ 1,796,283</u>	<u>\$ 1,868,958</u>
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	\$ -	\$ -	\$ (254,948)	\$ (254,948)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation	-	-	440,406	440,406
(Increase) in accounts receivable	(344)	-	-	(344)
Increase in accounts payable and accrued liabilities	<u>9,024</u>	<u>6,538</u>	<u>-</u>	<u>15,562</u>
Net cash provided by operating activities	<u>\$ 8,680</u>	<u>\$ 6,538</u>	<u>\$ 185,458</u>	<u>\$ 200,676</u>
Noncash from capital and related financing activities:				
Acquisition of capital assets through capital lease	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,107,555</u>	<u>\$ 1,107,555</u>

CITY OF ENCINITAS
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2011

	<u>Community Facilities District #1</u>	<u>Requeza Assessment District</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 2,280,037	\$ 177,143	\$ 2,457,180
Cash and investments with fiscal agent	2,794,213	-	2,794,213
Interest receivable	2,625	203	2,828
Special assessments receivable	36,605,000	385,000	36,990,000
Current assessments receivable	<u>36,490</u>	<u>627</u>	<u>37,117</u>
Total assets	<u>\$ 41,718,365</u>	<u>\$ 562,973</u>	<u>\$ 42,281,338</u>
Liabilities:			
Due to bondholders	<u>\$ 41,718,365</u>	<u>\$ 562,973</u>	<u>\$ 42,281,338</u>

CITY OF ENCINITAS
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2011

Community Facilities District #1				
	Beginning Balance	Additions	Deletions	Ending Balance
Assets:				
Cash and investments	\$ 2,351,345	\$ 2,730,016	\$ (2,801,324)	\$ 2,280,037
Cash and investments with fiscal agent	2,794,406	1,021	(1,214)	2,794,213
Interest receivable	4,913	2,625	(4,913)	2,625
Special assessments receivable	37,830,000	-	(1,225,000)	36,605,000
Current assessments receivable	5,604	36,490	(5,604)	36,490
Total assets	\$ 42,986,268	\$ 2,770,152	\$ (4,038,055)	\$ 41,718,365
Liabilities:				
Due bondholders	\$ 42,986,268	\$ -	\$ (1,267,903)	\$ 41,718,365

Requeza Assessment District				
	Beginning Balance	Additions	Deletions	Ending Balance
Assets:				
Cash and investments	\$ 193,042	\$ 74,025	\$ (89,924)	\$ 177,143
Interest receivable	-	203	-	203
Special assessments receivable	445,000	-	(60,000)	385,000
Current assessments receivable	-	627	-	627
Total assets	\$ 638,042	\$ 74,855	\$ (149,924)	\$ 562,973
Liabilities:				
Due to bondholders	\$ 638,042	\$ -	\$ (75,069)	\$ 562,973

CITY OF ENCINITAS
Combining Statement of Changes in Assets and Liabilities
Agency Funds (Continued)
For the Year Ended June 30, 2011

Total				
	Beginning Balance	Additions	Deletions	Ending Balance
Assets:				
Cash and investments	\$ 2,544,387	\$ 2,804,041	\$ (2,891,248)	\$ 2,457,180
Cash and investments with fiscal agent	2,794,406	1,021	(1,214)	2,794,213
Interest receivable	4,913	2,828	(4,913)	2,828
Special assessments receivable	38,275,000	-	(1,285,000)	36,990,000
Current assessments receivable	5,604	37,117	(5,604)	37,117
Total assets	\$ 43,624,310	\$ 2,845,007	\$ (4,187,979)	\$ 42,281,338
Liabilities:				
Due to bondholders	\$ 43,624,310	\$ -	\$ (1,342,972)	\$ 42,281,338

STATISTICAL

SECTION

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City of Encinitas
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The section of the City of Encinitas' Comprehensive Annual Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

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Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**CITY OF ENCINITAS
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year			
	2002	2003	2004	2005
Government activities:				
Invested in capital assets, net of related debt	\$ 78,842,949	\$ 84,762,814	\$ 101,006,065	\$ 99,822,192
Restricted	9,498,494	44,247,747	18,410,061	7,336,647
Unrestricted	43,868,649	17,575,861	33,463,725	52,506,975
Total Governmental activities net assets	<u>\$ 132,210,092</u>	<u>\$ 146,586,422</u>	<u>\$ 152,879,851</u>	<u>\$ 159,665,814</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 23,123,556	\$ 30,606,971	\$ 35,749,169	\$ 32,464,901
Restricted	5,763,400	12,669,778	9,681,193	8,170,042
Unrestricted	37,653,909	26,239,700	25,544,548	32,494,310
Total business-type activities net assets	<u>\$ 66,540,865</u>	<u>\$ 69,516,449</u>	<u>\$ 70,974,910</u>	<u>\$ 73,129,253</u>
Primary government:				
Invested in capital assets, net of related debt	101,966,505	115,369,785	136,755,234	132,287,093
Restricted	15,261,894	56,917,525	28,091,254	15,506,689
Unrestricted	81,522,558	43,815,561	59,008,273	85,001,285
Total primary government net assets	<u>\$ 198,750,957</u>	<u>\$ 216,102,871</u>	<u>\$ 223,854,761</u>	<u>\$ 232,795,067</u>

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
Government activities:						
Invested in capital assets, net of related debt	\$ 110,362,657	\$ 120,651,504	\$ 125,786,039	\$ 131,703,037	\$ 130,912,728	\$ 139,575,875
Restricted	6,011,187	6,264,431	5,207,761	4,340,090	4,219,623	-
Unrestricted	51,645,424	52,721,705	56,901,871	53,452,967	54,755,944	56,799,902
Total Governmental activities net assets	<u>\$ 168,019,268</u>	<u>\$ 179,637,640</u>	<u>\$ 187,895,671</u>	<u>\$ 189,496,094</u>	<u>\$ 189,888,295</u>	<u>\$ 196,375,777</u>
Business-type activities:						
Invested in capital assets, net of related debt	\$ 26,265,471	\$ 18,865,708	\$ 19,204,679	\$ 19,422,684	\$ 25,014,811	\$ 30,076,172
Restricted	1,815,913	1,806,768	1,814,716	1,048,426	-	-
Unrestricted	47,263,919	60,256,625	65,301,729	68,683,799	71,916,135	72,608,845
Total business-type activities net assets	<u>\$ 75,345,303</u>	<u>\$ 80,929,101</u>	<u>\$ 86,321,124</u>	<u>\$ 89,154,909</u>	<u>\$ 96,930,946</u>	<u>\$ 102,685,017</u>
Primary government:						
Invested in capital assets, net of related debt	136,628,128	139,517,212	144,990,718	151,125,721	155,927,539	169,652,047
Restricted	7,827,100	8,071,199	7,022,477	5,388,516	4,219,623	-
Unrestricted	98,909,343	112,978,330	122,203,600	122,136,766	126,672,079	129,408,747
Total primary government net assets	<u>\$ 243,364,571</u>	<u>\$ 260,566,741</u>	<u>\$ 274,216,795</u>	<u>\$ 278,651,003</u>	<u>\$ 286,819,241</u>	<u>\$ 299,060,794</u>

Note: The City began to report accrual information when it implemented GASB Statement 34 in the fiscal year ended June 30, 2002. Information prior to the implementation of GASB Statement 34 is not available.

Source: City of Encinitas Finance Department

**CITY OF ENCINITAS
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year			
	2002	2003	2004	2005
Expenses:				
Government activities:				
General government	\$ 6,456,504	\$ 7,747,595	\$ 8,936,450	\$ 11,371,884
Public safety	15,637,045	15,500,052	18,376,352	18,883,165
Public works	6,957,187	3,237,546	8,698,419	8,441,146
Planning and building	3,932,550	3,698,424	3,766,482	3,275,168
Engineering services	4,212,998	4,118,152	2,348,760	2,615,298
Community services	-	-	-	1,077,558
Parks and recreation	5,573,443	5,523,752	5,444,334	4,791,064
Interest and fiscal charges on long-term deb	1,551,744	1,647,415	2,035,705	1,563,771
Total governmental activities expenses	44,321,471	41,472,936	49,606,502	52,019,054
Business-type activities:				
Cardiff Sanitary Division	2,453,440	2,578,070	3,123,260	2,702,948
San Dieguito Water District	9,053,531	9,006,186	10,008,027	9,335,523
Encinitas Sanitary Division	1,179,654	1,167,210	1,296,435	1,227,303
Affordable Housing	-	-	1,381,062	1,594,702
Total business-type activities expenses	12,686,625	12,751,466	15,808,784	14,860,476
Total primary government expenses	57,008,096	54,224,402	65,415,286	66,879,530
Program revenues:				
Government activities:				
Charges for services:				
General government	610,204	1,829,281	1,205,596	448,271
Public safety	688,769	636,092	550,377	802,913
Public Works	-	-	-	-
Planning and building	2,454,975	2,079,642	1,753,197	1,563,196
Engineering services	822,160	610,317	685,832	731,638
Parks and recreation	460,434	759,089	914,625	965,685
Operating grants and contributions	3,671,024	3,367,396	5,127,262	5,279,931
Capital grants and contributions	3,652,736	6,091,066	5,235,672	5,458,200
Total governmental activities program reveni	12,360,302	15,372,883	15,472,561	15,249,834
Business-type activities:				
Charges for services:				
Cardiff Sanitary Division	2,305,145	2,326,552	2,392,338	4,154,963
San Dieguito Water District	7,406,138	7,794,597	8,033,298	8,059,594
Encinitas Sanitary Division	1,230,614	1,273,533	1,545,151	1,928,979
Affordable Housing	-	-	67,979	1,474,837
Capital grants and contributions	1,540,810	1,385,142	4,969,157	534,135
Total business-type activities program reveni	12,482,707	12,779,824	17,007,923	16,152,508
Total primary government program revenues	24,843,009	28,152,707	32,480,484	31,402,342
Governmental activities	(31,961,169)	(26,100,053)	(34,133,941)	(36,769,220)
Business-type activities	(203,918)	28,358	1,199,139	1,292,032
Total net revenue (expense)	(32,165,087)	(26,071,695)	(32,934,802)	(35,477,188)

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
Expenses:						
Government activities:						
General government	\$ 11,026,711	\$ 11,858,189	\$ 12,783,573	\$ 14,249,545	\$ 12,132,268	\$ 10,912,556
Public safety	20,244,227	20,783,243	21,015,336	22,039,493	22,269,616	22,324,624
Public works	6,783,035	6,728,553	11,595,020	9,360,563	9,520,416	10,981,355
Planning and building	3,716,694	3,826,565	4,020,288	3,608,623	3,549,257	5,539,148
Engineering services	2,890,832	3,078,645	3,972,242	4,010,485	3,873,432	3,646,306
Community services	1,102,571	1,065,636	1,266,770	1,224,920	2,050,357	-
Parks and recreation	5,132,178	5,318,816	6,594,001	6,902,715	6,518,623	6,243,769
Interest and fiscal charges on long-term deb	1,511,337	1,978,163	2,261,104	2,266,817	2,296,422	2,029,477
Total governmental activities expenses	52,407,585	54,637,810	63,508,334	63,663,161	62,210,391	61,677,235
Business-type activities:						
Cardiff Sanitary Division	3,278,916	2,948,112	2,985,912	2,854,368	3,569,880	3,715,529
San Dieguito Water District	10,826,162	11,712,887	11,894,734	12,955,085	11,633,694	11,622,126
Encinitas Sanitary Division	1,332,980	1,357,343	1,823,088	1,805,624	1,855,278	1,992,334
Affordable Housing	3,028,297	1,405,094	242,553	260,130	256,873	244,748
Total business-type activities expenses	18,466,355	17,423,436	16,946,287	17,875,207	17,315,725	17,574,737
Total primary government expenses	70,873,940	72,061,246	80,454,621	81,538,368	79,526,116	79,251,972
Program revenues:						
Government activities:						
Charges for services:						
General government	1,701,854	2,248,666	2,895,795	1,608,273	1,962,344	2,453,152
Public safety	836,439	1,127,923	1,006,293	103,641	105,799	98,202
Public Works	-	-	-	19,276	668	-
Planning and building	1,896,751	2,341,988	2,284,066	1,539,851	1,521,889	1,816,765
Engineering services	839,176	1,430,282	1,655,539	759,885	660,734	1,063,822
Parks and recreation	907,974	928,810	1,224,923	810,667	1,126,285	1,149,350
Operating grants and contributions	5,299,476	5,086,623	5,736,957	4,838,455	5,392,117	6,964,053
Capital grants and contributions	5,638,059	4,372,149	2,699,027	3,613,636	3,437,302	4,854,393
Total governmental activities program reveni	17,119,729	17,536,441	17,502,600	13,293,684	14,207,138	18,399,737
Business-type activities:						
Charges for services:						
Cardiff Sanitary Division	4,939,158	4,826,970	4,926,104	5,009,340	4,979,238	4,830,204
San Dieguito Water District	9,515,054	10,961,760	11,283,219	11,379,337	11,046,650	12,438,502
Encinitas Sanitary Division	2,557,690	2,556,281	2,685,490	2,811,359	2,816,963	2,895,879
Affordable Housing	105,559	-	-	222,507	202,499	216,723
Capital grants and contributions	380,593	277,210	746,586	299,326	231,362	712,827
Total business-type activities program reveni	17,498,054	18,622,221	19,641,399	19,721,869	19,276,712	21,094,135
Total primary government program revenues	34,617,783	36,158,662	37,143,999	33,015,553	33,483,850	39,493,872
Governmental activities	(35,287,856)	(37,101,369)	(46,005,734)	(50,369,477)	(48,003,253)	(43,277,498)
Business-type activities	(968,301)	1,198,785	2,695,112	1,846,662	1,960,987	3,519,398
Total net revenue (expense)	(36,256,157)	(35,902,584)	(43,310,622)	(48,522,815)	(46,042,266)	(39,758,100)

Note: The City began to report accrual information when it implemented GASB Statement 34 in the fiscal year ending June 30 2002. Information prior to the implementation of GASB Statement 34 is not available.

Note: The City now reports Parks and Recreation activity in Planning and Building whereas in years prior it was reported in Community Service.

Source: City of Encinitas Finance Department

(Continued)

**CITY OF ENCINITAS
CHANGES IN NET ASSETS (CONTINUED)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year			
	2002	2003	2004	2005
General Revenues and Other Changes in Net Assets:				
Governmental activities:				
Taxes				
Property taxes and transfer fees	16,364,303	17,473,191	19,375,968	26,417,943
Sales taxes	9,496,757	10,408,617	10,773,548	8,606,077
Transient occupancy taxes	938,494	932,964	777,195	790,943
Franchise taxes	1,919,420	1,741,499	1,511,676	1,837,213
Intergovernmental revenues	4,000,930	3,850,349	3,158,289	2,077,519
Use of money and property	4,511,616	2,649,626	1,942,927	3,506,285
Other general revenues	1,178,724	3,249,057	1,561,650	2,605,280
Gain/(loss) on sale of assets	-	-	-	-
Transfers	259,560	171,080	481,715	(1,456,893)
Total governmental activities	<u>38,669,804</u>	<u>40,476,383</u>	<u>39,582,968</u>	<u>44,384,367</u>
Business-type activities:				
Property taxes	378,676	420,394	475,898	168,038
Intergovernmental-unrestricted	-	-	-	-
Use of money and property	1,618,515	1,086,560	587,222	1,304,963
Other general revenues	299,615	1,440,272	223,397	451,640
Transfers	-	-	(481,715)	1,456,893
Total business-type activities	<u>2,296,806</u>	<u>2,947,226</u>	<u>804,802</u>	<u>3,381,534</u>
Total primary government	<u>40,966,610</u>	<u>43,423,609</u>	<u>40,387,770</u>	<u>47,765,901</u>
Changes in Net Assets				
Government activities	6,708,635	14,376,330	5,449,027	7,614,147
Business-type activities	<u>2,092,888</u>	<u>2,975,584</u>	<u>2,003,941</u>	<u>4,673,566</u>
Total primary government	<u>\$ 8,801,523</u>	<u>\$ 17,351,914</u>	<u>\$ 7,452,968</u>	<u>\$ 12,287,713</u>

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
29,290,854	32,593,979	33,858,150	35,064,401	32,285,155	32,292,988	
8,807,630	9,043,912	8,130,837	7,340,410	8,780,203	10,244,506	
1,094,994	1,089,065	1,182,816	1,099,817	1,179,789	1,276,980	
1,951,637	2,011,947	2,212,915	2,162,729	2,031,924	2,108,420	
569,757	753,722	1,335,594	1,866,726	794,362	1,488,770	
2,670,990	3,957,869	3,842,268	2,884,233	1,085,981	657,796	
554,750	502,115	568,884	1,551,584	2,238,041	1,695,520	
(32,510)	(5,682)	-	-	-	-	
(1,266,792)	(1,227,186)	-	-	-	-	
<u>43,641,310</u>	<u>48,719,741</u>	<u>51,131,464</u>	<u>51,969,900</u>	<u>48,395,455</u>	<u>49,764,980</u>	
228,881	651,195	690,407	721,628	718,212	706,175	
-	893,500	-	-	-	-	
1,550,626	1,374,862	1,756,153	974,702	392,152	508,089	
138,052	238,270	250,351	45,193	228,614	401,013	
<u>1,266,792</u>	<u>1,227,186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<u>3,184,351</u>	<u>4,385,013</u>	<u>2,696,911</u>	<u>1,741,523</u>	<u>1,338,978</u>	<u>1,615,277</u>	
<u>46,825,661</u>	<u>53,104,754</u>	<u>53,828,375</u>	<u>53,711,423</u>	<u>49,734,433</u>	<u>51,380,257</u>	
8,353,454	11,618,372	5,125,730	1,600,423	392,202	6,487,482	
<u>2,216,050</u>	<u>5,583,798</u>	<u>5,392,023</u>	<u>3,588,185</u>	<u>3,299,965</u>	<u>5,134,675</u>	
<u>\$ 10,569,504</u>	<u>\$ 17,202,170</u>	<u>\$ 10,517,753</u>	<u>\$ 5,188,608</u>	<u>\$ 3,692,167</u>	<u>\$ 11,622,157</u>	

Note: The City began to report accrual information when it implemented GASB Statement 34 in the fiscal year ended June 30, 2002. Information prior to the implementation of GASB Statement 34 is not available.

Source: City of Encinitas Finance Department

**CITY OF ENCINITAS
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year			
	2002	2003	2004	2005
General fund:				
Reserved	\$ 27,201,424	\$ 24,456,970	\$ 22,200,278	\$ 3,644,856
Unreserved, designated	-	-	-	-
Unreserved, undesignated	8,034,604	10,640,608	13,254,418	36,390,504
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total general fund	<u>\$ 35,236,028</u>	<u>\$ 35,097,578</u>	<u>\$ 35,454,696</u>	<u>\$ 40,035,360</u>
All other governmental funds:				
Reserved	\$ 6,689,539	\$ 8,137,510	\$ 12,756,026	\$ 3,691,791
Unreserved, designated	13,985,477	15,639,620	5,654,035	15,771,318
Unreserved, undesignated	-	-	-	-
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 20,675,016</u>	<u>\$ 23,777,130</u>	<u>\$ 18,410,061</u>	<u>\$ 19,463,109</u>
Total all governmental funds	<u><u>\$ 55,911,044</u></u>	<u><u>\$ 58,874,708</u></u>	<u><u>\$ 53,864,757</u></u>	<u><u>\$ 59,498,469</u></u>

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
\$ 4,092,489	\$ 15,196,796	\$ 6,210,167	\$ 5,255,137	\$ 4,286,026	\$ -	
-	-	35,790,162	38,413,388	36,913,369	-	
36,866,828	36,488,893	9,126,804	3,866,759	5,789,899	-	
-	-	-	-	-	2,648,338	
-	-	-	-	-	633,245	
-	-	-	-	-	42,274,327	
-	-	-	-	-	-	
-	-	-	-	-	1,850,582	
<u>\$ 40,959,317</u>	<u>\$ 51,685,689</u>	<u>\$ 51,127,133</u>	<u>\$ 47,535,284</u>	<u>\$ 46,989,294</u>	<u>\$ 47,406,492</u>	
\$ 3,525,818	\$ 4,176,025	\$ 3,908,007	\$ 3,771,850	\$ 3,408,409	\$ -	
14,605,153	16,909,261	10,968,342	10,694,605	10,430,543	-	
-	-	-	-	-	-	
-	-	-	-	-	145,686	
-	-	-	-	-	8,290,163	
-	-	-	-	-	7,570,021	
-	-	-	-	-	-	
-	-	-	-	-	-	
<u>\$ 18,130,971</u>	<u>\$ 21,085,286</u>	<u>\$ 14,876,349</u>	<u>\$ 14,466,455</u>	<u>\$ 13,838,952</u>	<u>\$ 16,005,870</u>	
<u><u>\$ 59,090,288</u></u>	<u><u>\$ 72,770,975</u></u>	<u><u>\$ 66,003,482</u></u>	<u><u>\$ 62,001,739</u></u>	<u><u>\$ 60,828,246</u></u>	<u><u>\$ 63,412,362</u></u>	

The City of Encinitas has elected to show only ten years of data for this schedule.

Source: City of Encinitas Finance Department

**CITY OF ENCINITAS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year			
	2002	2003	2004	2005
Revenues:				
Taxes and assessments	\$ 29,436,597	\$ 31,662,100	\$ 33,943,667	\$ 39,383,642
Intergovernmental	9,626,090	11,048,984	9,098,006	9,301,017
Charges for services	5,775,892	6,219,303	6,504,237	5,582,317
Fines, forfeitures, and penalties	581,104	421,065	501,297	745,744
Use of money and property	4,511,616	2,649,625	1,942,914	3,506,285
Other	836,447	3,136,771	2,425,547	2,571,086
Total Revenues	50,767,746	55,137,848	54,415,668	61,090,091
Expenditures:				
Current:				
General government	6,360,595	7,899,375	8,180,099	10,129,726
Public safety	15,702,832	16,401,813	18,241,314	18,591,043
Public works	2,602,304	3,093,519	2,580,317	4,537,345
Planning and building	3,742,491	3,140,417	3,293,067	3,275,168
Engineering services	2,745,517	2,626,217	2,348,760	2,615,298
Community services	-	-	-	1,077,558
Parks and recreation	5,406,936	6,464,220	5,444,334	4,791,064
Capital outlay	22,719,793	13,443,499	17,369,542	5,440,192
Debt service:				
Principal	420,000	5,063,027	1,015,000	1,327,445
Interest and fiscal charges	1,804,106	503,177	1,520,899	1,553,393
Bond issuance costs	-	-	-	-
Total expenditures	61,504,574	58,635,264	59,993,332	53,338,232
Excess (deficiency) of revenues over (under) expenditures	(10,736,828)	(3,497,416)	(5,577,664)	7,751,859
Other Financing Sources (Uses):				
Transfer in from CFD debt service	259,560	171,080	85,998	-
Operating transfers in	22,309,639	14,700,428	22,781,022	8,548,333
Operating transfers out	(22,309,639)	(15,000,428)	(22,299,307)	(10,005,226)
Issuance of debt	200,000	6,590,000	-	-
Premium on debt	-	-	-	-
Bond discounts	-	-	-	-
Total other financing sources (uses)	459,560	6,461,080	567,713	(1,456,893)
Net change in fund balances	<u>\$ (10,277,268)</u>	<u>\$ 2,963,664</u>	<u>\$ (5,009,951)</u>	<u>\$ 6,294,966</u>
Debt service as a percentage of noncapital expenditures	6.1%	14.0%	6.3%	6.4%

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
Revenues:						
Taxes and assessments	\$ 44,026,335	\$ 46,922,540	\$ 47,483,312	\$ 47,800,573	\$ 46,805,219	\$ 48,100,768
Intergovernmental	6,464,129	5,596,224	5,999,680	5,950,205	6,917,521	8,369,571
Charges for services	6,642,855	8,022,053	9,293,303	6,621,931	5,164,315	6,376,261
Fines, forfeitures, and penalties	832,570	949,606	884,446	746,023	761,202	856,392
Use of money and property	2,586,286	3,943,512	3,851,877	2,008,557	1,085,981	657,798
Other	1,423,460	4,679,351	1,227,055	1,110,325	2,875,491	3,803,927
Total Revenues	61,975,635	70,113,286	68,739,673	64,237,614	63,609,729	68,164,717
Expenditures:						
Current:						
General government	9,378,799	9,601,089	11,903,557	13,036,815	11,859,415	10,155,732
Public safety	19,948,909	20,674,992	20,896,882	21,636,969	22,049,239	22,107,692
Public works	4,768,226	4,679,795	5,432,032	6,033,513	5,888,161	6,051,253
Planning and building	3,716,694	3,826,565	4,020,288	3,589,360	3,549,257	5,539,148
Engineering services	2,890,832	3,078,645	3,972,242	3,986,859	3,873,432	3,646,306
Community services	1,102,571	1,065,636	1,266,770	1,221,660	2,050,357	-
Parks and recreation	5,132,178	5,318,816	5,585,446	5,811,778	5,482,578	5,293,664
Capital outlay	11,215,699	23,383,302	20,704,628	8,473,396	5,606,327	8,559,193
Debt service:						
Principal	1,450,404	1,499,032	1,581,033	2,197,891	2,091,882	2,481,223
Interest and fiscal charges	1,512,712	1,780,651	2,244,288	2,251,116	2,332,574	2,056,501
Bond issuance costs	-	-	-	-	-	395,404
Total expenditures	61,117,024	74,908,523	77,607,166	68,239,357	64,783,222	66,286,116
Excess (deficiency) of revenues over (under) expenditures	858,611	(4,795,237)	(8,867,493)	(4,001,743)	(1,173,493)	1,878,601
Other Financing Sources (Uses):						
Transfer in from CFD debt service	-	-	-	-	-	-
Operating transfers in	13,552,280	23,774,352	25,007,578	12,631,197	11,066,120	13,133,224
Operating transfers out	(14,819,072)	(24,998,428)	(25,007,578)	(12,631,197)	(11,066,120)	(13,133,224)
Issuance of debt	-	20,000,000	2,100,000	-	-	19,530,000
Premium on debt	-	-	-	-	-	215,515
Bond discounts	-	(300,000)	-	-	-	(19,040,000)
Total other financing sources (uses)	(1,266,792)	18,475,924	2,100,000	-	-	705,515
Net change in fund balances	<u>\$ (408,181)</u>	<u>\$ 13,680,687</u>	<u>\$ (6,767,493)</u>	<u>\$ (4,001,743)</u>	<u>\$ (1,173,493)</u>	<u>\$ 2,584,116</u>
Debt service as a percentage of noncapital expenditures	6.3%	6.8%	7.2%	8.0%	8.1%	7.6%

Source: City of Encinitas Finance Department

**CITY OF ENCINITAS
ASSESSED VALUE AND ESTIMATED
ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(IN THOUSANDS OF DOLLARS)**

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	All Other Property (1)	Total Net Taxable Assessed Value (2)	Total Direct Tax Rate %
2002	\$ 5,321,184	\$ 605,730	\$ 27,664	\$ 426,843	\$ 6,381,421	0.24033
2003	5,795,218	648,842	28,772	455,916	6,928,748	0.23882
2004	6,466,136	703,029	29,622	473,921	7,672,708	0.23750
2005	7,218,507	748,540	30,209	457,085	8,454,341	0.23720
2006	7,995,632	805,108	32,074	504,680	9,337,494	0.23747
2007	8,742,273	852,894	32,714	562,621	10,190,502	0.23789
2008	9,355,905	927,637	33,375	583,340	10,688,913	0.23837
2009	9,800,179	969,642	35,427	451,831	11,258,711	0.23278
2010	9,774,056	1,063,161	36,255	454,096	11,327,568	0.23338
2011	9,767,731	1,110,811	36,036	427,619	11,342,197	0.23375

Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above does not directly represent or correlate to actual market values of taxable property and is subject to the limitations described above.

(1) Includes the following categories: dry farm, institutional, irrigated, recreation, vacant land, SBC nonunitary, possessory interest, unsecured, and unknown.

(2) The "total net taxable assessed value" is net of tax-exempt property. In addition, homeowners exemptions are not included in the above totals.

Source: San Diego County Assessor 2001/2002 - 2010/2011 Tax Rate Table & The HdL Companies

**CITY OF ENCINITAS
PRINCIPAL PROPERTY TAXPAYERS
CURRENT FISCAL YEAR AND TEN YEARS AGO**

Taxpayer	2011		2002	
	Taxable Assessed Value	Percent of Total City Taxable Value	Taxable Assessed Value	Percent of Total City Taxable Value
Collwood Pines Apartments LP	\$ 54,989,195	0.00485%		
PK III Encinitas Marketplace LP	39,923,138	0.00352%		
Belmont Village Cardiff LP	34,888,651	0.00308%		
John W. and Jeanne M. Skow	33,184,744	0.00293%		
North Coast Health Center LLC	32,167,480	0.00284%	\$ 17,931,724	0.00281%
Lofis at Moonlight Beach LLC	32,157,075	0.00284%		
Encinitas Town Center Associates LLC	32,047,374	0.00283%	33,928,293	0.00532%
WRI El Camino LP	31,738,510	0.00280%		
Home Depot	30,141,290	0.00266%	11,491,330	0.00180%
Vons Companies Inc	23,656,410	0.00209%	21,278,798	0.00333%
Urschel Laboratories Inc.	22,349,242	0.00197%	19,082,002	0.00299%
ASN Encinitas LLC	22,340,551	0.00197%		
North Coast Business Park	21,902,917	0.00193%	16,365,660	0.00256%
S D C C Properties	21,796,618	0.00192%		
K S L Encinitas Resort Corporation	21,485,238	0.00189%		
Quail Pointe Apartments LP	18,521,307	0.00163%		
Encinitas Plaza LP	17,237,911	0.00152%		
Sterling Family Trust	17,088,066	0.00151%		
Scripps Health	17,027,828	0.00150%	10,236,880	0.00160%
Plenc El Camino LLC	16,762,733	0.00148%		
Hughes Encinitas Limited	16,359,579	0.00144%	13,971,463	0.00219%
Encinitas Terraces LLC	14,023,187	0.00124%		
Terramar Retail Centers LLC	13,990,000	0.00123%		
Keith B. and Sara S. Harrison	13,783,984	0.00122%		
Bellflower Capital LP	13,606,399	0.00120%	11,362,000	0.00178%
Enrique Apartment Company Limited			24,253,851	0.00380%
Northwestern Mutual Life Insurance			19,765,517	0.00310%
SPA Holdings LLC			14,011,540	0.00220%
Security Title Insurance Trust			12,344,809	0.00193%
Pan Pacific Retail Properties Inc.			12,087,000	0.00189%
Dayton Hudson Corporation Target Stores			12,677,305	0.00199%
G M S Realty LLC			10,952,560	0.00172%
Five Stars Associates			10,355,221	0.00162%
Donald B. Gaines Revocable Trust 04-01-86			10,249,893	0.00161%
Aetna Life Insurance Company			9,902,123	0.00155%
LVM California Corpoaration			9,712,170	0.00152%
Health Care Reit Inc.			9,585,960	0.00150%
Albertson's Inc.			9,115,613	0.00143%
Cox Communications San Diego			9,011,770	0.00141%
Encinitas Resort Corporation			8,798,201	0.00138%
Daniels Cablevision Inc.			8,630,246	0.00135%
	<u>\$ 613,169,427</u>	<u>0.05406%</u>	<u>\$ 347,101,929</u>	<u>0.05439%</u>

Note: Actual revenues are not available

Source: San Diego County Assessor Combined Tax Rolls & the HdL Company

**CITY OF ENCINITAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS**

	Fiscal Year				
	2002	2003	2004	2005	2006
	%	%	%	%	%
City of Encinitas Basic Rate	0.24033	0.23882	0.23750	0.23720	0.23747
Other Applicable Rates	0.00000	0.00000	0.00000	0.00000	0.00000
City of Encinitas Direct Rate (1)	0.24033	0.23882	0.23750	0.23720	0.23747
Overlapping Rates: (2)					
City of Encinitas	0.26641	0.26641	0.26641	0.26641	0.26641
Encinitas Landscape & Lighting District	0.01596	0.01596	0.01596	0.01596	0.01596
Autistic Pupils Monors Elem	0.00009	0.00009	0.00009	0.00009	0.00009
Autistic Pupils Monors High	0.00009	0.00009	0.00009	0.00009	0.00009
Cardiff Elementary	0.26238	0.26238	0.26238	0.26238	0.26238
Children's Institutions Tuition	0.00146	0.00146	0.00146	0.00146	0.00146
County General	0.08264	0.08264	0.08264	0.08264	0.08264
County Library	0.01298	0.01298	0.01298	0.01298	0.01298
County School Service	0.00687	0.00687	0.00687	0.00687	0.00687
County School Service-Capital Outlay	0.00173	0.00173	0.00173	0.00173	0.00173
County Service Area No. 17	0.00291	0.00291	0.00291	0.00291	0.00291
CWA San Dieguito Water District	0.00344	0.00344	0.00344	0.00344	0.00344
Development Centers for Handicapped Elem	0.00043	0.00043	0.00043	0.00043	0.00043
Development Centers for Handicapped High	0.00044	0.00044	0.00044	0.00044	0.00044
Educable Mentally retarded Minors	0.00196	0.00196	0.00196	0.00196	0.00196
Educational Revenue Augmentation Fund	0.08574	0.08574	0.08574	0.08574	0.08574
Mira Costa community College	0.08594	0.08594	0.08594	0.08594	0.08594
Physically Handicapped Minors Elem	0.00303	0.00303	0.00303	0.00303	0.00303
Physically Handicapped Minors High	0.00304	0.00304	0.00304	0.00304	0.00304
Regional Occupational Centers	0.00438	0.00438	0.00438	0.00438	0.00438
San Dieguito Union High	0.14404	0.14404	0.14404	0.14404	0.14404
San Dieguito Water District	0.00992	0.00992	0.00992	0.00992	0.00992
Trainable Mentally Retarded Minors Elem	0.00197	0.00197	0.00197	0.00197	0.00197
Trainable Mentally Retarded Minors High	0.00198	0.00198	0.00198	0.00198	0.00198
Vista Project (19/85701)	0.00017	0.00017	0.00017	0.00017	0.00017
Total Prop 13 Rate (3)	1.00000	1.00000	1.00000	1.00000	1.00000

Notes:

- (1) Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information.
- (2) General fund tax rates are representative and based upon the direct and overlapping rates for the largest General Fund tax rate area (TRA) by net taxable value.
- (3) In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value.

Source: San Diego County Assessor 2001/2002 & 2010/2011 Tax Rate Table & The HdI Companies

	Fiscal Year				
	2007	2008	2009	2010	2011
	%	%	%	%	%
City of Encinitas Basic Rate	0.23789	0.23837	0.23278	0.23338	0.23375
Other Applicable Rates	0.00000	0.00000	0.00000	0.00000	0.00000
City of Encinitas Direct Rate (1)	0.23789	0.23837	0.23278	0.23338	0.23375
Overlapping Rates: (2)					
City of Encinitas	0.26641	0.26641	0.26648	0.26648	0.26648
Encinitas Landscape & Lighting District	0.01596	0.01596	0.01596	0.01596	0.01596
Autistic Pupils Monors Elem	0.00009	0.00009	0.00009	0.00009	0.00009
Autistic Pupils Monors High	0.00009	0.00009	0.00009	0.00009	0.00009
Cardiff Elementary	0.26237	0.26237	0.26240	0.26240	0.26240
Children's Institutions Tuition	0.00146	0.00146	0.00146	0.00146	0.00146
County General	0.08264	0.08264	0.07570	0.07570	0.07570
County Library	0.01298	0.01298	0.01995	0.01995	0.01995
County School Service	0.00687	0.00687	0.00687	0.00687	0.00687
County School Service-Capital Outlay	0.00173	0.00173	0.00173	0.00173	0.00173
County Service Area No. 17	0.00291	0.00291	0.00291	0.00291	0.00291
CWA San Dieguito Water District	0.00344	0.00344	0.00344	0.00344	0.00344
Development Centers for Handicapped Elem	0.00043	0.00043	0.00043	0.00043	0.00043
Development Centers for Handicapped High	0.00044	0.00044	0.00044	0.00044	0.00044
Educable Mentally retarded Minors	0.00196	0.00196	0.00196	0.00196	0.00196
Educational Revenue Augmentation Fund	0.08574	0.08574	0.08570	0.08570	0.08570
Mira Costa community College	0.08594	0.08594	0.08590	0.08590	0.08590
Physically Handicapped Minors Elem	0.00303	0.00303	0.00303	0.00303	0.00303
Physically Handicapped Minors High	0.00304	0.00304	0.00304	0.00304	0.00304
Regional Occupational Centers	0.00438	0.00438	0.00438	0.00438	0.00438
San Dieguito Union High	0.14405	0.14405	0.14400	0.14400	0.14400
San Dieguito Water District	0.00992	0.00992	0.00992	0.00992	0.00992
Trainable Mentally Retarded Minors Elem	0.00197	0.00197	0.00197	0.00197	0.00197
Trainable Mentally Retarded Minors High	0.00198	0.00198	0.00198	0.00198	0.00198
Vista Project (19/85701)	0.00017	0.00017	0.00017	0.00017	0.00017
Total Prop 13 Rate (3)	1.00000	1.00000	1.00000	1.00000	1.00000

(Continued)

CITY OF ENCINITAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES (CONTINUED)
LAST TEN FISCAL YEARS

	Fiscal Year				
	2002	2003	2004	2005	2006
	%	%	%	%	%
CWA San Dieguito Water Dist-Debt Service	0.00083	0.00075	0.00067	-	-
Gen Bond Cardiff 2000A	0.04432	0.04254	0.03975	0.03913	0.03409
Gen Bond Cardiff 2000 Election, 2010 Ref. Bc	-	-	-	-	-
MWD D/S Remainder of SDCWA 1501999	0.00770	0.00670	0.00610	0.00580	0.00520
Oceanside Project (19/87001)	-	-	-	-	-
Vista Project (19/85701)	-	-	-	-	-
Total Voter Approved Rate	0.05285	0.04999	0.04652	0.04493	0.03929
Total Tax Rate	1.05285	1.04999	1.04652	1.04493	1.03929

	Fiscal Year				
	2007	2008	2009	2010	2011
	%	%	%	%	%
	-	-	-	-	-
	0.03508	0.03306	0.03212	0.03518	-
	-	-	-	-	0.03715
	0.00470	0.00450	0.00430	0.00430	0.00370
	-	-	-	-	-
	-	-	-	-	-
Total Voter Approved Rate	0.03978	0.03756	0.03642	0.03948	0.04085
Total Tax Rate	1.03978	1.03756	1.03642	1.03948	1.04085

**CITY OF ENCINITAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	(1) Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy	
		Amount	Percent of Levy
2002	\$ 16,035,862	\$ 15,751,274	98.23%
2003	17,622,586	17,238,992	97.82%
2004	19,685,171	19,145,685	97.26%
2005	22,082,262	21,269,966	96.32%
2006	24,285,772	23,360,483	96.19%
2007	25,857,065	24,741,077	95.68%
2008	26,950,803	25,584,630	94.93%
2009	27,441,558	26,326,996	95.94%
2010	27,421,386	26,490,783	96.61%
2011	27,541,487	26,888,921	97.63%

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Note: Subsequent collections by year is not available.

(1) City of Encinitas general fund

Source: San Diego County Assessor Combined Tax Rolls

**CITY OF ENCINITAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Governmental Activities		
	Bonded Debt	Capital Leases	Total Governmental Activities
2002	\$ 32,170,000	\$ 1,507,421	\$ 33,677,421
2003	34,970,000	-	34,970,000
2004	33,730,000	361,897	34,091,897
2005	32,450,000	314,452	32,764,452
2006	31,105,000	559,048	31,664,048
2007	49,410,000	696,373	50,106,373
2008	47,960,000	2,670,340	50,630,340
2009	46,005,000	2,432,449	48,437,449
2010	44,165,000	2,185,567	46,350,567
2011	42,705,000	3,036,899	45,741,899

Business-type Activities				Total Primary Government	Percentage of Personal Income (1)	Debt Per Capita (2)
Water Bonds and Notes	CSD Note Payable	EHA Note Payable	Total Business-type Activities			
\$ 23,725,000	\$ 9,685,607	-	\$ 33,410,607	\$ 67,088,028	1.87%	1,120
23,120,000	8,735,000	-	31,855,000	66,825,000	1.85%	1,090
22,475,000	8,295,000	1,895,883	32,665,883	66,757,780	1.77%	1,069
21,575,000	7,900,000	1,862,347	31,337,347	64,101,799	1.68%	1,024
20,815,000	7,500,000	1,825,255	30,140,255	61,804,303	1.59%	984
20,030,000	7,085,000	1,786,769	28,901,769	79,298,142	N/A	1254
19,340,000	6,660,000	1,723,832	27,723,832	78,354,172	N/A	1227
18,440,000	6,220,000	1,681,534	26,341,534	74,778,983	N/A	1166
17,545,000	5,770,000	1,638,817	24,953,817	71,304,384	N/A	1094
16,620,000	5,300,000	1,591,681	23,511,681	69,253,580	N/A	1063

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

NA: Information not available

(1) These ratios are calculated using personal income and population for the prior calendar year.

(2) Debt per Capita is calculated by dividing the total primary government amount by City population shown on Demographic and Economic Statistic page

Source: City of Encinitas Finance Department

**CITY OF ENCINITAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Outstanding General Bonded Debt		Percentage of Assessed Value	Per Capita
	Certificates of Participation and Lease Revenue Bonds	Assessed Valuation (1)		
2002	\$32,170,000	\$ 6,381,421,000	0.50%	537
2003	34,970,000	6,928,748,000	0.50%	570
2004	33,730,000	7,672,708,000	0.44%	540
2005	32,450,000	8,454,341,000	0.38%	518
2006	31,105,000	9,337,494,000	0.33%	495
2007	49,410,000	10,190,502,000	0.48%	781
2008	47,960,000	10,688,913,000	0.45%	751
2009	46,005,000	11,258,711,000	0.41%	717
2010	44,165,000	11,327,568,000	0.39%	678
2011	42,705,000	11,342,197,000	0.38%	655

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds of which, the City has none.

(1) Assessed valuation has been used because the actual market value of taxable property is not readily available in the State of California. The assessed valuation information can be found on page 106.

Source: City of Encinitas Finance Department & San Diego County Assessor Combined Tax Rolls

**CITY OF ENCINITAS
SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT
JUNE 30, 2011**

2010-11 Assessed Valuation: \$11,342,196,856				Estimated Share of Overlapping Debt 6/30/11	
	Total Debt 6/30/11	Applicable % (1)			
OVERLAPPING TAX AND ASSESSMENT DEBT:					
Metropolitan Water District	\$ 227,670,000	0.636%	\$	1,447,981	
Cardiff School District	7,835,198	100%		7,835,198	
Encinitas Union School District	27,041,273	68.127%		18,422,408	
San Dieguito Union High School District Community Facilities Districts	53,922,175	1.920-100%		14,948,615	
City of Encinitas Community Facilities District No. 1	36,605,000	100%		36,605,000	
City of Encinitas 1915 Act Bonds	385,000	100%		385,000	
Olivenhain Municipal Water District, Assessment District No. 96-1	16,150,000	25.569%		4,129,394	
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT				<u>\$ 83,773,596</u>	
DIRECT AND OVERLAPPING GENERAL FUND DEBT					
San Diego County General Fund Obligations	\$ 385,650,000	3.308%	\$	12,757,302	
San Diego County Pension Obligations	820,288,160	3.308%		27,135,132	
San Diego County Superintendent of Schools Obligations	19,992,500	3.308%		661,352	
Mira Costa Community College District Certificates of Participation	3,065,000	14.883%		456,164	
San Dieguito Union High School District General Fund Obligations	13,015,000	23.882%		3,108,242	
City of Encinitas Governmental Bonded Debt	42,705,000	100%		42,705,000	
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT				<u>\$ 86,823,192</u>	
TOTAL DIRECT DEBT				\$ 42,705,000	
TOTAL OVERLAPPING DEBT				<u>127,891,788</u>	
COMBINED TOTAL DEBT				<u>\$ 170,596,788</u>	(2)

(1) Percentage of overlapping agency's assessed valuation located within the boundaries of the City.

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

Ratios to 2010-11 Assessed Valuation:

Total Direct Debt (\$42,705,000).....0.38%
Combined Total Debt.....1.50%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

Source: California Municipal Statistics

**CITY OF ENCINITAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(IN THOUSANDS OF DOLLARS)**

	2002	2003	2004	2005
Assessed valuation	\$ 6,220,342	\$ 6,928,748	\$ 7,672,708	\$ 8,454,341
Conversion percentage equal to 25% of Assessed valuation	25%	25%	25%	25%
Adjusted assessed valuation	1,555,086	1,732,187	1,918,177	2,113,585
Debt limit percentage	15%	15%	15%	15%
Debt limit	233,263	259,828	287,727	317,038
Total net debt applicable to limit:	32,170	34,970	33,730	32,450
Legal debt margin	\$ 201,093	\$ 224,858	\$ 253,997	\$ 284,588
Total debt applicable to the limit as a percentage of debt limit	13.79%	13.46%	11.72%	10.24%

	2006	2007	2008	2009	2010	2011
Assessed valuation	\$ 9,337,494	\$ 10,190,502	\$ 10,688,913	\$ 11,258,711	\$ 11,327,568	\$ 11,342,197
Conversion percentage equal to 25% of Assessed valuation	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	2,334,374	2,547,626	2,672,228	2,814,678	2,831,892	2,835,549
Debt limit percentage	15%	15%	15%	15%	15%	15%
Debt limit	350,156	382,144	400,834	422,202	424,784	425,332
Total net debt applicable to limit:	31,105	49,410	47,960	46,005	44,165	42,705
Legal debt margin	\$ 319,051	\$ 332,734	\$ 352,874	\$ 376,197	\$ 380,619	\$ 382,627
Total debt applicable to the limit as a percentage of debt limit	8.88%	12.93%	11.97%	10.90%	10.40%	10.04%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Source: City of Encinitas Finance Department & San Diego County Assessor Combined Tax Rolls

**CITY OF ENCINITAS
HISTORICAL DEBT SERVICE COVERAGE
LAST FIVE FISCAL YEARS**

SAN DIEGUITO WATER DISTRICT

	2007	2008	2009	2010	2011
Revenues:					
Operating revenues - including connection fees	\$11,078,077	\$11,468,569	\$11,521,897	\$11,267,684	\$12,574,450
Non-operating revenues	1,378,686	1,464,949	1,129,594	879,477	817,872
Gross Revenues	12,456,763	12,933,518	12,651,491	12,147,161	13,392,322
Total Operating & Non-Operating Expenses	11,712,887	12,366,526	12,955,085	11,634,347	11,614,631
Net Income	743,876	566,992	(303,594)	512,814	1,777,691
Add back.....					
Interest expense and other	941,703	830,953	803,748	749,704	725,936
Depreciation and amortization expense	978,492	1,166,274	2,217,274	1,213,640	1,196,007
Change in investment in other agencies	701,070	1,084,645	-	-	-
Net Revenues Available for Debt Service	3,365,141	3,648,864	2,717,428	2,476,158	3,699,634
Less: Debt Service					
1999 Badger Bonds - Interest Charges	429,705	148,992	-	-	-
1999 Badger Bonds - Principal Payments	265,000	280,000	-	-	-
2004 Water Revenue Refunding Bonds - Interest Charges	513,619	497,181	485,769	469,269	452,244
2004 Water Revenue Refunding Bonds - Principal Paymen	520,000	530,000	540,000	560,000	575,000
2007 Note Payable to Financing Authority - Interest Charge	-	167,780	290,748	265,157	281,494
2007 Note Payable to Financing Authority - Principal Paym	-	-	360,000	335,000	350,000
Total Debt Service	1,728,324	1,623,953	1,676,517	1,629,426	1,658,738
Coverage by Net Revenues Available for Debt Service	195%	225%	162%	152%	223%

Debt service coverage requirement is minimum 115% incl connection fees, 100% w/o connection fees

CARDIFF SANITARY DIVISION

	2007	2008	2009	2010	2011
Revenues:					
Operating revenues - including connection fees	\$ 4,959,749	\$5,422,603	\$ 5,062,773	\$ 5,049,039	\$ 5,337,717
Nonoperating revenues	421,162	688,423	392,505	162,601	355,974
Gross Revenues	5,380,911	6,111,026	5,455,278	5,211,640	5,693,691
Total Operating & Nonoperating Expenses	2,948,112	2,985,912	2,854,368	3,569,880	3,746,748
Net Income	2,432,799	3,125,114	2,600,910	1,641,760	1,946,943
Add back.....					
Interest expense and other	326,867	315,700	302,067	285,800	267,533
Depreciation and amortization expense	255,546	169,474	303,930	912,026	932,273
Change in investment in other agencies	221,639	290,609	-	-	-
Net Revenues Available for Debt Service	3,236,851	3,900,897	3,206,907	2,839,586	3,146,749
Less: Debt Service					
2003 Note Payable to SEJPA - Interest Charges	415,000	425,000	440,000	450,000	470,000
2003 Note Payable to SEJPA - Principal Payments	330,325	319,950	307,200	291,800	273,800
Total Debt Service	745,325	744,950	747,200	741,800	743,800
Coverage by Net Revenues Available for Debt Service	434%	524%	429%	383%	423%

Debt service coverage requirement is minimum 110% including connection fees; 100% without connection fees.

Source: City of Encinitas Finance Department

**CITY OF ENCINITAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

Year	City Population	% of San Diego County Population	Change from Previous Year	Median Age	Avg. Household Size	Unemployment Rate
2002	59,919	2%	1.4%	38.3	2.56	3.6%
2003	61,308	2%	2.3%	38.8	2.61	3.7%
2004	62,463	2%	1.9%	39.2	2.64	3.3%
2005	62,605	2%	0.2%	40.2	2.64	3.0%
2006	62,826	2%	0.4%	40.5	2.64	2.8%
2007	63,259	2%	0.7%	41.0	2.65	3.2%
2008	63,864	2%	1.0%	NA	NA	4.2%
2009	64,145	2%	0.4%	41.7	2.69	6.9%
2010	65,171	2%	1.6%	42.3	2.77	N/A
2011	65,171	2%	0.0%	37.9	2.50	7.3%

NA: Information not available

Source: All information except unemployment - San Diego Association of Governments (SANDAG).
Unemployment rate estimates are from California Employment Development Department

**CITY OF ENCINITAS
TOP 25 EMPLOYERS - SAN DIEGO COUNTY**

Employer	Number of Employees	Business Category
Marine Corps Base, Camp Pendleton	60,000	Government/Defense
Federal Government	43,500	Federal administration
State of California	40,900	State government
North Island Naval Air Station	27,000	National security
United States Navy, San Diego	26,000	Military/Defense
University of California, San Diego	26,000	Unversity
County of San Diego	20,500	County government
City of San Diego	19,500	City government
San Diego Unified School District	15,924	School/education
Sharp HealthCare	14,564	Health care service provider
Scripps Health	12,700	Hospital
Scripps Mercy Hospital	11,000	Hospital
Qualcomm Inc.	9,444	Technology/Communications
Kaiser Foundation Hospital	7,414	Health care
San Diego State University	6,939	Higher education
United States Postal Service	6,854	Mail Delivery
San Diego Naval Medical Center	6,200	Medical center/hospital
Sempra Energy	5,092	Utility
San Diego Community College District	4,950	Education
National Steel & Shipbuilding Co. (NASSCO)	4,600	Ship Building/Comstruction
SBC Communications Inc.	4,200	Technology
Northrop Grumman	4,190	Technology
YMCA of San Diego County	4,178	Non-profit
Science Applications International Corp. (SAIC)	4,158	Technology
General Dynamics NASSCO	4,100	Ship Building/Comstruction

Employer information specific to the City of Encintas is not readily available.

NA: The data for ten years ago is not available

Source: The Daily Transcript Source Book - 2010 Source Book/San Diego's Top Influentials

**CITY OF ENCINITAS
FULL-TIME AND PART-TIME EMPLOYEES BY FUNCTION
LAST FIVE YEARS
AS OF JUNE 30, 2011**

Function	2007	2008	2009	2010	2011
General government	45.45	45.45	45.45	43.00	44.25
Public safety	67.00	67.00	67.00	68.00	63.00
Public works	29.40	30.40	30.40	29.55	28.85
Engineering services	25.22	27.12	27.12	27.47	27.47
Parks and recreation	20.38	21.38	21.18	21.18	21.18
Planning and building	27.25	26.75	26.75	26.75	26.75
Water operations	22.70	22.70	22.70	25.70	25.40
Total	237.40	240.80	240.60	241.65	236.90

The City of Encinitas has elected to show only five years of data for this schedule.

Source: City of Encinitas

**CITY OF ENCINITAS
OPERATING INDICATORS BY FUNCTION
LAST FIVE FISCAL YEARS**

	2007	2008	2009	2010	2011
San Diego County Sheriff's Dept					
Criminal arrests	1,544	1,560	1,715	1,803	1,047
Traffic arrests	352	371	424	482	535
Traffic accidents	555	522	438	385	472
Traffic citations	9,785	11,690	11,974	11,714	12,024
Calls for service	20,432	20,460	19,764	21,216	20,602
Deputy initiated action	25,810	26,971	29,098	25,401	29,224
Fire:					
Number of emergency fire calls	137	134	113	106	96
Number of EMS/rescue	3,231	3,290	3,179	3,291	3,498
Other	1,498	1,498	1,645	1,475	1,520
Inspections	N/A	N/A	4,099	2,055	2,263
Engineering:					
Number of permits issued	425	405	325	301	397
Parks and recreation:					
Number of recreation class registrations	9,000	10,927	11,368	11,435	10,697
Number of facility rentals	527	524	491	459	377
Planning and building:					
Number of planning permits issued	131	110	97	181	177
Number of New Dwelling Units Issued	107	98	86	39	51
Environmental review	18	11	8	11	4
Appeals	12	11	12	1	3
Plan checks	820	825	906	805	882
Code enforcement complaints	1,878	1,881	1,973	1,667	1,645
Water:					
New connections	63	26	6	18	9
Average daily consumption (millions of gallons)	6.80	6.02	4.83	5.00	4.80
Sewer:					
New connections	69	39	14	26	14
Average daily sewage treatment (millions of ga	2.55	2.55	2.55	2.46	2.43

Notes: The City of Encinitas contracts with the County of San Diego Sheriff's Department to provide police protection.

The City of Encinitas has elected to show only five years of data for this schedule.

Source: City of Encinitas

**CITY OF ENCINITAS
CAPITAL ASSET STATISTICS BY FUNCTION
LAST SEVEN FISCAL YEARS**

	2005	2006	2007	2008	2009	2010	2011
Police protection:*							
Number of sub-Stations	1	1	1	1	1	1	1
Fire:							
Fire stations	5	5	5	5	5	5	5
Public works:							
Streets (miles)	192	192	198	198	201	201	180
Engineering:							
Signalized intersections	n/a	60	60	63	65	63	63
Parks and recreation:							
Community and senior center	1	1	1	1	1	1	1
Developed parks	18	18	18	18	18	18	18
Undeveloped parks	4	4	4	4	4	4	4
Parkland acres	382	382	382	382	382	382	382
Habitat/open space acreage	87	87	87	87	87	87	87
Marine life refuge	1	1	1	1	1	1	1
Trails/streetscapes (miles)	30/10	3	35	35	3	41	41/10
Lifeguard towers	7	7	7	7	7	7	7
Water:							
Water mains (miles)	133	140	140	140	166	166	168
Maximum daily capacity (millions of g	12	15	15	15	15	15	15

* The City of Encinitas contracts with the County of San Diego Sheriff's department to provide police protection.

The City of Encinitas has elected to show only seven years of data for this schedule.

Source: City of Encinitas

TABLE 1

SAN DIEGUITO WATER DISTRICT
SCHEDULE OF WATER RATES (1)
AS OF JUNE 30, 2011

Customer Class	Residential rate tier	Rate	
		Potable	Recycled
Single-family residential	0-12 units	\$2.26	
	13-20 units	\$3.37	
	21-40 units	\$3.98	
	41+ units	\$5.03	
Multi-family residential	0-8 units	\$2.26	
	9-12 units	\$3.37	
	13-16 units	\$3.98	
	17+ units	\$5.03	
Agriculture		\$2.80	\$2.38
Commercial		\$3.16	\$2.69
Government / Public		\$3.16	\$2.69
Landscaping		\$3.98	\$3.38
Construction		\$3.98	\$3.38

Source: San Dieguito Water District

(1) Per Unit (one hundred cubic feet or 748 gallons)

SAN DIEGUITO WATER DISTRICT
BI-MONTHLY METER SERVICE AVAILABILITY CHARGES
AS OF JUNE 30, 2011

Meter Size	Water Meter Service Availability Charge	Infrastructure Access Charge	Fire Meter Service Availability Charge
5/8" & 3/4"	\$33.53	\$4.96	N/A
1"	\$53.31	\$7.94	\$7.05
1-1/2"	\$102.78	\$14.88	\$13.14
2"	\$162.13	\$25.79	\$23.65
3"	\$300.64	\$47.62	\$61.38
4"	\$498.49	\$81.34	\$126.46
6"	\$993.13	\$148.80	\$360.01
8"	\$1,586.71	\$257.92	\$762.84

Source: San Dieguito Water District

San Dieguito Water District (District) charges a bi-monthly service availability charge, which is intended to cover the costs for maintenance of meters, water lines, and storage facilities to ensure that water is available upon demand. The service availability charge also includes

TABLE 2

SAN DIEGUITO WATER DISTRICT
HISTORIC POTABLE WATER SYSTEM REVENUES (2)
LAST TEN FISCAL YEARS

Fiscal Year	Domestic Water Sales	Percent Change (2)	Meter Availability Charges	Percent Change (2)
2002	\$5,310,461	-3.1%	\$1,190,724	13.8%
2003	\$5,335,677	0.5%	\$1,654,335	38.9%
2004	\$5,762,184	8.0%	\$1,828,729	10.5%
2005	\$5,252,235	-8.8%	\$1,877,863	2.7%
2006	\$6,465,975	23.1%	\$2,061,454	9.8%
2007	\$7,579,205	17.2%	\$2,251,011	9.2%
2008	\$7,717,818	1.8%	\$2,404,547	6.8%
2009	\$7,525,927	-2.5%	\$2,453,075	2.0%
2010	\$7,146,854	-5.0%	\$2,501,264	2.0%
2011	\$8,205,876	14.8%	\$3,007,127	20.2%

Source: San Dieguito Water District

(2) Due to the varying number of billing cycles in a fiscal year, changes from one year to the next may not be exactly comparable.

TABLE 3

SAN DIEGUITO WATER DISTRICT
HISTORIC RECYCLED WATER SYSTEM REVENUES (3)
LAST TEN FISCAL YEARS

Fiscal Year	Recycled Water Sales	Percent Change	Meter Availability Charges (3)	Percent Change
2002	\$251,337	154.5%	\$0	N/A
2003	\$255,014	1.5%	\$0	N/A
2004	\$421,245	65.2%	\$0	N/A
2005	\$387,607	-8.0%	\$0	N/A
2006	\$454,145	17.2%	\$0	N/A
2007	\$596,299	31.3%	\$0	N/A
2008	\$600,401	0.7%	\$0	N/A
2009	\$663,036	10.4%	\$0	N/A
2010	\$537,654	-18.9%	\$0	N/A
2011	\$523,397	-2.7%	\$0	N/A

Source: San Dieguito Water District

(3) The District does not currently levy a meter availability charge for recycled customers.

TABLE 4

SAN DIEGUITO WATER DISTRICT
SUMMARY OF WATER PRODUCTION BY SOURCE (4)
LAST TEN FISCAL YEARS

Fiscal Year	Potable Production			Recycled	Total Production
	Local Water	Imported	Total Potable		
2002	2,778	5,620	8,398	405	8,803
2003	1,734	5,543	7,277	427	7,704
2004	454	6,867	7,321	711	8,032
2005	1,705	5,602	7,307	595	7,902
2006	2,765	5,093	7,858	600	8,458
2007	2,706	5,692	8,398	708	9,106
2008	3,539	3,753	7,292	676	7,968
2009	3,869	3,369	7,237	694	7,931
2010	4,399	2,156	6,555	498	7,053
2011	4,434	1,901	6,335	511	6,846

Source: San Dieguito Water District

(4) Water Production is defined as water either produced locally or purchased (expressed in acre-feet).

TABLE 5

SAN DIEGUITO WATER DISTRICT
HISTORIC WATER DELIVERIES (5)
LAST TEN FISCAL YEARS

Fiscal Year	Potable	Percent Increase	Recycled	Percent Increase
2002	7,339	-3.0%	405	89.3%
2003	7,207	-1.8%	427	5.4%
2004	7,213	0.1%	711	66.5%
2005	6,719	-6.8%	595	-16.3%
2006	7,281	8.4%	600	0.8%
2007	7,592	4.3%	708	18.0%
2008	6,753	-11.1%	675	-4.7%
2009	6,463	-4.3%	694	2.8%
2010	5,649	-12.6%	498	-28.2%
2011	5,425	-4.0%	511	2.6%

Source: San Dieguito Water District

(5) Water deliveries represent actual sales to customers (expressed in acre-feet).

TABLE 6

SAN DIEGUITO WATER DISTRICT
TEN LARGEST WATER CUSTOMERS
AS OF JUNE 30, 2011

Customer Description	Acre-Feet Sold	Percent of Water Sold
City of Encinitas	92	1.7%
Park Place Bluffs	79	1.5%
Scripps Memorial Hospital	72	1.3%
Cardiff by the Sea Apartments	58	1.1%
Skyloft HOA	40	0.7%
Encinitas Ranch Community Assoc.	38	0.7%
Seacrest Village	37	0.7%
Leucadia Seabluff Village	33	0.6%
Paul Ecke	30	0.6%
Cal West Enterprises	30	0.6%
	509	9.5%

Source: San Dieguito Water District

TABLE 7

SAN DIEGUITO WATER DISTRICT
HISTORIC TOTAL SERVICE CONNECTIONS
LAST TEN FISCAL YEARS

Fiscal Year	Potable	Percent Increase	Recycled	Percent Increase
2002	10,983	3.0%	22	120.0%
2003	11,144	1.5%	39	77.3%
2004	11,167	0.2%	44	12.8%
2005	11,268	0.9%	49	11.4%
2006	11,275	0.1%	55	12.2%
2007	11,338	0.6%	56	1.8%
2008	11,364	0.2%	59	5.4%
2009	11,370	0.1%	68	15.3%
2010	11,388	0.2%	73	7.4%
2011	11,397	0.1%	72	-1.4%

Source: San Dieguito Water District

TABLE 1

CARDIFF SANITARY DIVISION
RATE SCHEDULE FOR ANNUAL SEWER CHARGES (1)
AS OF JUNE 30, 2011

Users/Class	Category	Meter	HCF Rate	HCF	Median Charge
Group I Residential					
Single Family	SF	\$41.08	\$ 4.75	108.12	\$554.66
Multi Family	MF	See below	\$ 4.75	108.12/unit	\$554.66/unit
Trailer Park	TP	See below	\$ 4.75	108.12/unit	\$554.66/unit
Non-Residential					
Commercial Group II	See below	See below	\$ 4.98	See below	See below
Commercial Group III	See below	See below	\$ 6.55	See below	See below
Commercial Group IV	See below	See below	\$ 9.86	See below	See below
Multi Family* and Non-Residential Fixed Meter Charge					
Meter Size	Annual Charge	Meter Size	Annual Charge		
5/8"	\$ 41.08	1-1/2"	\$ 205.38		
3/4"	\$ 61.61	2"	\$ 328.60		
1"	\$ 102.69	3"	\$ 616.13		

* Multi Family = Fixed Meter Charge x 2

Water Consumption Periods To Be Used

Residential = 2 Lowest Periods of Water Consumption For Meter Readings Occurring Between Dec.-May (most recent available)

Non-Residential (Commercial) = Water Consumption For Meter Readings Occurring Between July-June of Preceding Year

Users/Class	Sub Category	Unit Cost (perHCF)	Annual HCF (New Connections)	Median Usage Charge (New Connections)
Group II Commercial				
Softwater Service	SW	\$ 4.98	-----	
Car Wash	CW	4.98	1,520	\$ 7,569.60
Office Building	OF	4.98	200	996.00
Fire Station	FS	4.98	110	547.80
Professional Building (Doctor)	PB	4.98	160	796.80
Veterinary Clinic	VC	4.98	-----	
Athletic Gymnasium	G	4.98	1,340	6,673.20
Laundromat	L	4.98	990	4,930.20
Department and Retail Store	DRS	4.98	120	597.60
Warehouse	W	4.98	1,050	5,229.00
Hospital, Convalescent Home	HCH	4.98	3,240	16,135.20
Parks	PB	4.98	510	2,539.80
Church-Membership Organiz	C	4.98	440	2,191.20
Membership Organization (N	MO	4.98	240	1,195.20
Social Services	SS	4.98	160	796.80
Group III Commercial				
Hotels-Motels (without restau	HM	6.55	890	5,829.50
Repair and Service Station	RSS	6.55	70	458.50
Shopping Center	SC	6.55	1,030	6,746.50
Kennel	K	6.55	900	5,895.00
Coffee Shop	CS	6.55	-----	
Amusement Park	AP	6.55	-----	
Nightclub/Bar	NC	6.55	320	2,096.00
Commercial Laundry	CL	6.55	-----	
Manufacturing	M	6.55	180	1,179.00
Lumber Yard	LY	6.55	-----	
Group IV Commercial				
Hotels-Motel (with restaurant	HM	9.86	3,130	30,861.80
Bakery (wholesale)/Food Pro	BW	9.86	-----	
Supermarket	SM	9.86	1,030	10,155.80
Mortuary	MT	9.86	300	2,958.00
Restaurant	R	9.86	600	5,916.00

(1) Sewer rates are based on water consumption (fixed charge based on meter size and consumption component).

The consumption is based on HCF (hundred cubic feet - 748 gallons).

TABLE 2

CARDIFF SANITARY DIVISION
HISTORICAL SERVICE CHARGES BILLED
LAST FIVE YEARS

Fiscal Year	Residential (Tax Roll)	Commercial (Tax Roll)	Commercial (Manual)	Total Billed	Single Family Average
2007	\$ 3,904,470	\$ 777,218	\$ 131,872	\$ 4,813,560	\$ 655.42
2008	3,983,597	739,676	130,386	4,853,659	667.90
2009	4,092,138	753,503	127,030	4,972,671	682.38
2010	4,034,670	703,126	128,223	4,866,019	673.57
2011	3,984,339	628,165	127,210	4,739,715	663.76

Cardiff Sanitary Division bills most customers through the San Diego County property tax billing service. Delinquency rates have been between 1.8%-3.0% during the period presented.

Delinquencies do not apply to direct billings.

TABLE 3
CARDIFF SANITARY DIVISION
TEN LARGEST CUSTOMERS
FISCAL YEAR 2010-2011

<u>Property Owner</u>	<u>Parcel Count</u>	<u>Sewer Service Charges</u>	<u>Percentage of Sewer Charges</u>
Scripps Health	4	\$ 117,288	2.47%
Collwood Pines Apartments LP	11	85,619	1.81%
State of California Parks & Rec	2	48,932	1.03%
San Dieguito Union High School District	3	46,601	0.98%
Avolencia Investment Group LLC	1	44,220	0.93%
K & K Lumber Co	5	41,660	0.88%
944 Regal Road LLC	1	39,238	0.83%
Cardiff Town Center LLC	2	26,708	0.56%
Newport Taft Inc	1	19,731	0.42%
West Village Inc	6	19,642	0.41%
	36	489,638	10.32%
Total Billed		\$ 4,739,715	

Source: Cardiff Sanitary Division

TABLE 4
CARDIFF SANITARY DIVISION
HISTORICAL SERVICE CONNECTIONS

<u>Year</u>	<u>Total Connections (Billed Parcels)</u>	<u>Residential EDU's</u>	<u>Commercial Industrial EDU's</u>	<u>Total EDU's</u>
2007	6,241	6,840	1,112	7,952
2008	6,283	6,976	1,122	8,097
2009	6,312	6,990	1,124	8,114
2010	6,317	7,011	1,124	8,136
2011	6,329	7,033	1,124	8,187

Source: Cardiff Sanitary Division

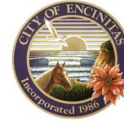
City of Encinitas California



Comprehensive Annual Financial Report

2010

Fiscal Year Ended June 30



City of Encinitas California



Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2010

Issued by the Finance Department

505 South Vulcan Avenue • Encinitas, CA 92024 • 760-633-2600 •
www.cityofencinitas.org



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 63,000 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.

CITY COUNCIL MISSION STATEMENT

To guide and promote Encinitas as a diverse and vibrant community in a way that demonstrates:

- Leadership and vision for the city
- Respect for the individual
- A positive approach to solving problems
- Financial responsibility
- Commitment to providing essential services
- Balance and harmony within the City and our environment

So that, in the long term, Encinitas remains an excellent place to live, work, and play.



FRONT COVER

The historical Boat Houses pictured on the front cover were built by Miles Kellogg as two homes and are not seaworthy vessels. They were built out of salvaged wood from two historic buildings that were demolished in 1928 - The Moonlight Beach Dance Parlor and the third floor of the first Encinitas Hotel. The Boat Houses are equipped with a mariner's wheel and chart desk in the pilot house, a gallery, portholes, cabins and a rudder. The Encinitas Preservation Association purchased the Encinitas Boathouses for the benefit of all citizens and to be held in the public trust of preservation forever.

BACK COVER

Historic Coast Highway was the original North-South route from Los Angeles to San Diego. It now runs through the coastal communities of Leucadia, Encinitas, and Cardiff-by-the-Sea. Encinitas is the host of Wavecrest, the world's largest vintage woodie vehicle show, as depicted on this transit bus as it cruises north on Coast Highway in Leucadia.

Photography: Front and back cover photography by City of Encinitas staff. Photographs on the title page are courtesy of the San Diego North Convention and Visitors Bureau.

Copies of this report are available at the City of Encinitas, 505 South Vulcan Avenue,
Encinitas, California 92024



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June 30, 2010

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INTRODUCTORY

SECTION



City of Encinitas
505 South Vulcan Avenue • Encinitas CA 92024
760-633-2600 • www.cityofencinitas.org



December 23, 2010

Honorable Mayor, City Council and Citizens
of the City of Encinitas, California,

We are pleased to present the FY2009-10 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 position and changes in financial position of the City for the fiscal year ended June 30, 2010 and includes financial statements for the City, the Encinitas Housing Authority, the Encinitas Public Financing Authority, and the San Dieguito Water District.

This report fulfills State law requiring preparation of an annual financial report. It has been developed in conformance with generally accepted accounting principles (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB.) The basic financial statements and related footnotes have been audited by the independent firm of Certified Public Accountants, Macias Gini & O'Connell LLP, whose reports are included herein.

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Management assumes full responsibility for the completeness and reliability of the information contained in this report. To the best of our knowledge, the data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and changes in financial position of the City. We believe that we have included all disclosures necessary to enable the reader to gain an understanding of the City's financial activities and standing.

City management is responsible for establishing and maintaining a system of internal controls to ensure that assets are protected from loss, theft or misuse, and that adequate accounting data is maintained to prepare financial statements in accordance with generally accepted accounting principles. Management has implemented a comprehensive framework of controls to safeguard assets and provide reasonable assurance of proper recording of financial transactions. Because the cost of internal controls should not outweigh their benefits, the City's internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met.

The Finance Department is responsible for providing centralized financial services, including financial accounting and reporting, budgeting, accounts payable disbursement, accounts receivable collection, cash and investment management, debt management and procurement. The Director of Finance is appointed by the City Manager and supervises the Department's operations.

Budgetary controls have been established to ensure compliance with the annual appropriated budget approved by the City Council. The City Manager proposes an operating budget every two years, which is reviewed and revised on the "off year." The two-year operating budget (or second year revised on the off year) is adopted by the City Council prior to the beginning of each fiscal year after public input and discussion. The City Council may amend the budget throughout the year as needed. Primary

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responsibility for analysis of budgeted and actual expenditures and revenue, as well as monitoring the fiscal status of programs and projects, rests with each operating department. Status reports are provided to the City Council on a quarterly basis.

Management's discussion and analysis (MD&A) provides an overview and analysis of financial activities for the year ended June 30, 2010 and should be read in conjunction with this letter of transmittal.

Federal financial assistance received by the City is audited under the provisions of the Single Audit Act of 1996, as amended. The Single Audit was designed to meet the special needs of federal grantor agencies. This report is available in the City's separately issued "Single Audit Report."

Copies of this report are available at:
City of Encinitas, Finance Department
505 S. Vulcan Avenue, Encinitas, CA 92024
www.cityofencinitas.org

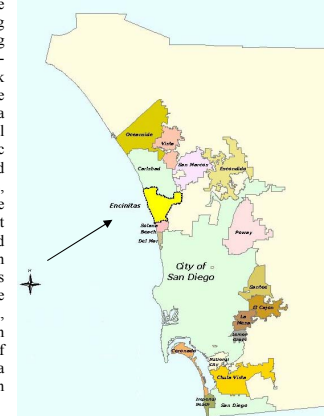


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PROFILE OF THE CITY OF ENCINITAS

The City of Encinitas 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 the City of San Diego on the Southern California coast.

Encinitas covers approximately 21.4 square miles, along six miles of Pacific Ocean coastline, with a population of 63,000. The City's character is defined by its surfing culture, laid back atmosphere, "funky vibe" and floral-agriculture heritage. The natural beauty of the surrounding area, including coastal beaches, steep bluffs and rolling hills, along with temperatures between 40 and 85 degrees year-round, make Encinitas a desirable place to live, work and recreate. Residents and visitors enjoy a wide range of amenities and activities. The downtown area along Coast Highway 101 is an eclectic coastal shopping district over 100 years old, featuring historic architecture, quaint shops, sidewalk cafes, and restaurants framed by beautiful flower baskets, celebrating Encinitas' floral-agriculture heritage. The beaches in Encinitas are undeniably some of the most beautiful in the world. Avid surfers can be found year-round on the stretches of beach that lie between Cardiff-by-the-Sea and Leucadia. The City is bordered by the San Elijo Lagoon Reserve to the south and the Batiquitos Lagoon along the north, where nature lovers can walk along trails and view an abundance of wildlife and vegetation. Golf enthusiasts enjoy the Encinitas Ranch Golf Course, a championship 18-hole course with panoramic ocean views.



The City's trademark is its flower growing industry, which is an important part of the City's culture and history. Named "The Flower Capital of the World," Encinitas has developed around the many floral-agricultural areas throughout the City. San Diego Botanic Garden, the only botanical garden in San Diego County, has one of the most diverse plant collections in the world. Scenic trails transport visitors to 20 unique gardens, a 60-foot waterfall in a tropical rain forest, North America's largest display of bamboo and the Hamilton Children's Garden.

CITY GOVERNANCE AND SERVICES

The City is governed by a five-member City Council under the Council-Manager form of government. The City Council is elected at large, on staggered four-year terms. The Mayor is selected annually by a majority of the City Council. The City Council appoints the City Manager and City Attorney. All other staff positions are appointed by the City Manager or his designee.

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During incorporation, the San Dieguito Water District (SDWD) became a component unit of the City. SDWD provides potable and recycled water to portions of the City. The City provides and charges for certain management and administrative services to SDWD; the City Council also serves as the SDWD Board of Directors. The City and SDWD are members of several joint power agencies providing services such as water treatment, wastewater treatment, issuing bonded debt and managing an emergency dispatch system.

The City/SDWD provides a full range of services such as:

Fire Protection and Prevention	Planning and Development Services
Marine Safety/Lifeguards	Parks and Open Space
Water Services and Delivery	Recreational Programs
Sewer System Maintenance	Streets, Traffic Circulation and Calming
Code Enforcement	Library and Arts Programs
Storm Water Monitoring and Treatment	Affordable Housing Programs

Many municipal services are provided contractually. Some of these contracted services include:

Law Enforcement and Traffic Patrol (contract with the County of San Diego Sheriff's Department)
Solid Waste Services (including recycling and household hazardous waste removal)
Landscape Maintenance
Streetlight and Traffic Signal Maintenance
Building Permit Services
Inspection Services

The City encourages public participation through various Commissions. The City's Commissions include the Planning Commission, Senior Citizen Commission, Parks and Recreation Commission, Youth Commission, Commission for the Arts, Traffic Commission and Environmental Commission. The purpose of each Commission is to provide guidance and advisory opinions to the Council and make recommendations regarding its functional areas. The City Council appoints the Commissioners and exercises oversight responsibility over each body.

BUDGET PROCESS

The City of Encinitas and SDWD maintain fifty-nine distinct funds. The General Fund is the City's largest and most discretionary fund and pays for many general governmental activities such as law enforcement, fire protection, parks, beaches and street maintenance. Each fund is considered a separate accounting entity, with a separate set of self-balancing accounts that record assets, liabilities, fund equity (e.g., fund balance), revenues and expenditures. The City Council adopts a two-year operating budget, with appropriations for the first year only. The annual budget provides for the general operations of the City. It includes all proposed expenditures and operating transfers, and the means of financing them. The City Council also approves any amendments to appropriations throughout the year, generally at the mid-year budget review in February. The legal level of budgetary control is the fund level.

Zero-Based Budgeting

Under the leadership of the current City Manager, the City utilizes the Zero-Based Budgeting (ZBB) methodology and develops quarterly spending plans. With ZBB, historical information is taken into consideration for assessing trends, but does not provide justification for future expenditures. ZBB is a more time-consuming process compared to incremental budgeting, but produces many advantages. The ZBB approach shifts budget attention away from adding to the current-year program and focuses

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consideration on priority programs and services. ZBB is successful in presenting to the City Council and upper-level management the nature and details of programs and/or services. The ZBB approach also encourages redirection of resources within the budget into more productive programs and activities.

Quarterly Spending Plans

The City Manager requires each Department to develop and submit quarterly spending plans with their budget proposals. The quarterly spending plans indicate when Departments expect to implement services and programs, and thereby expend resources. Following each quarter, the City Manager and Finance staff meet with Departments to evaluate their quarterly spending plans and determine whether Departments were able to achieve their objectives according to the prescribed schedule. This process allows for candid and frequent discussion on use of resources and allows for the timely redirection of resources when necessary.

Fiscal Realignment Plan

This year, in addition to the requirements of developing a Zero-Based Budget and Quarterly Spending Plan, Departments were instructed to develop a one-time City-wide fiscal realignment plan. Due to the precarious and volatile nature of the current economy, the one-time cost savings measures were intended to preserve the Budget Stabilization Reserve at 5% of operating revenues and guard against the effects of another economic downturn. The Fiscal Realignment Plan was developed by the City's dedicated team of analysts and reviewed by the Department Heads and City Manager. It is a comprehensive approach of implementing organizational efficiencies rather than "across-the-board" cuts, which can be arbitrary and run counter to strategic priorities and goals.

FACTORS AFFECTING FINANCIAL CONDITION OF THE CITY

In September 2010, the National Bureau of Economic Research declared the so-called Great Recession over, determining that the U.S. economy hit bottom in June 2009 when it commenced a long, sluggish rebound. The recent financial crisis was triggered by a liquidity shortfall in the United States banking system. It has resulted in the collapse of large financial institutions, the bailout of banks by national governments and downturns in stock markets around the world. Throughout the nation, the housing market has also suffered, resulting in numerous evictions, foreclosures and prolonged vacancies. It contributed to the failure of key businesses, declines in consumer wealth estimated in the hundreds of trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. Both market-based and regulatory solutions have been implemented or are under consideration, while significant risks remain for the world economy over the 2010–2011 fiscal periods.

National and State Economy

The housing slump, tight credit conditions, dysfunctional financial markets, and soaring food and energy prices have taken a toll on the national and state economy, but efforts to prevent the economy from further down-spiraling appear (at least for the time) to be working.

In an effort to prevent a catastrophic collapse of the economy, the government embarked on an unprecedented program of cash bailouts and subsidy programs. In October 2008, the Federal Government passed the Emergency Economic Stabilization Act, providing \$900 billion in short-term cash loans to banks, reduced the federal funds rate to between zero and 0.25 percent, approved a plan to rescue Citigroup, and loaned \$85 billion to American International Group (AIG). In February 2009, newly inaugurated President Obama signed the \$787 billion American Recovery and Reinvestment Act of 2009, which includes a variety of spending measures and tax cuts intended to promote economic recovery. President Obama introduced a series of regulatory proposals in June 2009. The proposals address

consumer protection, executive pay, bank financial cushions or capital requirements, expanded regulation of the shadow banking system and derivatives, and enhanced authority for the Federal Reserve to safely wind-down systemic institutions, among others. In January 2010, Obama proposed additional regulations limiting the ability of banks to engage in proprietary trading. The U.S. Senate passed a regulatory reform bill in May 2010, following the House, which passed a bill in December 2009. These bills were reconciled in the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010.

Key economic indicators illustrate the apparent rebound of the economy. The nation's Gross Domestic Product (GDP), which declined in all four quarters of the FY2008-09 have expanded every quarter since (2.2%↑ in Q3 2009; 5.6%↑ in Q4 2009; 3.7%↑ in Q1 2010; 1.6%↑ in Q2 2010). Moody's predicts that GDP growth will average just below 3% for calendar year 2010, 3.5% for 2011 and 5% for 2012.

Despite government's efforts, however, the unemployment rate continues to stagnate at high levels. The most recent figures show a national unemployment rate of 9.6% (down from 10.3% same time last year), and a rate of 12.2% for the State of California (up from 11.6% same time last year). Even though 2010 began with a return to sustained job growth, employment remains a serious concern and it will take a long time to regain the nearly eight million jobs lost during the recession. California labor markets deteriorated dramatically during the latter half of 2008 and the first six months of 2009, suffering their worst losses on record. These losses moderated as the year progressed and switched to very modest gains beginning in January 2010. Private sector employment expanded in six out of the first seven months of 2010, and July's gain was the best since January. A return to positive job growth is a good sign, but as with the nation, it will take considerable time to recoup the losses.

California personal income declined in 2009 on a year-over-year basis for the first time since 1938. However, personal income (a good measure of the State's economy) which was \$1.559 trillion in 2009 is expected to increase by 3.2% in 2010 to \$1.609 trillion and increase by 4.5% in 2011 to \$1.687 trillion.

Although consumer confidence has improved slightly since its historic low in February 2009, it is still at its lowest level in 26 years. Consumer confidence has hovered around the current index of 53.5 since the summer of 2009. Employment concerns continue to weigh heavily on consumers' attitudes. Expectation about future business and labor market conditions have brightened somewhat, but overall, consumers remain apprehensive about the future. All in all, consumers are about as confident today as they were a year ago.

Low consumer confidence generally translates into a lower volume of taxable sales. At the State level, taxable sales slid dramatically in 2008, bottomed out early in 2009 and made meager gains during the rest of the year. Taxable sales in 2009 were down 15% from 2008. In the final quarter of FY2008-09, the State temporarily increased the sales tax rate (from 5% to 6%) to address the State's ongoing budget gap. Despite the additional revenue generated from the sales tax increase, the level of sales during the last half of 2009 was still down 20% from the peak reached in the second half of 2006. As a result, State sales tax revenue was down 13% in FY2008-09 and down another 7.5% in FY2009-10.

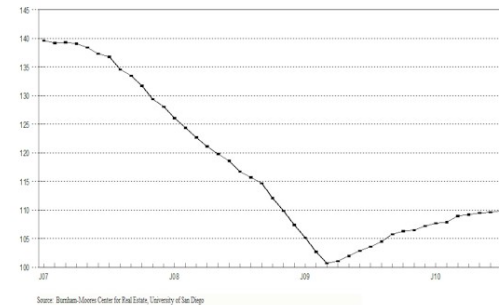
The housing slump, which is at the heart of California's current economic troubles, also appears to be showing signs of recovery. After sliding dramatically throughout 2006, 2007 and 2008, home building appeared to bottom out during the second half of FY2008-09, with at least 30,000 permits issued each month (down 52% from a year earlier). By 2010, home building permitting was actually up on a year-over-year basis. However, the number of permits issued was still off 78% from the peak output reached in mid-2005. Home sales improved slightly during the 1st quarter of 2010 in most parts of the state, in part because sales of lower cost foreclosure resales have tapered off and sales of higher cost homes have continued to rise. First quarter sales also received a boost from people opting to take advantage of the federal tax credit for first time buyers. The median price of existing, single-family homes sold in July 2010 was \$314,850, up 10.4% from a year earlier.

While there continue to be signs the economy is slowly improving, California continues to confront serious budgetary problems. On October 8, 2010, Governor Schwarzenegger ended California's longest budget impasse by signing the FY2010-11 State budget and exercising nearly \$1 billion in line-item vetoes, calling the budget a "compromise." The \$86.6 billion budget, which includes measures, intended to bridge a \$19 billion gap, implements cuts to health and human services and prison spending. Budget assumptions rely on an improving economy to generate an additional \$1.4 billion in tax revenue. Other budget actions include changes to state worker pensions and benefits that will require negotiation with the unions. The leading credit rating agencies have lowered California's bond rating from A+ to BBB (just one level above junk bonds). Many economists now predict that California's economy will recover more slowly than the rest of the nation because of the sorry fiscal condition of the state and many local governments.

Regional Economy

According to the Index of Leading Economic Indicators for San Diego County, the regional economy began a state of decline in April 2006, with an accelerated decline in September 2008. However, the region has experienced steady economic improvement since March 2009, with July's gain marking the 16th consecutive monthly increase.

Index of Leading Economic Indicators
San Diego County, 2007 - 2010



There have been concerns about a possible “double dip” recession at the national level and similar worries about the local economy. Authors of the Index do not believe that a double dip is on the horizon, but anticipate that future growth will likely be very weak. High unemployment and low consumer spending is contributing to the stagnation of the regional economy. With confidence down, consumers are spending less and businesses are selling less, which translates into slower hiring rates and the cycle is perpetuated. On a positive note, developers appear to be re-entering the market, with the number of authorized building permits up for the past eight months in a row. Housing prices in San Diego County have increased by nearly 13% according to the Case-Shiller Home Price Index since the bottom in April 2009.

Local Economy

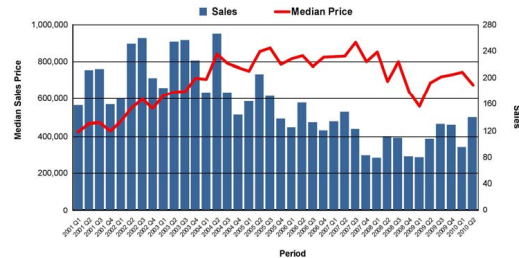
The City of Encinitas is well positioned to weather these economic storms and has been evaluated and rated by internationally recognized third party reviewers. Standard & Poor's (S&P) recently reaffirmed the City's “AA+” (implied AAA) rating. In their rating analysis, S&P also evaluated the rigor of the City's financial management practices including managerial decisions, policies and practices that apply directly to the City's financial position and operations, debt burden and other key credit factors. They also looked at the City's ability to implement timely and sound financial operational decisions in response to economic and fiscal demands. Upon reviewing these seven areas, the City received the highest ranking of “strong” indicating that “practices are strong, well embedded and likely sustainable.”

Property taxes, the City's largest revenue source, continued to grow, but at a slower pace than previous years. Like most cities in the United States, the City has seen a slowdown of sales, an increase in defaults and foreclosures and a high volume of requests for reassessment of property values. Conversely, the market value of many homes in Encinitas is still above the assessed value and may add value to the tax rolls when sold. In addition, homes assessed below market value, but not sold, increase in assessed value by an inflator index per Proposition 13 and assessed accordingly.



THE CITY OF ENCINITAS SALES HISTORY

Detailed Single Family Residential Full Value Sales (1/10/2001 - 6/30/2010)



From 2001 through much of 2006, favorable interest rates and strong demand for housing pushed property values to record highs. However, in recent years, market values of many homes in Encinitas have been declining, but appear to have bottomed out in Q1 2009. The total assessed value in Encinitas

increased in the last year from \$11.38 billion to \$11.6 billion (.13%↑). Encinitas was one of only three cities in the County to experience a gain. The median price of a single family home was \$835,000 in 2007, \$765,000 in 2008 and \$688,250 in 2009. The most recent reports show that the median price of a single family resale home in Encinitas is \$700,000 (Source: Dataquick News, August 2010).

Sales Taxes, the City's second largest revenue source, represents nearly 18% of the City's General Fund revenues and was down significantly from the previous year (8.1% ↓). Several factors contributed to the decline in this important revenue source including: low consumer confidence and high unemployment, translating to fewer purchases; erratic fuel prices and lower consumption; fewer construction and home improvement projects; a reduction in auto sales; and the closure of several retail outlets including Home Depot Expo, Circuit City, Linen-N-Things and Albertsons. The City has a diversified retail sales tax base, however, and is not heavily dependent on any one business or industry. The downward trend has leveled out, and the current year budget assumption for sales tax is flat. The most recent sales tax reports are even more favorable, showing an upward trend. In taxable sales for Q2 2010, revenues were up 5.7% from the same time last year.

Development activity was slow, continuing the downward trend over the past few years. However, there are some signs that activity has reached a low point and may be on the upswing for the coming year. Overall, there were 39 new residential dwelling units compared to 86 in the previous year and 98 units in FY2007-08. This is a significant decrease from seven years ago, when 356 new residential units were developed.

Many residential projects remained idle. Large subdivisions, including the “Coral Cove” (Shea Homes) project on North Vulcan Avenue, “Quail Meadows” (Pacific Coast Communities) project on the east side of Quail Gardens Drive just north of Encinitas Boulevard, and Bahlmann property project just north of the Ecke holdings between Quail Gardens Drive and Saxony Road are essentially inactive. The former Barratt project, Nantucket II, which had been in foreclosure, has been purchased and the new owner is beginning to pursue completion of the project. The “Quail Pointe” project (Far West Industries) on the west side of Quail Gardens Drive just north of Encinitas Boulevard is nearly complete and most homes are completed and occupied. The large mixed-use project under construction at E Street and Coast Highway 101, Pacific Station, is nearing completion. It is anticipated that the 47 residential units in this project will be occupied by the end of the calendar year.

Commercial development has also remained slow but some of the vacant retail spaces in the City have new tenants pursuing zoning and/or building approvals. The Walgreens on Encinitas Boulevard at El Camino Real is now open while Big Lots has been issued permits for construction of tenant improvements to the former Circuit City site on North El Camino Real. A major discount retailer is pursuing interest in the former Home Depot Expo site at the Plaza at Encinitas Ranch. Expansion of the Target at Encinitas Town Center has been stalled for some time but it appears that construction will begin early in 2011. An applicant is seeking zoning approval for façade upgrades to accommodate a new Kohl's store at the vacant former Albertsons grocery store site on North El Camino Real. The construction of Pacific Station (a mixed use project in downtown Encinitas) is nearing completion. Smaller commercial retail spaces at Pacific Station, including the proposed Solace restaurant (affiliated with Urban Solace in North Park), are expected to be occupied by the end of the calendar year. The anchor tenant, Whole Foods, is in the final stages of plan review and will likely open in late winter 2011. The large office complex partially constructed on the north side of Encinitas Boulevard just east of Quail Gardens Drive remains idle, as do several approved mixed-use developments located on North Coast Highway 101 in Leucadia.

Long-Term Financial Planning

It is the Council's goal to ensure the long-term fiscal sustainability of the City. To assist in this process, the City develops a six-year financial plan biennially and updates the plan during off-cycle years. The Financial Plan includes a forecast of the City's estimated operating and capital requirements and anticipates financial issues that may impact the long-term forecast. During the Council's Strategic Goal Setting Session, staff provides an update on the City's long-term fiscal sustainability and any challenges to that goal. In addition, the City budgets conservatively and typically experiences a "surplus" at the end of the year, due to revenues coming in higher than projected and expenditures lower than projected. At the end of FY2009-10, the General Fund budget surplus was \$2.4 million, excluding transfers (see page 73, column 4) due to conservative revenue estimates and careful monitoring of spending. By Council policy the surplus is allocated first to restore any depleted reserves.

Relevant Financial Policies

General Fund Reserve Policy - Sound financial management includes the practice of maintaining an appropriate reserve for contingencies. The City maintains fund or working capital balances to preserve the City's credit worthiness and to adequately provide for:

- Economic uncertainties, local disasters or catastrophic events, and other financial hardships or downturns in the local or national economy
- Contingencies for unforeseen operating or capital needs
- Uninsured losses
- Cash flow requirements

As such, the Council has designated three tiers of General Fund Reserves: a contingency reserve (equal to 20% of operating expenditures); a budget stabilization reserve (equal to 2% of operating revenues); and a project reserve (remaining undesignated fund balance). All reserves currently meet or exceed Council designated reserve targets.

Sanitary Division Reserve Policies - The City Council has established reserve policies for the Cardiff Sanitary Division and Encinitas Sanitary Division. The policies include provisions for an Operating Cash Flow Reserve (set at 50% of the following year's operating expenditures), a Rate Stabilization Fund (minimum of \$800,000) and Capital Replacement Reserves (minimum of \$2.5 million). All reserves currently meet or exceed Council designated reserve targets.

Debt Management Policy - The City has a comprehensive Debt Management Policy that sets the parameters for issuing debt and managing outstanding debt, provides debt-management guidelines to Council and establishes standards regarding the timing and purposes for which debt may be issued, the types and amounts of permissible debt, the methods of sale that may be used and the structural features that may be incorporated. The City's current debt service payment is \$4.2 million (debt ratio of 8.4%), which is well below the City's debt capacity and rating agency standards.

Investment Policy - The City maintains a comprehensive Investment Policy, which places restrictions on the types and amounts of authorized and suitable investments allowed that is more restrictive than the California Government Code. The primary objective of the City's Investment Program is safety of the investment principal, both in terms of default risk and the interest rate risk (the risk that adverse changes in interest rates will negatively impact the fair value of investments held). At June 30, 2010, the City's investments of approximately \$100 million consisted of the State Treasurer's Fund (LAIF), several institutional money market mutual funds, and U.S. treasury securities, and Federal Agency securities. These investment types are considered extremely safe, even in today's turbulent financial markets.

Risk Management Policy - The City maintains a self-insurance fund within the General Fund to account for and finance its risks of loss. The City is a member of the San Diego Pooled Insurance Program, which is a separate legal entity formed by the participating municipalities to provide pooled excess liability coverage to its members. The City is self-insured for liability claims and losses up to \$150,000 per occurrence and up to \$350,000 for workers' compensation claims. The San Dieguito Water District is a member of the Association of California Water Agencies - Joint Powers Insurance Authority. Additional information about the City's insurance programs can be found in Note 11 of the notes to the financial statements.

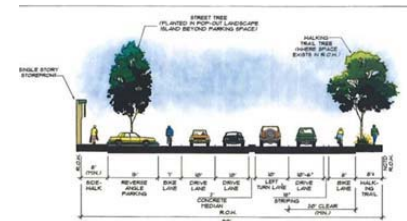
Fraud Prevention Policy - The City is committed to protecting its revenue, property, information and other assets from any attempt, either by member of the public, contractors, subcontractors, agents, intermediaries, or its own employees, to fraudulently gain financial or other benefits. The City has formally adopted and distributed to all employees a zero tolerance policy regarding fraud. The policy sets forth and defines the prohibited acts, such as embezzlement, misappropriation, theft or falsification of documents, and use of position for personal gain. The policy also explains the process for reporting suspected fraud and the penalties for committing fraud.

MAJOR INITIATIVES

Park Development - Final design detail and construction drawings for a 44-acre community park, located off of Santa Fe Drive and immediately west of Interstate 5 on the former Hall Property, are nearly complete. The plans for the park include multi-use ball fields (including two baseball/softball fields and multiple soccer fields), a skate park, teen center, dog park, aquatics center, children's play areas, gardens, trails, and a scenic overlook. The project is expected to be completed in phases. The City expects to go out to bid on Phase I of the project in late 2010. Phase I of the project includes all required park infrastructure, athletic fields, passive use green space, a dog park, a skate park and the landscaped buffer.

**North Coast Highway 101 Streetscape Project**

- In early 2008, the City initiated a streetscape project to enhance the North Coast Highway 101 corridor. The extension public workshop process has been completed and resulted in a preferred streetscape concept, referred to as 4A for the 2.5 mile stretch of North Coast Highway 101 from A Street to La Costa Avenue. The key design characteristics include roundabouts, increased parking, "road diet" (predominately one north bound lane), reduced travel land widths and preservation/restoration of the existing tree canopy. City Council initiated the discretionary permit process and directed staff to evaluate the project phasing. Phase I will focus on walkability, the tree canopy, and traffic calming measures.



2035 Comprehensive General Plan Update – In January 2010, the City initiated a Comprehensive General Plan Update (CGPU) to strengthen existing policies and to address new policy issues that have arisen since the original General Plan was adopted in 1989, including sustainable communities, healthy communities, climate change, storm water cleansing, and green building. The CGPU is expected to take a minimum of two years to complete. In order to develop broad, community-based goals to direct the vision and policy framework for the plan, workshops and a citywide Vision Festival were held in Spring 2010. An assessment of existing conditions will be prepared to help analyze various opportunities and constraints (geographic, natural resources, infrastructure, etc.). This will help guide the development of draft policies and citywide land use (starting Fall 2010).

Olivenhain Wastewater Pump Station Improvements – The City is building a new pump station to replace the existing pump station (circa 1971) located inside the northbound off ramp loop of the Manchester Avenue/Interstate 5 Interchange. The new pump station will: improve pump station wet well access and safety; increase pump station storage capacity; provide floodplain protection; solve pump clogging/ragging problems; and upgrade the pump station to meet future flows. The pump station is being constructed in conformance with LEED Green Building Design Standards and will include recycled construction materials, solar panels for outside lighting and irrigation controllers, drought tolerant landscaping and use of recycled water for both the irrigation and pump station bathroom. The project is currently in design and plans are nearly complete. The cost of the project is \$5.3 million. Construction of the new pump station will begin January 2011 and construction will last for two years.

Downtown Parking Lots – Due to the growing popularity of downtown shopping and dining and the downtown transit station, the demand for convenient parking in the area has far exceeded the supply. To accommodate the growing need for parking spaces, the City proposed construction of two new downtown parking lots. The first parking lot, located at the northeast corner of Vulcan Avenue and E Street (adjacent to City Hall) was completed on July 17, 2009 and includes 22 parking spaces. A second parking lot located at the southwest corner of Vulcan Ave. and E Street is currently under construction. The 79 space parking lot will include five (5) ADA compliant handicap parking spaces. The parking lot is designed to complement the ambiance of the downtown area, including a split-faced masonry block retaining wall, decorative parking lights and bollards, pygmy date palm trees, soft-tipped agave and hummingbird sage, and groundcover such as ice plant and rosemary. Construction is scheduled for completion in December 2010.

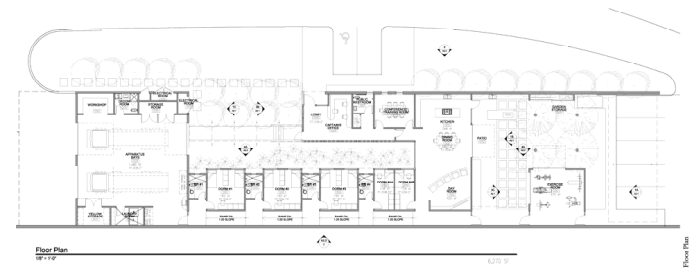
Safe Routes to Schools Program – Facilities such as sidewalk, curb ramps, and traffic calming features encourage children to walk and bike to school, and enhance the pedestrian environment within the City. The Engineering Department actively applies for grant funds from both the Federal and State Safe Routes to School programs. The City has been awarded over \$1 million in grant funding through these programs in the past three years. The Paul Ecke Central Elementary Safe Routes to School project was completed in June 2010 and provided new sidewalk, curb, gutter, and curb ramps along Hygeia Avenue, Cereus Street, Union Avenue, and Vulcan Avenue. The Cardiff Elementary Safe Routes to School project is underway, and is anticipated to be completed in January 2011. This project will construct sidewalk, curb, gutter and curb ramps along Westminster Drive and Summit Avenue, between Verdi Avenue and Montgomery Avenue. In addition, the project incorporates traffic calming



features such as a crosswalk speed table, pop-outs, and reconfigures the intersection of Montgomery Avenue at Westminster Drive. Designs are nearly complete for the Melba Road Safe Routes to School project, and will involve the construction of sidewalk, curb, gutter, and street parking along the south side of Melba Road, between Nardo Road and Bonita Drive. Construction is anticipated to begin in January and be completed by April 2011. The Melba Road (North side) Project is funded through Community Development Block Grants and will be constructed simultaneously with the Melba Road Safe Routes to School Project. Sidewalk, curb, gutter, and curb ramps will be installed as part of this project to replace an existing deteriorated asphalt walkway along the north side of Melba Road, between Nardo Road and Bonita Drive.

Construction of Fire Station 3 – Last year, Encinitas Fire Station No. 3, located west of Interstate 5, at 801 Orpheus Ave., was replaced with a modern, expanded and “green” public safety facility.

This year, designs are underway for reconstruction of Encinitas Fire Station No. 2, located west of Interstate 5, at 618 Birmingham Drive. Construction is expected to begin in 2011. The new station spans 6,330 square feet and will have the capacity to house one fire engine and one private company ambulance. The firefighter dorm rooms will have the ability to house additional firefighters in the event of large-scale disasters like flooding or wildfires. Construction is expected to take 14 months and the building will incorporate sustainable design elements that will align with LEED “Silver” certification. The sustainable design building elements will include regional building materials and energy conscious interior day lighting. Conceptually, the roof lines and clearstory windows are intended to emulate Encinitas’ history of greenhouses. Further embracing Encinitas floral-agricultural history, the Poinsettia flower is represented graphically on the southeast face of the decorative concrete masonry wall. The project also includes site sustainable design elements, such as storm water quality control and drought tolerant landscaping.



Public Works/Engineering Departments Accreditation – The City of Encinitas Public Works and Engineering Services Departments have received accreditation following a comprehensive evaluation by the American Public Works Association (APWA), an international educational and professional association of public agencies. The City is the 59th agency in the country and the first in Southern California to receive this prestigious recognition. Obtaining accreditation strengthens the agency while recognizing its dedication to the continuous improvement of management practices. The City must continue to be evaluated every four years to maintain accredited status.

TRANSMITTAL LETTER • INTRODUCTORY SECTION

The purpose of accreditation is to promote excellence in the operation and management of public works departments, their programs and employees. Accreditation is designed to assist the Agencies in: improving their operations and management; educating and training public works professionals; and providing a valid and objective evaluation of Agency programs as a service to the public and the profession. The accreditation process requires a review of 31 areas covering 546 individual recommended management practices as established by APWA. These practices encompass a broad range of policies and practices needed to run an efficient and safe organization, from human resources to wastewater collection and conveyance.

“Green Initiatives” – The City strives to be a leader in environmental sustainability and energy efficiency. This year, the City has embarked on several initiatives to further promote this high priority goal:

- General Plan Update – This update is 10 months into its 24 month work plan timeframe and is emphasizing sustainability and energy efficiency in goals and policies.
- Climate Action Plan – Utilizing the greenhouse gas emission baseline analysis as the starting point, the City will develop a community plan to address issues related to climate change, sustainability and promoting innovative means of reducing energy, water and resource use.
- Green Building Incentive Program – the City Council approved a program which provides grant funds to private developers to encourage “green” construction techniques and LEED certification.
- City Environmental Policy – This City policy presents a vision and a commitment to move toward innovative energy, water and resource use.
- LEED Certification of City Hall – the City is currently in the process of pursuing LEED certification of the City’s largest facility, with an anticipated completion date of Spring 2011.
- Alternative Fuel Vehicles - The City of Encinitas Fleet Management Program continues to look for opportunities to include alternative fueled vehicles into the City Fleet provided they meet operational needs. Currently, the City owns two hybrid sedans and four hybrid SUVs. Additionally, the City is investigating the possibility of establishing a public electric vehicle charging station in Downtown Encinitas.
- Single-Use Bag Reduction Initiative – The City of Encinitas sponsored their 2nd Annual “*Day without a Bag*” public education and outreach initiative to promote reusable shopping bags. Over 4,000 reusable bags were given away with the help of volunteers at sixteen locations throughout the City. Included in the event was the introduction of a pilot program for reusable dry cleaning bags.

For more information about the City’s environmental program and activities, please visit the City’s website at: www.cityofencinitas.org/Government/CommissionsAC/Environmental+Committee

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, 2009. This was the sixth time the City had achieved this type of award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and all applicable legal requirements.

TRANSMITTAL LETTER • INTRODUCTORY SECTION

The City also received Certificate of Award for Excellence in Operating Budget Award from the California Society of Municipal Finance Officers, as well as the Certificate of Excellence by the Association of Public Treasurers of the United States and Canada for the City’s Investment Policy.


The compilation of this report could not have been accomplished without the dedication of your highly qualified staff. We would like to express our appreciation to all staff in the Finance Department who assisted in and contributed to the preparation of this report. We would also like to acknowledge the efforts of all City and San Dieguito Water District Departments for following good financial management practices and in providing information and assistance during the preparation of this report.

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.

Respectfully submitted,



Phil Cotton
City Manager



Jennifer H. Smith
Finance Director

LIST OF CITY OFFICIALS

CITY COUNCIL

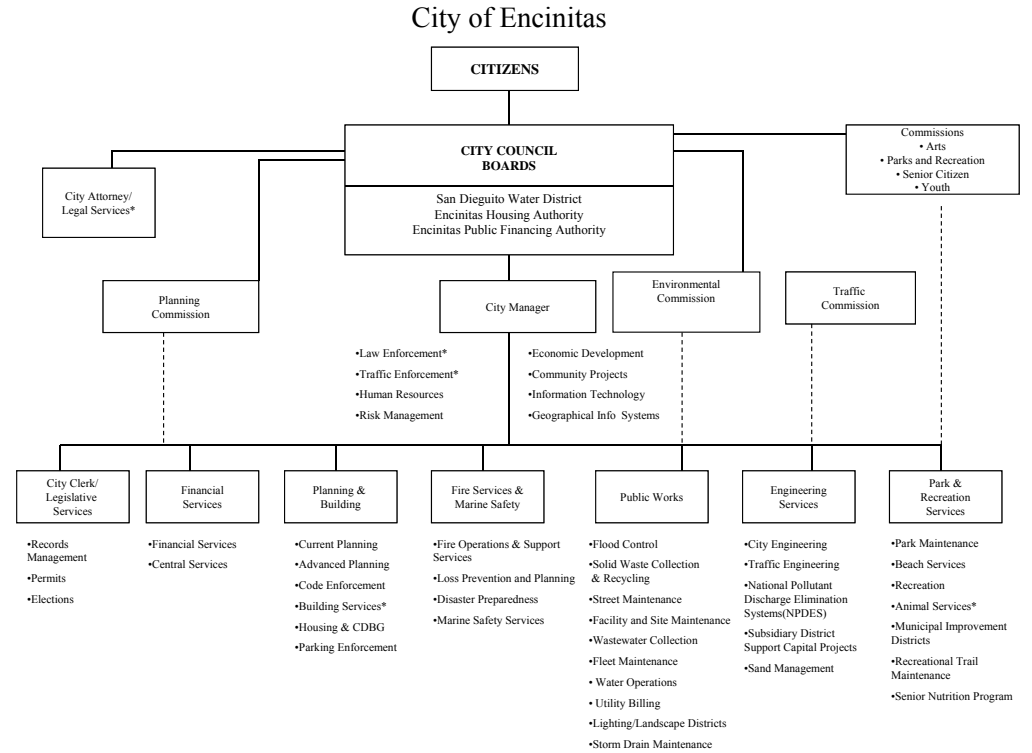
June 30, 2010

Dan Dalager Mayor
Maggie Houlihan Deputy Mayor

James Bond
Jerome Stocks
Teresa Barth

ADMINISTRATION AND DEPARTMENT DIRECTORS

Phil Cotton	City Manager
Jennifer Smith	Finance
Deborah Cervone	City Clerk
Peter Cota-Robles	Engineering
Christopher Hazeltine	Parks & Recreation
Mark Muir	Fire & Marine Safety
Patrick Murphy	Planning & Building
Lawrence Watt	Public Works
Glenn Sabine	City Attorney



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, 2009

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



A stylized, handwritten signature in black ink.

President

A stylized, handwritten signature in black ink.

Executive Director

FINANCIAL

SECTION



City of Encinitas
505 South Vulcan Avenue • Encinitas CA 92024
760-633-2600 • www.cityofencinitas.org

The Honorable City Council of
the City of Encinitas, California

Independent Auditor's Report

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 (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Encinitas's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Encinitas, California, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010, on our consideration of the City of Encinitas'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* and should be considered in assessing the results of our audit.

The management's discussion and analysis and other required supplementary information identified in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, the combining and individual nonmajor fund financial statements and schedules listed as supplementary information in the table of contents 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on them.

Macias Jini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 23, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS • FINANCIAL SECTION

USING THIS ANNUAL REPORT

This section of the *Comprehensive Annual Financial Report* (CAFR) issued by the City of Encinitas (the "City") presents an overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010. 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 (the "Water District"). The City presents its financial statements under the reporting model required by the Governmental Accounting Standards Board.

This annual report consists of a series of financial statements. The **Government-Wide Financial Statements** consist of the *Statement of Net Assets* and the *Statement of Activities*, which provide information about the government-wide activities of the City as a whole and present a longer-term view of the City's finances. **Fund Financial Statements** report the City's operations in more detail by providing information about the City's most significant funds, how services were financed in the short term, and what remains for future spending. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Government-Wide Financial Statements

Analysis of the City's financial position as a whole begins with the *Statement of Net Assets* and the *Statement of Activities*. 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 to answer this question. The *Statement of Net Assets* includes all of the assets and liabilities of the City using the accrual basis of accounting similar to most private-sector companies. The *Statement of Activities* depicts all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net assets*, the difference between assets and liabilities, which is one way to measure the City's financial health. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. The reader will also need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the *Statement of Net Assets* and *Statement of Activities*, two types of activities are depicted:

- **Governmental Activities** - Most of the City's basic services are reported here, including law enforcement, fire suppression, public works, planning and building, engineering, parks and recreation departments, and general administration. Property and sales taxes, franchise fees, and state and federal grants finance most of these activities.
- **Business-Type Activities** - The City charges a fee to customers to help cover all or most of the cost of certain services it provides. Business-type activities include the Water and Wastewater operations as well as the City's Affordable Housing Program involving the rental of City-owned residential units to qualified low-income tenants.

MANAGEMENT'S DISCUSSION AND ANALYSIS • FINANCIAL SECTION

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant funds, not the City as a whole. Some funds are required by State law and by bond covenants. The City Council has also established other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes and other monies. 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, 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 using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily 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 helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is included in the pages following the respective statements.
- Business-Type 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 way that all activities are reported in *Statement of Net Assets* and the *Statement of Activities*. The City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information such as cash flows for proprietary funds. Internal service funds (the other component of proprietary funds) report activities that provide supplies and services to other City's programs and activities-such as the City's vehicle replacement program.

The City as Trustee - Reporting of the City's Agency Funds

The City acts as an agent for the Community Facilities District No. 1 (the Encinitas Ranch Development), and the Requeza Street Assessment District No. 93-1. These activities are reported in a *Statement of Assets and Liabilities - Agency Funds*. These activities are not a part of the City's financial activities because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets in these funds are used for their intended purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS • FINANCIAL SECTION

REPORTING THE CITY AS A WHOLE

Table 1
Summarized Statement of Net Assets
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current assets	\$ 64.4	\$ 65.8	\$ 42.4	\$ 39.6	\$ 106.8	\$ 105.4
Capital assets (net)	176.3	176.4	40.0	32.2	216.3	208.6
Other non-current assets	7.3	7.9	40.9	45.4	48.2	53.3
Total Assets	248.0	250.1	123.3	117.2	371.3	367.3
Other liabilities	9.2	9.1	1.4	1.5	10.6	10.6
Long-term debt	48.9	51.5	25.0	26.5	73.9	78.0
Total Liabilities	58.1	60.6	26.4	28.0	84.5	88.6
Net Assets:						
Invested in capital assets, net of debt	130.9	131.7	28.6	19.4	159.5	151.1
Restricted	4.2	4.3	0.0	1.1	4.2	5.4
Unrestricted	54.8	53.5	68.3	68.7	123.1	122.2
Total Net Assets:	\$ 189.9	\$ 189.5	\$ 96.9	\$ 89.2	\$ 286.8	\$ 278.7

The City's assets exceeded its liabilities (*net assets*) at the end of the fiscal year by \$286.8 million, compared to \$278.7 million in the previous year. Of this amount, \$106.8 million represents total current assets, which are generally available to meet current and future obligations. The balance of \$264.5 million generally represents assets of a long-term nature, such as capital assets and investment in other agencies, which are not readily generally convertible into cash and therefore are not available to fund current obligations. The increase in *net assets* of \$8.1 million is the result of: retroactive recording of land easements in the Business-Type Activities of \$4.5 million and change in net assets of \$3.6 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS • FINANCIAL SECTION

REPORTING THE CITY AS A WHOLE

Table 2
Summarized Statement of Activities
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Program Revenues:						
Charges for services	\$ 5.4	\$ 4.8	\$ 19.1	\$ 19.4	\$ 24.5	\$ 24.2
Operating grants	5.4	4.8	-	-	5.4	4.8
Capital grants	3.4	3.7	0.2	0.3	3.6	4.0
<i>General Revenues:</i>						
Property taxes	32.3	35.1	0.7	0.7	33.0	35.8
Sales taxes	8.8	7.3	-	-	8.8	7.3
Other taxes and intergovernmental	4.0	5.1	-	-	4.0	5.1
Other general revenue	3.3	4.4	0.6	1.0	3.9	5.4
Total Revenues	62.6	65.2	20.6	21.4	83.2	86.6
Program Expenses						
General government	12.1	14.3	-	-	12.1	14.3
Public safety	22.3	22.0	-	-	22.3	22.0
Public works	9.5	9.3	-	-	9.5	9.3
Planning and building	3.5	3.6	-	-	3.5	3.6
Engineering services	3.9	4.0	-	-	3.9	4.0
Parks and recreation	6.5	6.9	-	-	6.5	6.9
Community services	2.1	1.2	-	-	2.1	1.2
Interest on long-term debt	2.3	2.3	-	-	2.3	2.3
Cardiff Sanitary Division	-	-	3.6	2.9	3.6	2.9
San Dieguito Water District	-	-	11.6	13.0	11.6	13.0
Encinitas Sanitary Division	-	-	1.8	1.8	1.8	1.8
Non-Major Programs	-	-	0.3	0.2	0.3	0.2
Total Expenses	62.2	63.6	17.3	17.9	79.5	81.5
Increase (Decrease) in Net Assets	0.4	1.6	3.3	3.5	3.7	5.1
Beginning net assets, as restated	189.5	187.9	93.6	85.6	283.1	273.5
Ending net assets	\$189.9	\$189.5	\$96.9	\$89.1	\$286.8	\$278.6

Citywide revenues were \$83.2 million, compared to \$86.6 million in the prior year. Revenue from Government Activities was \$62.6 million, an overall decrease of \$2.6 million. *Program revenues* increased slightly, while *general revenues* such as property taxes and sales taxes declined modestly due to economic downturn. Revenue for Business-Type Activities was \$20.6 million, an overall decrease of \$0.8 million. Charges for wastewater services increased modestly, while revenue from water sales declined significantly due to voluntary conservation efforts by customers.

Citywide expenses were \$79.5 million, compared to \$81.5 million in the prior year. Expenses for Government Activities were \$62.2 million, an overall decrease of \$1.4 million. General Government saw the largest decrease, while most other categories experienced modest decreases. Expenses for Business-Type Activities were \$17.3 million, an overall decrease of \$0.3 million. Expenses for water operations were significantly lower year-over-year due to the lower volumes of water sold (see also revenue

MANAGEMENT'S DISCUSSION AND ANALYSIS • FINANCIAL SECTION

explanation above.) Wastewater expenses were modestly higher due to increases in the costs of collection and treatment, and increased amortization expense related to investment in other agencies.

THE CITY'S FUND FINANCIAL STATEMENTS

As the City completed the year, the *governmental funds* reported a combined fund balance of \$60.8 million, which is \$1.2 million lower than last year's ending balance of \$62.0 million. There were small decreases in both the General Fund and the other Nonmajor Funds.

General Fund Budgetary Highlights

The City adopted a two-year budget. FY2009-10 was the first year of the two year budget. Management monitors revenues and expenditures throughout the year, and updates the City Council quarterly. For FY2009-10, actual revenues were higher than projected and expenditures were lower than projected, resulting in an end-of-year ending fund balance that was \$1.0 million higher than anticipated.

Overall, General Fund revenues, were \$1.5 million or 3% higher than projected. Of that \$1.5 million, approximately \$500,000 was due to sales tax revenues (the General Fund's second largest revenue source) which had been adjusted downward at mid year, but showed favorable activity in the third and fourth quarters, particularly in the categories of automobiles and fuel. Charges for Development Services were \$626,000 higher than anticipated, particularly in the area of Building Services, signaling that the development activity has been picking up in the City.

Due to careful monitoring of Department budgets and tight controls on spending, expenditures were \$.9million lower than projected. The biggest savings were in the City's law enforcement contract, where a change in internal cost allocation from the County Sheriff's Department, resulted in savings of approximately \$475,000. Other notable savings were in the Fire Department, where vacancies and careful monitoring of overtime resulted in a \$264,000 savings. General government had \$209,000 in savings due to reduced travel and training, unfilled vacancies and renegotiation of information technology contracts. These general government savings were offset by the legal and risk management category that exceeded appropriations by \$244,000. The Parks and Recreation Department achieved savings of \$191,000 due mostly to savings in park maintenance costs (a contracted service).

Both the contingency reserve and budget stabilization reserve were left intact throughout the year.

CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAMS

As of June 30, 2010, the City had approximately \$296 million invested in a broad range of capital assets, including road and drainage systems, parks and beach facilities, public buildings, water and wastewater treatment, collection and distribution systems and affordable housing stock. There was no significant change in the City's overall (net) investment in capital assets of \$213 million. However, further analysis shows that there were both increases and decreases in the capital assets balance that merit further attention.

There were additions to the capital assets of the *governmental activities* of \$5.2 million during the year, including \$2.7 million to construction-in-progress and \$2.5 million of completed projects. The City's projects include consultant studies, drainage, public facilities, parks, beaches and recreation and streets and rail corridor projects. Depreciation of existing assets totaled \$5.2 million, resulting in no net change to the capital assets balance. There were additions to the capital assets of the *business-type activities* of \$0.8

MANAGEMENT'S DISCUSSION AND ANALYSIS • FINANCIAL SECTION

million during the year, primarily to construction-in-progress for water and wastewater projects. Depreciation of existing assets totaled \$1.0 million, resulting in a small net decrease in the capital assets balance. The beginning balance of capital assets of the *business-type funds* (enterprise funds only) was restated to reflect the addition of the value of land easements.

DEBT ADMINISTRATION

As of June 30, 2010, the City had a total of \$74 million of long-term obligations. The *governmental activities* had \$46 million of bonded debt, as well as several capital leases and other obligations such as claims payable and compensated absences. The *business-type activities* had a mix of revenue bonds and notes and mortgages payable totaling about \$25 million. There was no significant activity during the year, other than regularly scheduled repayments of long-term debt.

The City's and SDWD's bond ratings were increased during the year to AA+ by Standard & Poors.

In July 2010, the EPFA, on behalf of the City, refunded in full its \$19.0 million of 2001 Lease Revenue Bonds (Park Property) and issued \$19.5 million of 2010 Lease Revenue Refunding Bonds. The transaction generated net present value savings of \$1.3 million, or an average of \$100,000 per year over the remaining 21 year period.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's elected and appointed officials consider many economic factors when setting the budget including national, state and local economic conditions, trends in residential housing, and the unique needs of the community. The state of current economy was taken into consideration when revising the second year of the two year budget (FY2010-11 "Second Year Revised"). After unprecedented volatility over the last couple of years, the economy appears to be stabilizing, comparatively speaking. The outlook for the budget was optimistic, but cautious, anticipating very slow economic growth in the year ahead. It was also anticipated that growth will likely be tentative, uneven, and even possibly have setbacks. The vulnerable state economy and their budget problems add another layer of uncertainty to the City's fiscal outlook.

The Second Year Revised included several modifications to the originally adopted budget. The revised budget remains balanced and maintains all of the Council directed reserves at or above optimal target levels. Staff proposed a fiscal realignment plan, which includes a combination of cuts and costs savings totaling \$800,000, to further cushion against the need to borrow from the budget stabilization reserve. The plan was developed by the City's dedicated team of analysts and reviewed by the Department Heads. It was developed as a comprehensive package of organizational and interrelated efficiencies, as opposed to a drastic and arbitrary approach of "across-the-board" cuts, which may run counter to strategic priorities and goals.

Despite the severe economic downturn, the City has been able to continue to maintain its highest priorities or ensuring public safety, maintaining core infrastructure and preserving critical services to its residents and businesses. The budget includes the necessary resources to carry out the Council's strategic plan, fulfill all debt service obligations, implement all provisions of labor contracts and make the full required contribution to the City's Other Postemployment Benefit Trust.

MANAGEMENT'S DISCUSSION AND ANALYSIS • FINANCIAL SECTION

Revenues were adjusted downward from \$50.9 million to \$50.3 million and expenditures were reduced from \$48.3 million to \$45.8 million. This reduction was a result of law enforcement contract savings (without decreasing level of service) and other reductions created by the Fiscal Realignment Plan. For details of the Fiscal Realignment Plan, please refer to the Staff Report presented to City Council on April 28, 2010.

<http://archive.ci.encinitas.ca.us/WebLink8/DocView.aspx?id=658937&dbid=0>

The contingency reserve was fully funded at 20% of operating expenditures, or \$9.2 million; the Budget Stabilization reserve was funded at 5% of operating revenues (Council target is 2%), or \$2.5 million; and the Project Reserves Contingency, or remaining undesignated fund balance, was \$3.0 million.

The City also developed a budget for the San Dieguito Water District, a component unit of the City. During the Second Year Revised, the District expenditures were reduced from \$16.5 million to \$15.8 million. The reduction was due to lower than anticipated water rate increase at the San Diego County Water Authority (a major supplier of water to the District). The revised expenditures were utilized in a Water Rate Study adopted by the District Board on February 24, 2010. The Study recommends a 13% revenue increase in FY2010-11. It also recommends the utilization of \$1.4 million reserves to reduce the overall revenue increased needed and keep the rates down. This resulted in a reduction in revenue projections from \$17.0 million to \$14.5 million.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money 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.cityofencinitas.org and review the Finance Department section.

BASIC FINANCIAL

STATEMENTS SECTION

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City of Encinitas
505 South Vulcan Avenue • Encinitas CA 92024
760-633-2600 • www.cityofencinitas.org

CITY OF ENCINITAS
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-type Activities	Total
Assets:			
Current assets:			
Cash and investments	\$ 60,116,491	\$ 39,902,104	\$ 100,018,595
Cash and investments with fiscal agents-restricted	627,827	17,890	645,717
Receivables	3,541,684	2,338,737	5,880,421
Other assets	162,858	125,431	288,289
Total current assets	<u>64,448,860</u>	<u>42,384,162</u>	<u>106,833,022</u>
Noncurrent assets:			
Restricted assets:			
Cash and investments with fiscal agent	3,591,796	1,040,564	4,632,360
Internal balances	335,000	(335,000)	-
Long-term receivable	650,907	-	650,907
Investment in other agencies	-	39,548,925	39,548,925
Other assets, net of accumulated amortization	2,664,500	687,067	3,351,567
Capital assets not being depreciated	69,744,768	9,760,165	79,504,933
Capital assets, net of accumulated depreciation	106,593,330	30,266,602	136,859,932
Total noncurrent assets	<u>183,580,301</u>	<u>80,968,323</u>	<u>264,548,624</u>
Total assets	<u>248,029,161</u>	<u>123,352,485</u>	<u>371,381,646</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	5,190,100	777,663	5,967,763
Interest payable	510,542	278,608	789,150
Unearned revenues	1,407,059	-	1,407,059
Due to other governments	710,470	-	710,470
Deposits and other liabilities	1,406,261	326,282	1,732,543
Long-term liabilities - due within one year	4,692,088	1,525,995	6,218,083
Noncurrent liabilities:			
Long-term liabilities - due in more than one year	44,224,346	23,512,992	67,737,338
Total liabilities	<u>58,140,866</u>	<u>26,421,540</u>	<u>84,562,406</u>
Net assets:			
Invested in capital assets, net of related debt	130,912,728	28,623,514	159,536,242
Restricted:			
Capital projects	627,827	-	627,827
Debt service	3,591,796	-	3,591,796
Unrestricted	54,755,944	68,307,431	123,063,375
Total net assets	<u>\$ 189,888,295</u>	<u>\$ 96,930,945</u>	<u>\$ 286,819,240</u>

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See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 12,163,416	\$ 1,962,344	\$ -	\$ -	\$ (10,201,072)	\$ -	\$ (10,201,072)
Public safety	22,269,616	105,799	112,578	166,176	(21,885,063)	-	(21,885,063)
Public works	9,520,416	668	2,907,299	2,955,735	(3,656,714)	-	(3,656,714)
Planning and building	3,549,257	1,521,889	-	-	(2,027,368)	-	(2,027,368)
Engineering services	3,842,284	660,734	-	-	(3,181,550)	-	(3,181,550)
Community services	2,050,357	-	2,372,240	17,637	339,520	-	339,520
Parks and recreation	6,518,623	1,126,285	-	297,754	(5,094,584)	-	(5,094,584)
Interest on long term debt	2,296,422	-	-	-	(2,296,422)	-	(2,296,422)
Total governmental activities	62,210,391	5,377,719	5,392,117	3,437,302	(48,003,253)	-	(48,003,253)
Business-type activities:							
Cardiff Sanitary Division	3,569,880	4,979,238	-	69,801	-	1,479,159	1,479,159
San Dieguito Water District	11,633,694	11,046,650	-	57,420	-	(529,624)	(529,624)
Encinitas Sanitary Division	1,855,279	2,816,963	-	104,141	-	1,065,825	1,065,825
Affordable Housing	256,873	202,499	-	-	-	(54,374)	(54,374)
Total business-type activities	17,315,726	19,045,350	-	231,362	-	1,960,986	1,960,986
Total primary government	\$ 79,526,117	\$ 24,423,069	\$ 5,392,117	\$ 3,668,664	(48,003,253)	1,960,986	(46,042,267)
General revenues:							
Taxes:							
Property taxes and transfer fees					32,285,155	718,212	33,003,367
Transient occupancy taxes					1,179,789	-	1,179,789
Franchise taxes					2,031,924	-	2,031,924
Sales tax					8,780,202	-	8,780,202
Intergovernmental - unrestricted					794,362	-	794,362
Use of money and property					1,085,981	392,152	1,478,133
Other general revenues					2,238,041	228,614	2,466,655
Total general revenues					48,395,454	1,338,978	49,734,432
Change in net assets					392,201	3,299,964	3,692,165
Net assets, Beginning, as restated					189,496,094	93,630,981	283,127,075
Net assets, Ending					\$ 189,888,295	\$ 96,930,945	\$ 286,819,240

See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Balance Sheet
Governmental Funds
June 30, 2010

	<u>General</u>	<u>Capital Improvement Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and investments	\$ 46,257,467	\$ 490,169	\$ 11,555,507	\$ 58,303,143
Receivables	2,721,917	-	819,767	3,541,684
Due from other funds	1,086,249	-	-	1,086,249
Other assets	2,327,632	-	162,858	2,490,490
Advance to other funds	-	-	335,000	335,000
Long-term receivable	650,907	-	-	650,907
Cash and investments with fiscal agent - restricted	627,827	-	3,591,796	4,219,623
	<u>\$ 53,671,999</u>	<u>\$ 490,169</u>	<u>\$ 16,464,928</u>	<u>\$ 70,627,096</u>
Total assets				
	<u>\$ 53,671,999</u>	<u>\$ 490,169</u>	<u>\$ 16,464,928</u>	<u>\$ 70,627,096</u>
Liabilities and fund balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 4,225,759	\$ 490,169	\$ 416,715	\$ 5,132,643
Interest payable	-	-	56,168	56,168
Deferred revenue	348,965	-	1,058,094	1,407,059
Due to other governments	710,470	-	-	710,470
Due to other funds	-	-	1,086,249	1,086,249
Deposits and other liabilities	1,397,511	-	8,750	1,406,261
	<u>6,682,705</u>	<u>490,169</u>	<u>2,625,976</u>	<u>9,798,850</u>
Total liabilities				
	<u>6,682,705</u>	<u>490,169</u>	<u>2,625,976</u>	<u>9,798,850</u>
Fund balances:				
Reserved	4,286,026	-	3,408,409	7,694,435
Unreserved, designated reported in:				
General fund	36,913,369	-	-	36,913,369
Special revenue funds	-	-	10,430,543	10,430,543
Unreserved, undesignated	5,789,899	-	-	5,789,899
	<u>46,989,294</u>	<u>-</u>	<u>13,838,952</u>	<u>60,828,246</u>
Total fund balances				
	<u>\$ 53,671,999</u>	<u>\$ 490,169</u>	<u>\$ 16,464,928</u>	<u>\$ 70,627,096</u>
Total liabilities and fund balances				
	<u>\$ 53,671,999</u>	<u>\$ 490,169</u>	<u>\$ 16,464,928</u>	<u>\$ 70,627,096</u>

See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2010

Fund balances - total governmental funds \$ 60,828,246

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund balance sheet, but are reported in the governmental activities of the Statement of Net Assets:

Land	\$ 58,870,960	
Construction in progress	10,873,808	
Public facilities	45,352,234	
Parkland - improvements	12,073,620	
Fire equipment	391,716	
Equipment and machinery	1,483,518	
Office furniture	587,626	
Infrastructure	92,376,754	
Less: Accumulated depreciation	<u>(47,673,307)</u>	174,336,929

Internal Service funds are used by management to charge the costs of personnel support, fleet maintenance and vehicle replacement to individual funds. The assets and liabilities of the internal service funds are not included in the fund financial statements, but are included in governmental activities in the Statement of Net Assets.

3,757,060

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term are reported in the Statement of Net Assets:

2004 Fire apparatus lease	\$ (56,158)	
2006 Fire apparatus lease	(106,235)	
2007 Vac-Con lease	(141,250)	
2008 Energy conservation lease	(1,881,924)	
1997 Refunding COPs - Series A	(3,565,000)	
2001 Lease revenue bonds	(19,040,000)	
2002 ABAG financing	(2,625,000)	
2006 Lease Revenue Bonds, net of amortized discount	(18,935,000)	
Claims payable	(679,660)	
Compensated absences	<u>(1,886,207)</u>	(48,916,434)

Bond issuance costs applicable to newly issued debt are current period expenditures, but are capitalized on the Statement of Net Assets, net of current period amortization.

336,868

Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.

(454,374)

Net assets of governmental activities \$ 189,888,295

See Accompanying Notes to Financial Statements.

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CITY OF ENCINITAS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	<u>General</u>	<u>Capital Improvement Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes and assessments	\$ 44,586,411	\$ -	\$ 2,218,808	\$ 46,805,219
Licenses and permits	212,736	-	-	212,736
Intergovernmental	567,405	39,186	6,310,930	6,917,521
Development impact fees	-	-	798,863	798,863
Charges for services	5,164,315	-	-	5,164,315
Fines, forfeitures, and penalties	761,202	-	-	761,202
Use of money and property	945,056	-	140,925	1,085,981
Other	1,413,138	59,516	391,238	1,863,892
	<u>53,650,263</u>	<u>98,702</u>	<u>9,860,764</u>	<u>63,609,729</u>
Total revenues				
Expenditures:				
Current:				
General government	10,437,750	1,323,487	129,326	11,890,563
Public safety	21,858,528	-	190,711	22,049,239
Public works	2,492,736	-	3,395,425	5,888,161
Planning and building	3,549,257	-	-	3,549,257
Engineering services	3,842,284	-	-	3,842,284
Community services	-	-	2,050,357	2,050,357
Parks and recreation	5,482,578	-	-	5,482,578
Capital outlay	-	5,606,327	-	5,606,327
Debt service:				
Principal	-	-	2,091,882	2,091,882
Interest and fiscal charges	-	-	2,332,574	2,332,574
	<u>47,663,133</u>	<u>6,929,814</u>	<u>10,190,275</u>	<u>64,783,222</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>5,987,130</u>	<u>(6,831,112)</u>	<u>(329,511)</u>	<u>(1,173,493)</u>
Other financing sources (uses):				
Transfers in	183,813	6,831,112	4,051,195	11,066,120
Transfers out	(6,716,933)	-	(4,349,187)	(11,066,120)
	<u>(6,533,120)</u>	<u>6,831,112</u>	<u>(297,992)</u>	<u>-</u>
Total other financing sources (uses)				
Net change in fund balances	(545,990)	-	(627,503)	(1,173,493)
Fund balances - Beginning of year	47,535,284	-	14,466,455	62,001,739
Fund balances - End of year	<u>\$ 46,989,294</u>	<u>\$ -</u>	<u>\$ 13,838,952</u>	<u>\$ 60,828,246</u>

See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010

Net change in fund balances - total governmental funds \$ (1,173,493)

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 are allocated over their estimated useful lives as depreciation expense. The amount by which capital outlay exceeded depreciation in the current period:

Capital outlay	\$	4,840,328	
Loss on disposal of assets		(24,890)	
Depreciation expense		<u>(4,782,362)</u>	33,076

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The issuance of long-term debt provides current financial resources to governmental funds while the repayment of the principal of long term debt consumes the current financial resources of governmental funds, neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

These differences are as follows:

Principal payments	\$	2,091,882	
Amortization of bond discounts and issuance costs		<u>(17,712)</u>	2,074,170

Internal service funds are used by management to charge the costs of engineering, administrative and operational support to individual funds. The net expense of internal service funds is reported with governmental activities.

(122,172)

Grants receivable and sales tax "triple flip" receivables, which were recognized in the prior year, therefore are excluded from statement of activities.

(1,007,137)

Some expenses reported on the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Net change in accrued interest	\$	53,864	
Net change in compensated absences		5,625	
Net change in claims payable		<u>528,268</u>	<u>587,757</u>

Change in net assets of governmental activities	\$	<u>392,201</u>	
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See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Business-type Activities Enterprise Funds	
	Cardiff Sanitary Division	San Dieguito Water District
Assets:		
Current assets:		
Cash and investments	\$ 17,778,447	\$ 12,475,308
Cash with fiscal agent	-	-
Accounts and taxes receivable	282,470	1,870,137
Interest receivable	36,446	25,574
Inventory	-	125,431
Total current assets	<u>18,097,363</u>	<u>14,496,450</u>
Noncurrent assets:		
Restricted assets:		
Cash and investments with fiscal agent	-	1,040,564
Total restricted assets	<u>-</u>	<u>1,040,564</u>
Other noncurrent assets:		
Prepaid pension asset, net of accumulated amortization of \$294,456	-	687,067
Investment in other agencies	<u>17,169,523</u>	<u>18,858,986</u>
Total other noncurrent assets	<u>17,169,523</u>	<u>19,546,053</u>
Capital assets:		
Land	8,575	-
Land easements	1,311,168	2,713,834
Public Works facility right of use	-	3,378,700
Construction in progress	1,128,970	660,996
Capacity rights, net of accumulated amortization	-	230,004
Utility, plant and equipment, net of accumulated depreciation	<u>3,919,172</u>	<u>12,176,969</u>
Total capital assets (net of accumulated depreciation)	<u>6,367,885</u>	<u>19,160,503</u>
Total noncurrent assets	<u>23,537,408</u>	<u>39,747,120</u>
Total assets	<u>41,634,771</u>	<u>54,243,570</u>

	Business-type Activities Enterprise Funds		Governmental Activities Internal Service Funds
	Encinitas Sanitary Division	Nonmajor Affordable Housing	Total Enterprise Funds
\$ 9,310,157	\$ 338,192	\$ 39,902,104	\$ 1,813,348
-	17,890	17,890	-
101,524	2,807	2,256,938	-
19,086	693	81,799	-
-	-	125,431	-
<u>9,430,767</u>	<u>359,582</u>	<u>42,384,162</u>	<u>1,813,348</u>
-	-	1,040,564	-
-	-	1,040,564	-
-	-	687,067	-
<u>3,520,416</u>	<u>-</u>	<u>39,548,925</u>	<u>-</u>
<u>3,520,416</u>	<u>-</u>	<u>40,235,992</u>	<u>-</u>
-	-	8,575	-
451,070	-	4,476,072	-
-	-	3,378,700	-
106,852	-	1,896,818	-
-	-	230,004	-
<u>10,530,550</u>	<u>3,409,907</u>	<u>30,036,598</u>	<u>2,001,169</u>
<u>11,088,472</u>	<u>3,409,907</u>	<u>40,026,767</u>	<u>2,001,169</u>
<u>14,608,888</u>	<u>3,409,907</u>	<u>81,303,323</u>	<u>2,001,169</u>
<u>24,039,655</u>	<u>3,769,489</u>	<u>123,687,485</u>	<u>3,814,517</u>

(Continued)

CITY OF ENCINITAS
Statement of Net Assets
Proprietary Funds (Continued)
June 30, 2010

	Business-type Activities Enterprise Funds	
	Cardiff Sanitary Division	San Dieguito Water District
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	2,689	633,453
Accrued interest payable	91,267	187,341
Deposits	-	309,392
Current portion of long-term debt	470,000	1,010,170
Current portion of advances from other funds	-	85,000
	<u>563,956</u>	<u>2,225,356</u>
Total current liabilities		
	<u>563,956</u>	<u>2,225,356</u>
Noncurrent liabilities:		
Revenue bonds payable	-	9,960,000
Notes and mortgages payable	5,300,000	6,660,000
Advances from other funds	-	185,000
	<u>5,300,000</u>	<u>16,805,000</u>
Total noncurrent liabilities		
	<u>5,300,000</u>	<u>16,805,000</u>
Total liabilities		
	<u>5,863,956</u>	<u>19,030,356</u>
Net assets:		
Invested in capital assets, net of related debt	6,367,885	9,396,067
Unrestricted	29,402,930	25,817,147
Total net assets	<u>\$ 35,770,815</u>	<u>\$ 35,213,214</u>

	Business-type Activities Enterprise Funds		Governmental Activities Internal Service Funds
	Encinitas Sanitary Division	Nonmajor Affordable Housing	Total Enterprise Funds
	141,200	321	777,663
	-	-	278,608
	-	16,890	326,282
	-	45,825	1,525,995
	<u>65,000</u>	<u>-</u>	<u>150,000</u>
	<u>206,200</u>	<u>63,036</u>	<u>3,058,548</u>
	-	-	9,960,000
	-	1,592,992	13,552,992
	<u>-</u>	<u>-</u>	<u>185,000</u>
	<u>-</u>	<u>1,592,992</u>	<u>23,697,992</u>
	<u>206,200</u>	<u>1,656,028</u>	<u>26,756,540</u>
	11,088,472	1,771,090	28,623,514
	12,744,983	342,371	68,307,431
	<u>\$ 23,833,455</u>	<u>\$ 2,113,461</u>	<u>\$ 96,930,945</u>
			<u>\$ 3,757,060</u>

See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Business-type Activities Enterprise Funds	
	Cardiff Sanitary Division	San Diegouito Water District
Operating revenues:		
Charges for services	\$ 4,979,238	\$ 11,046,650
Rental income	-	-
Internal support services	-	-
Other revenues	-	163,614
Total operating revenues	<u>4,979,238</u>	<u>11,210,264</u>
Operating expenses:		
Source of supply	-	3,229,055
General operations and maintenance	804,867	3,101,687
Facility operations and maintenance	1,209,308	1,941,893
Depreciation 172,782	-	497,572
Amortization 739,244	-	716,068
Administrative support	-	-
Operational support services	-	-
General and administrative	357,879	1,398,368
Lease payments	-	-
Total operating expenses	<u>3,284,080</u>	<u>10,884,643</u>
Operating income (loss)	<u>1,695,158</u>	<u>325,621</u>
Nonoperating revenues (expenses):		
Use of money and property	162,601	160,612
Property taxes	-	718,212
Gain on sale of capital assets	-	653
Interest expense on revenue bonds	-	(469,269)
Interest expense on notes payable	(285,800)	(265,157)
Interest expense on advances from other funds	-	(10,800)
Other nonoperating expenses	-	(4,478)
Total nonoperating revenues (expenses), net	<u>(123,199)</u>	<u>129,773</u>
Income (loss) before capital contributions	<u>1,571,959</u>	<u>455,394</u>
Capital contributions	<u>69,801</u>	<u>57,420</u>
Change in net assets	<u>1,641,760</u>	<u>512,814</u>
Total net assets - Beginning of year, as restated	<u>34,129,055</u>	<u>34,700,400</u>
Total net assets - End of year	<u>\$ 35,770,815</u>	<u>\$ 35,213,214</u>

See Accompanying Notes to Financial Statements.

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Encinitas Sanitary Division	Nonmajor Affordable Housing	Total Enterprise Funds	
	\$ 2,816,963	\$ -	\$ 18,842,851	\$ -
	-	202,499	202,499	-
	-	-	-	1,521,612
	<u>65,000</u>	<u>-</u>	<u>228,614</u>	<u>-</u>
	<u>2,881,963</u>	<u>202,499</u>	<u>19,273,964</u>	<u>1,521,612</u>
	-	-	3,229,055	-
	277,130	93,934	4,277,618	-
	785,119	-	3,936,320	-
	288,642	100,538	1,059,534	382,350
	229,757	-	1,685,069	-
	-	-	-	102,654
	-	-	-	1,182,708
	273,833	-	2,030,080	-
	-	62,401	62,401	-
	<u>1,854,481</u>	<u>256,873</u>	<u>16,280,077</u>	<u>1,667,712</u>
	<u>1,027,482</u>	<u>(54,374)</u>	<u>2,993,887</u>	<u>(146,100)</u>
	66,249	2,690	392,152	-
	-	-	718,212	-
	-	-	653	23,928
	-	-	(469,269)	-
	-	-	(550,957)	-
	(798)	-	(11,598)	-
	<u>-</u>	<u>-</u>	<u>(4,478)</u>	<u>-</u>
	<u>65,451</u>	<u>2,690</u>	<u>74,715</u>	<u>23,928</u>
	1,092,933	(51,684)	3,068,602	(122,172)
	104,141	-	231,362	-
	<u>1,197,074</u>	<u>(51,684)</u>	<u>3,299,964</u>	<u>(122,172)</u>
	<u>22,636,381</u>	<u>2,165,145</u>	<u>93,630,981</u>	<u>3,879,232</u>
	<u>\$ 23,833,455</u>	<u>\$ 2,113,461</u>	<u>\$ 96,930,945</u>	<u>\$ 3,757,060</u>

CITY OF ENCINITAS
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	Business-type Activities Enterprise Funds	
	Cardiff Sanitary Division	San Dieguito Water District
Cash flows from operating activities:		
Receipts from users	\$ 4,936,526	\$ 10,971,507
Payments to employees	-	(2,475,814)
Payments to suppliers and vendors	(2,371,708)	(7,141,105)
Net cash provided by operating activities	<u>2,564,818</u>	<u>1,354,588</u>
Cash flows from noncapital and related financing activities:		
Proceeds from property taxes	-	722,123
Net cash provided by noncapital and related financing activities	<u>-</u>	<u>722,123</u>
Cash flows from capital and related financing activities:		
Capital contributions received	69,801	57,420
Proceeds from sale of capital assets	-	-
Repayment of advances from the City	-	(85,000)
Interest payments on advance from the City	-	(10,800)
Principal payments on bonds and notes payable	(450,000)	(895,000)
Interest payments on bonds and notes payable and trustee fees	(291,800)	(760,141)
Capital related payments to other agencies	(323,811)	(244,050)
Purchase of capital assets	(554,485)	(134,506)
Net cash (used) by capital and related financing activities	<u>(1,550,295)</u>	<u>(2,072,077)</u>
Cash flows from investing activities:		
Investment income received	<u>197,275</u>	<u>187,733</u>
Net cash provided by investing activities	<u>197,275</u>	<u>187,733</u>
Net increase (decrease) in cash and cash equivalents	1,211,798	192,367
Cash and cash equivalents, Beginning of year	<u>16,566,649</u>	<u>13,323,505</u>
Cash and cash equivalents, End of year	<u>\$ 17,778,447</u>	<u>\$ 13,515,872</u>

See Accompanying Notes to Financial Statements.

	Business-type Activities Enterprise Funds		Governmental Activities
	Encinitas Sanitary Division	Nonmajor Affordable Housing	Total Enterprise Funds Internal Service Funds
\$ 2,884,825	\$ 202,246	\$ 18,995,104	\$ 1,530,417
-	-	(2,475,814)	-
(1,345,040)	(156,214)	(11,014,067)	(1,540,359)
<u>1,539,785</u>	<u>46,032</u>	<u>5,505,223</u>	<u>(9,942)</u>
-	-	722,123	-
-	-	722,123	-
104,141	-	231,362	-
-	-	-	23,928
(65,000)	-	(150,000)	-
(798)	-	(11,598)	-
-	-	(1,345,000)	-
-	-	(1,051,941)	-
(159,594)	-	(727,455)	-
(106,853)	-	(795,844)	(308,234)
<u>(228,104)</u>	<u>-</u>	<u>(3,850,476)</u>	<u>(284,306)</u>
<u>81,152</u>	<u>3,446</u>	<u>469,606</u>	<u>-</u>
<u>81,152</u>	<u>3,446</u>	<u>469,606</u>	<u>-</u>
1,392,833	49,478	2,846,476	(294,248)
<u>7,917,324</u>	<u>349,321</u>	<u>38,156,799</u>	<u>2,107,596</u>
<u>\$ 9,310,157</u>	<u>\$ 398,799</u>	<u>\$ 41,003,275</u>	<u>\$ 1,813,348</u>

CITY OF ENCINITAS
Statement of Cash Flows
Proprietary Funds (Continued)
For the Year Ended June 30, 2010

	Business-type Activities	
	Enterprise Funds	
	Cardiff Sanitary Division	San Dieguito Water District
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 1,695,158	\$ 325,621
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	912,026	1,213,640
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(42,712)	(40,386)
Decrease in inventory	-	16,173
Increase (decrease) in accounts payable and accrued liabilities	346	58,646
Increase (decrease) in deposits	-	(198,371)
(Decrease) in compensated absences	-	(20,735)
Net cash provided by operating activities	<u>\$ 2,564,818</u>	<u>\$ 1,354,588</u>
Schedule of cash and cash equivalents:		
Current assets:		
Cash and investments	\$ 17,778,447	\$ 12,475,308
Cash with fiscal agent	-	-
Noncurrent restricted assets:		
Cash and investments with fiscal agent	<u>-</u>	<u>1,040,564</u>
Total cash and cash equivalents	<u>\$ 17,778,447</u>	<u>\$ 13,515,872</u>

	Business-type Activities			Governmental
	Enterprise Funds			Activities
	Encinitas Sanitary Division	Nonmajor Affordable Housing	Total Enterprise Funds	Internal Service Funds
	\$ 1,027,482	\$ (54,374)	\$ 2,993,887	\$ (146,100)
	518,399	100,538	2,744,603	382,350
	2,862	(2,807)	(83,043)	8,805
	-	-	16,173	-
	(8,958)	121	50,155	(254,997)
	-	2,554	(195,817)	-
	-	-	(20,735)	-
	<u>\$ 1,539,785</u>	<u>\$ 46,032</u>	<u>\$ 5,505,223</u>	<u>\$ (9,942)</u>
	\$ 9,310,157	\$ 338,192	\$ 39,902,104	\$ 1,813,348
	-	17,890	17,890	-
	<u>-</u>	<u>-</u>	<u>1,040,564</u>	<u>-</u>
	<u>\$ 9,310,157</u>	<u>\$ 356,082</u>	<u>\$ 40,960,558</u>	<u>\$ 1,813,348</u>

See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2010

Assets:

Current assets:

Cash and investments	\$ 2,544,387
Interest receivable	4,913
Current assessments receivable	<u>5,604</u>

Total current assets	<u>2,554,904</u>
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Noncurrent assets:

Restricted assets:

Cash and investments with fiscal agent	2,794,406
Special assessments receivable	<u>38,275,000</u>

Total noncurrent assets	<u>41,069,406</u>
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Total assets	<u>\$ 43,624,310</u>
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Liabilities:

Due to bondholders	<u>\$ 43,624,310</u>
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See Accompanying Notes to Financial Statements.

CITY OF ENCINITAS
Notes to Financial Statements
June 30, 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) 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, the Encinitas Housing Authority (EHA), the Encinitas Public Financing Authority (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 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, or because the component unit will 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 Financial Statements (Continued)
June 30, 2010

(b) Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the *statement of net assets* and the *statement of activities*) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements and eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The *statement of net assets* includes all assets and liabilities of the primary government, including capital assets, long-term debt, and other long-term liabilities. The *statement of activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation:

"Measurement Focus" is a term used to describe *which* transactions are recorded within the various financial statements. "Basis of Accounting" refers to *when* transactions are recorded regardless of the measurement focus applied.

The *government-wide 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, transient occupancy taxes, franchise taxes, sales tax, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 measurement of results of operations. These funds are accounted for on the accrual basis of accounting.

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, as well as self-insurance, recreation programs, and other administrative functions.

The **Capital Improvement Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major property, equipment, or facilities (other than those financed by proprietary funds), as well as a variety of "work projects," generally large consultant studies.

The City reports the following nonmajor governmental fund types:

The **Special Revenue Funds** are used to account for proceeds of specific revenue sources that are legally restricted or otherwise designated for specific purposes. The **Debt Service Fund** is used to account for the accumulation of resources for and the payment of principal and interest on long term debt.

The City reports the following major proprietary funds:

The **Cardiff Sanitary Division (CSD)** provides wastewater collection and treatment services to approximately 6,000 customers in the southern portion of the City.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

The **San Dieguito Water District (SDWD)** provides potable and reclaimed water and services to approximately 11,000 customers in Encinitas. The Olivenhain Municipal Water District, a separate legal entity not under the oversight of the City, serves the remaining portions of Encinitas.

The **Encinitas Sanitary Division (ESD)** provides wastewater collection and treatment services to approximately 5,000 customers in the northern portion of the City. The Leucadia Wastewater District (LLWD) provides wastewater collection and treatment services to the balance of Encinitas' residents and businesses. LLWD is an independent reporting entity and does not appear in the City's basic financial statements.

The City reports the following nonmajor proprietary funds:

The **Affordable Housing Fund** is utilized to account for the ownership and operation of 16 affordable housing units that are rented to qualified low-income households by the EHA. In addition to the rental income collected, the fund is also supported by rental voucher payments from the U.S. Department of Housing and Urban Development (HUD).

The **Internal Service Funds** are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. These funds include Wastewater Support, Vehicle Maintenance and Vehicle Replacement.

The City reports the following fiduciary funds:

The **Agency Funds** are used to account for money and property held by the City as trustee or custodian. The Agency Funds are custodial in nature (assets equal liabilities). These funds include one Assessment District and one Community Facilities (Mello-Roos) District.

Application of accounting principles:

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the government-wide and proprietary fund financial statements, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the committee on Accounting Procedure. The City has elected not to follow subsequent private-sector guidance for its business-type activities and enterprise funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Amounts reported as program revenues include: (1) fees and charges to customers, applicants, and citizens; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments for capital purposes. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Program revenues and expenses are classified by function. Each function is defined as a major department with a department head and separate budget.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the funds. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

(d) Assets, Liabilities and Net Assets or Fund Balances:

Cash, Cash Equivalents and Investments:

Investments are stated at fair value. All investment income is reported as revenue in the operating statement. The City's Enterprise and Internal Service Funds participate in the pooling of City-wide cash and investments. As amounts are available to these funds on demand, all cash and investments in these funds are considered to be cash and cash equivalents for statement of cash flow purposes.

Investment in Other Agencies:

Investment in San Elijo Joint Powers Authority (San Elijo) by CSD - The investment in San Elijo is accounted for using the equity method of accounting. CSD makes periodic contributions to cover its share of capital and operating costs. Contributions for capital are accounted for as an increase in the investment account. Contributions for operations are accounted for as operating expenses under the classification: *facility operations and maintenance*. Amortization expense on Plant operations that is charged to CSD is accounted for as an operating expense under the classification: *amortization expense*.

Investment in R.E. Badger Water Facilities Financing Authority (the "Financing Authority")

SDWD's investment in the Financing Authority is accounted for using the equity method of accounting. The equity interest is comprised primarily of bond reserve funds held by a fiscal agent and unamortized bond discounts and issuance costs. Changes in the investment account result primarily from interest revenues on reserve funds and amortization expense on the bond discounts and issuance costs. These items are classified as nonoperating revenues and expenses in the accompanying *statement of revenues, expenses and changes in net assets*.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Investment in R.E. Badger Filtration Plant (the “Joint Facilities”)

SDWD’s investment in the Joint Facilities is accounted for using the equity method of accounting. SDWD makes periodic contributions to cover its share of capital and operating costs. Contributions for capital are accounted for as an increase in the investment account. Contributions for operations are accounted for as operating expenses under the classification *facility operations and maintenance*. Amortization expense on Plant operations that is charged to SDWD is accounted for as an operating expense under the classification *amortization expense*.

Investment in Encina Water Pollution Control Facility (Encina) by ESD - The investment in Encina is accounted for using the equity method of accounting. ESD makes periodic contributions to cover its share of capital and operating costs. Contributions for capital are accounted for as an increase in the investment account. Contributions for operations are accounted for as operating expenses under the classification *facility operations and maintenance*. Amortization expense on Plant operations that is charged to ESD is accounted for as an operating expense under the classification *amortization expense*.

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 all amounts are considered to be collectible in the normal course of business.

Other Assets:

Other current assets include inventories, which are stated at cost, which is not in excess of fair value. Inventory applies only to SDWD, and includes such items as water meters and other materials used in the repair of capital facilities. Cost has been determined on an average-cost basis.

Capital Assets and Depreciation Expense:

Capital assets are recorded as expenditures of the various governmental funds at the time of purchase and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets include land, land easements, construction in progress, buildings, building improvements, furniture and equipment, vehicles, and infrastructure assets (e.g., roads, streets and sidewalks, bridges, curbs and gutters, drainage systems, lighting systems and similar assets). All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Proprietary fund capital assets include land, land easements, construction in progress, structures and improvements, collection and distribution systems, and equipment, 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. Cost includes materials, direct labor, and such

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

indirect items as engineering and supervision, employee fringe benefits and interest during construction on borrowed funds related to plant under construction.

Depreciation is provided using the straight-line method over the estimated useful service lives of the related assets:

Structures and improvements	20 - 45 years
Equipment, machinery and vehicles	5 - 20 years
Infrastructure	20 - 50 years

The City’s capitalization threshold for capital assets is \$5,000 for non-infrastructure assets and \$100,000 for infrastructure assets.

Current Liabilities:

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 are incurred by the City on these projects, 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 to guarantee required performance by an applicant. 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 at the balance sheet date is reported as a *Current liability* in the *statement of net assets*. Non-cash securities are not reported as liabilities, as the corresponding surety is not an asset of the City as of the *statement of net assets/balance sheet* date.

Unearned and Deferred Revenues - Unearned revenues generally consist of amounts collected from customers prior to June 30, 2010 for recreation programs that begin in fiscal year 2011, and unearned revenues can also result from donations or cash collected from other agencies for capital or work projects, for which the related expenditures have not yet been incurred.

Deferred revenues generally consist of federal and state grants for which monies have been received but the related expenditures have not yet occurred or where expenditures have been incurred but reimbursement for those expenditures did not occur within the defined availability period of 60 days, and are deferred in the governmental fund statements.

Long Term Obligations:

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount.

Long-term lease obligations that meet all applicable criteria are accounted for as capital leases. Leases not meeting the criteria are accounted for as operating leases.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

In governmental funds, compensated absences (accrued vacation and sick leave for firefighters) are recorded as expenditures in the year paid or when due and payable at year-end and are charged to general government and public safety, respectively. Unpaid liabilities are recorded in the *statement of net assets*. Unpaid compensated absences of proprietary funds are recorded as a liability in those funds as the vested benefits to the employees accrue.

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. At June 30, 2010, in the opinion of the City Attorney and other outside attorneys, the City had no material claims other than what has been accrued in the government-wide financial statements.

Classification of Net Assets:

On the *statement of net assets*, net assets are classified into three components which are defined as follows:

- **Invested in capital assets, net of related debt** - This component of net assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent debt proceeds at year-end, those amounts are included in the calculation of net capital assets.
- **Restricted assets** - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Fund Balances:

The City maintains a policy of reserving fund balances to segregate fund balances which are not appropriate for expenditures in future periods, or which are legally set aside for a specific future use. The governmental funds also set up designations of fund balances to indicate tentative plans for financial resource utilization in a future period.

Property Taxes:

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. The City considers only the taxes which are received within 60 days after year-end to be revenue in the governmental funds.

The County of San Diego's property tax calendar is as follows:

Lien date	January 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates (delinquent after)	December 10 and April 10

(2) BUDGETARY INFORMATION:

(a) Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information and other supplementary combining budgetary comparison schedules:

The City Council adopts a two-year operating budget, with appropriations for the first year only. This annual budget provides for the general operations of the City. It includes all proposed expenditures and inter-fund transfers, and the means of financing them. The Council also approves any amendments to appropriations throughout the year, generally at the mid-year budget review in February. This "appropriated budget" covers substantially all City expenditures, with the exception of capital improvement projects, which expenditures constitute a legally authorized "non-appropriated budget". The legal level of budgetary control is the fund level. The budget figures used in the required supplementary information are both original and final budgeted amounts. The final budget amounts include any amendments adopted during the year.

Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations, which are unencumbered at year-end lapse. City Council approval is required to include any unencumbered appropriations at year-end in the following fiscal year's budget as continuing appropriations.

Budgets for the general and special revenue funds are adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America. Accordingly,

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

actual revenue and expenditures can be compared with related budgeted amounts without any significant reconciling items. No budgetary comparisons are presented for the debt service, capital projects or proprietary funds, as the City is not legally required to adopt an annual budget for those types of funds.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must be either refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. Further, Section 5 of Article XIII B allows the City to designate a portion of fund balance for general contingencies to be used in future years without limitation.

(3) CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2010, are classified in the accompanying financial statements as follows:

	Government- wide Statement of Net Assets	Statement of Fiduciary Assets and Liabilities	Total
Current assets:			
Cash and investments	\$ 100,018,595	\$ 2,544,387	\$ 102,562,982
Cash and investments with fiscal agents	645,717	-	645,717
Noncurrent Assets:			
Restricted assets:			
Cash and investments with fiscal agents	4,632,360	2,794,406	7,426,766
Total Cash and Investments	<u>\$ 105,296,672</u>	<u>\$ 5,338,793</u>	<u>\$ 110,635,465</u>

Cash and investments at June 30, 2010, consisted of the following:

Cash on hand	\$ 3,425
Deposits with financial institutions - Book Balance	(378,054)
Investments	<u>111,010,094</u>
Total Cash and Investments	<u>\$ 110,635,465</u>

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Investments Authorized by the California Government Code and the City's Adopted Investment Policy:

The table below identifies the allowable investment types authorized by the California Government Code (the "Gov't Code") and the City's adopted Investment Policy (the "Investment Policy"). The table also identifies certain restrictions related to interest rate risk, and concentration of credit risk. The Investment Policy restricts the Treasurer to investing in only the types of investments listed herein, which is more restrictive than the Gov't Code.

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	No Limit	No Limit
Local Agency Inv. Fund (LAIF)	Yes	N/A	No Limit	No Limit
Local Agency Bonds	No	5 years	None	None
Other Governmental Managed Inv. Pools	Yes	N/A	No Limit	No Limit
Money Market Mutual Funds	Yes	N/A	20%	10%
Certificates of Deposit	Yes	5 years	No Limit	No Limit
Negotiable Certificates of Deposit	Yes	5 years	30%	No Limit
Bankers' Acceptances	Yes	180 days	40%	30%
U.S. Treasury Bills, Notes and Bonds	Yes	5 years	No Limit	No Limit
U.S. Gov't Sponsored Enterprises	Yes	5 years	No Limit	No Limit
Commercial Paper	Yes	270 days	25%	10%
Commercial Medium-Term Notes	Yes	5 years	30%	No Limit

Investments Authorized by Debt Agreements:

The investment of the proceeds of debt issues, which are 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 table below identifies the investment types that are authorized and currently utilized by the City. The table also identifies certain restrictions related to interest rate risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage or Amount of Portfolio	Maximum Investment in One Issuer
Guaranteed Investment Contracts	N/A	No Limit	No Limit
Money Market Mutual Funds	N/A	No Limit	No Limit

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

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 of its fair value 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 following table that shows the distribution by maturity.

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13-24 Months	25-60 Months	More Than 60 Months
Investments:					
Local Agency Investment Fund	\$ 30,540,593	\$ 30,540,593	\$ -	\$ -	\$ -
California Asset Management Program	9,977,982	9,977,982	-	-	-
Money Market Mutual Funds	3,909,556	3,909,556	-	-	-
U.S. Treasury Bills	19,997,300	19,997,300	-	-	-
U.S. Government Sponsored Enterprise Securities	38,512,180	2,098,120	10,201,580	26,212,480	-
Total Investments	102,937,611	66,523,551	10,201,580	26,212,480	-
Investments with Fiscal Agents:					
Guaranteed Investment Contracts	619,500	-	-	-	619,500
Money Market Mutual Funds	7,452,983	7,452,983	-	-	-
Total Investments with Fiscal Agents	8,072,483	7,452,983	-	-	619,500
Total	<u>\$ 111,010,094</u>	<u>\$ 73,976,534</u>	<u>\$ 10,201,580</u>	<u>\$ 26,212,480</u>	<u>\$ 619,500</u>

The City does not have any investments as of June 30, 2010, whose fair values are highly sensitive to interest rate fluctuations.

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 Policy, or the debt agreements, and the actual rating as of year-end for each investment type.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Investment Type	Totals	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End	
				AAA/ Aaa	Not Rated
Investments:					
Local Agency Investment Fund	\$ 30,540,593	N/A	\$ -	\$ -	\$ 30,540,593
California Asset Management Program	9,977,982	N/A	-	9,977,982	-
Money Market Mutual Funds	3,909,556	N/A	-	-	3,909,556
U.S. Treasury Bills	19,997,300	N/A	19,997,300	-	-
U.S. Government Sponsored Enterprise Securities	38,512,180	N/A	-	38,512,180	-
Total-Investments	<u>102,937,611</u>		<u>19,997,300</u>	<u>48,490,162</u>	<u>34,450,149</u>
Trustee Investments:					
Guaranteed Investment Contracts	619,500	N/A	-	-	619,500
Money Market Mutual Funds	7,452,983	N/A	-	7,452,983	-
Total-Trustee Investments	<u>8,072,483</u>		<u>-</u>	<u>7,452,983</u>	<u>619,500</u>
Grand Totals	<u>\$ 111,010,094</u>		<u>\$ 19,997,300</u>	<u>\$ 55,943,145</u>	<u>\$ 35,069,649</u>

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. Governmental Accounting Standards Board (GASB) Statement 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 represent 5% of more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Government Sponsored Enterprise Securities	\$ 10,153,140
Federal National Mortgage Association (FNMA)	U.S. Government Sponsored Enterprise Securities	12,166,240
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Enterprise Securities	8,060,900
Federal Farm Credit	U.S. Government Sponsored Enterprise Securities	8,131,900

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Disclosures Relating to Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Gov't 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 provisions for deposits: The Gov't 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. At June 30, 2010, the City deposits (bank balances) were insured by the Federal Depository Insurance Corporation up to \$250,000 and the remaining balance of the deposits were collateralized under California Law.

Disclosures Related to the State Local Agency Investment Fund (LAIF):

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

The total amount invested by all public agencies in LAIF as of June 30, 2010 was \$23.3 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2010 had a balance of \$69.4 billion, of that amount, 5.42% was invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments was 203 days as of June 30, 2010.

(4) INVESTMENT IN OTHER AGENCIES:

Investment in other agencies is accounted for as *Other noncurrent assets* in the *statement of net assets*, and consists of the following amounts at June 30, 2010:

City Agency	Investment In	Amount
Cardiff Sanitary Division	San Elijo Joint Powers Authority	\$ 17,169,523
San Dieguito Water District	R.E. Badger Filtration Plant	17,985,094
San Dieguito Water District	R.E. Badger Financing Authority	873,892
Encinitas Sanitary Division	Encina Wastewater Authority	3,520,416
		<u>\$ 39,548,925</u>

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Cardiff Sanitary Division – Investment in San Elijo Joint Powers Authority:

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 "Facilities"). In 1987, CSD and Solana Beach agreed to establish *San Elijo Joint Powers Authority (San Elijo)*, a separate legal entity whose function it is to manage and operate the 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 *San Elijo*. The Ocean outfall is jointly owned by *San Elijo* (21% interest) and the City of Escondido (79% interest.)

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, 2010, CSD's share of operations and maintenance costs (net of charges to outside agencies) was \$1,209,308.

San Dieguito Water District - Investment in R.E. Badger Filtration Plant and related Facilities (the "Joint Facilities"):

In 1967, San Dieguito Water District (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:

San Dieguito Water District	Santa Fe	Facilities
45%	55%	Filtration Plant
31%	69%	Filtered Water Reservoir
39%	61%	Joint Pipeline
42%	58%	San Dieguito 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, 2010, SDWD's share of operations and maintenance costs was \$1,941,893.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

San Dieguito Water District - Investment in R.E. Badger Water Facilities Financing Authority (the "Financing Authority"):

In 1999, the 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. The 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 the SDWD's share of the debt reserve funds held by a fiscal agent and unamortized bond discounts and issuance costs.

Refer to Note 7 for more information on the Financing Authority.

Encinitas Sanitary Division - Investment in Encina Water Pollution Control Facility:

ESD is one of six participants in the operations of the Encina Water Pollution Control Facility (the "Facility"), which is administered by the Encina Wastewater Authority (Encina). ESD owns approximately 5% of the Facility, affording it capacity rights of 2.0 million gallons/day, which is in excess of current needs and sufficient to meet all projected future needs.

Encina is responsible for the operations and maintenance of the Facility, 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 through the Facility. For the year ended June 30, 2010, ESD's share of those costs was \$609,486.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

(5) OTHER ASSETS, NET OF ACCUMULATED AMORTIZATION

On the *government-wide statement of net assets*, there are *Other assets*, some of which are subject to annual amortization expense.

Governmental Activities:

Bond Issuance Costs:

On October 1, 2006, the Encinitas Public Financing Authority issued 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 library located on 2.1 acres immediately above the City's Civic Center. \$381,360 of bond issuance costs were incurred in conjunction with the debt issue. On the *government-wide statement of net assets*, under Governmental Activities, these issuance costs are being amortized over the 30 year life of the debt. At June 30, 2010, the unamortized portion of the *bond issuance costs* was \$336,868, and amortization expense for the fiscal year was \$12,712.

Prepayment of Pension Side Fund to the California Public Retirement System (CalPERS):

The Fire Department and Marine Safety pension plans, which each have less than 100 active members, were required to enroll in a CalPERS risk-sharing pool in 2003. As part of that enrollment process, CalPERS calculated the funded status of each Plan and compared that amount to the funded status of the risk pool at inception. The difference for these Plans was being financed by CalPERS over an 8 year period at the assumed rate of return of the CalPERS pooled investment fund (7.75%). On June 27, 2007, via City Council action, the City elected to prepay the full amount of \$3,325,189. This amount has been capitalized as *Other noncurrent assets*, and is being amortized over a 10 year period. At June 30, 2010, the unamortized portion of the *Prepaid pension asset* was \$2,327,632, and amortization expense for the fiscal year was \$332,519.

Business-type Activities:

Prepayment of Pension Side Fund to the California Public Retirement System (CalPERS):

SDWD's pension plan, which has less than 100 active members, was required to enroll in a CalPERS risk-sharing pool in 2003. As part of that enrollment process, CalPERS calculated the funded status of the Plan and compared that amount to the funded status of the risk pool at inception. The difference was being financed by CalPERS over a 17 year period at the assumed rate of return of the CalPERS pooled investment fund (7.75%). On June 27, 2007, the Board of Directors elected to prepay the full amount of \$981,523. This amount has been capitalized as an *Other noncurrent assets*, and is being amortized on a straight-line basis over a 10 year period. At June 30, 2010, the unamortized portion of the prepaid pension asset was \$687,067. Amortization for the fiscal year was \$98,152.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

(6) CAPITAL ASSETS AND DEPRECIATION:

A summary of changes in the Governmental Activities capital assets for the year ended June 30, 2010, is as follows:

	Balance at July 01, 2009	Additions	Deletions	Balance at June 30, 2010
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 19,462,218	\$ -	\$ -	\$ 19,462,218
Parkland - vacant	39,408,742	-	-	39,408,742
Construction in progress	8,208,246	4,804,250	(2,138,688)	10,873,808
Total capital assets, not being depreciated	67,079,206	4,804,250	(2,138,688)	69,744,768
Capital assets, being depreciated:				
Public facilities	45,172,994	179,240	-	45,352,234
Parkland - improvements	12,073,620	-	-	12,073,620
Fire apparatus and equipment	3,296,638	-	-	3,296,638
Equipment and machinery	3,005,657	269,311	(83,688)	3,191,280
Office furniture and equipment	587,626	-	-	587,626
Vehicles	1,719,055	75,001	(47,828)	1,746,228
Infrastructure	90,417,306	1,959,448	-	92,376,754
Total capital assets, being depreciated	156,272,896	2,483,000	(131,516)	158,624,380
Less accumulated depreciation for:				
Public facilities	(6,863,829)	(1,421,324)	-	(8,285,153)
Parkland - improvements	(5,389,902)	(714,134)	-	(6,104,036)
Fire equipment	(1,980,409)	(208,789)	-	(2,189,198)
Equipment and machinery	(2,108,959)	(195,517)	58,798	(2,245,678)
Office furniture and equipment	(393,203)	(62,862)	-	(456,065)
Vehicles	(1,460,360)	(82,237)	47,828	(1,494,769)
Infrastructure	(28,776,302)	(2,479,849)	-	(31,256,151)
Total accumulated depreciation	(46,972,964)	(5,164,712)	106,626	(52,031,050)
Total capital assets being depreciated, net	109,299,932	(2,681,712)	(24,890)	106,593,330
Governmental activities Capital assets, net	\$ 176,379,138	\$ 2,122,538	\$ (2,163,578)	\$ 176,338,098

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

A summary of changes in the Business-type Activities capital assets for the year ended June 30, 2010, is as follows:

Business-Type Activities:	Balance at July 1, 2009 as Restated	Additions	Deletions	Balance at June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 8,575	\$ -	\$ -	\$ 8,575
Land easements	4,476,072	-	-	4,476,072
Public Works facility right of use	3,378,700	-	-	3,378,700
Construction in progress	1,121,844	792,625	(17,651)	1,896,818
Capital assets, not being depreciated	8,985,191	792,625	(17,651)	9,760,165
Capital assets, being depreciated:				
Structures and improvements	13,948,892	-	-	13,948,892
Collection and distribution	45,013,925	17,651	-	45,031,576
Machinery and equipment	2,423,553	3,219	(6,848)	2,419,924
Capacity rights	323,190	-	-	323,190
Total capital assets, being depreciated	61,709,560	20,870	(6,848)	61,723,582
Less accumulated depreciation for:				
Structures and improvements	(3,123,217)	(316,741)	-	(3,439,958)
Collection and distribution	(26,599,182)	(581,060)	-	(27,180,242)
Machinery and equipment	(595,172)	(155,270)	6,848	(743,594)
Capacity rights	(86,723)	(6,463)	-	(93,186)
Total accumulated depreciation	(30,404,294)	(1,059,534)	6,848	(31,456,980)
Total capital assets being depreciated, net	31,305,266	(1,038,664)	-	30,266,602
Business-type activities capital assets, net	\$ 40,290,457	\$ (246,039)	\$ (17,651)	\$ 40,026,767

Capital assets were restated to retroactively record intangible assets in accordance with the implementation of GASB 51, *Accounting and Financial Reporting for Intangible Assets*. The retroactive implementation effective July 1, 2009 included a reclassification of intangible capacity rights and the Public Works right of use to capital assets and a restatement of \$4,476,072 of capital assets not being depreciated to include land easements.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Depreciation expense was charged to the functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 806,746
Public safety	220,377
Public works	2,719,194
Parks and recreation	1,036,045
Capital assets held by the internal service funds	<u>382,350</u>
 Total depreciation expense - governmental activities	 <u>\$ 5,164,712</u>
 Business-Type Activities:	
Cardiff Sanitary Division	\$ 172,782
San Dieguito Water District	497,572
Encinitas Sanitary Division	288,642
Nonmajor Enterprise Fund	<u>100,538</u>
 Total depreciation expense - business-type activities	 <u>\$ 1,059,534</u>

Capacity Rights (SDWD):

On September 21, 1992, SDWD and the Santa Fe Irrigation District entered into an agreement with the San Diego County Water Authority (SDCWA) to increase the delivery capacity to R.E. Badger Filtration Plant. SDCWA planned, designed and constructed the system with funds provided 45% by SDWD and 55% by Santa Fe Irrigation District. SDCWA owns and operates the system, which was placed in service May 1995. SDWD cost of the capacity rights totaled \$323,190. At June 30, 2010, the unamortized portion of the *capacity rights* was \$230,003, and amortization expense for the fiscal year was \$6,463.

Public Works Facility Right of Use:

In September 2007, the City purchased a 4.4 acre commercial site and related improvements for use as a joint Public Works facility with SDWD. The facility was purchased for a total of \$9.6 million, of which \$8.6 million is land value, \$1.0 million is the value of the improvements, and \$100,000 represents the purchase of various equipment and fixtures. In conjunction with that purchase, SDWD was granted a perpetual right-of-use of the joint facility in exchange for a one-time payment to the City of \$3,378,700. Due to its perpetual nature, this asset is not being amortized in the SDWD books and records.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

(7) LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010	Due Within One Year
Governmental Activities:					
Capital Leases:					
2004 Fire Apparatus Lease	\$ 110,760	\$ -	\$ (54,602)	\$ 56,158	\$ 56,158
2006 Fire Apparatus Lease	156,054	-	(49,819)	106,235	51,986
2007 Vac Con Cleaner Lease	172,680	-	(31,430)	141,250	32,911
2008 Lease Roof Replacement	1,992,955	-	(111,031)	1,881,924	115,166
Bonded Debt:					
1997 Refunding Certificates	3,985,000	-	(420,000)	3,565,000	435,000
2001 Lease Revenue Bonds	19,555,000	-	(515,000)	19,040,000	540,000
2002 ABAG Financing	3,135,000	-	(510,000)	2,625,000	480,000
2006 Lease Revenue Bonds	19,610,000	-	(400,000)	19,210,000	415,000
less: (deferred amounts):	(280,000)	-	5,000	(275,000)	-
Subtotal of governmental capital leases and bonded debt	48,437,449	-	(2,086,882)	46,350,567	2,126,221
Claims payable	1,207,928	160,235	(688,503)	679,660	679,660
Compensated absences	1,891,832	1,886,207	(1,891,832)	1,886,207	1,886,207
Total Governmental Activities	51,537,209	2,046,442	(4,667,217)	48,916,434	4,692,088
 Business-type Activities:					
2003 CSD Note Payable to SEJPA	6,220,000	-	(450,000)	5,770,000	470,000
2004 SDWD Water Revenue Bonds	11,095,000	-	(560,000)	10,535,000	575,000
2007 SDWD Note Payable Badger	7,345,000	-	(335,000)	7,010,000	350,000
2004 EHA Housing Mortgage Note	1,681,534	-	(42,717)	1,638,817	45,825
Subtotal of business-type notes payable and bonded debt	26,341,534	-	(1,387,717)	24,953,817	1,440,825
Compensated absences	105,905	85,170	(105,905)	85,170	85,170
Total Business-type Activities	26,447,439	85,170	(1,493,622)	25,038,987	1,525,995
Long term liabilities total	<u>\$ 77,984,648</u>	<u>\$ 2,131,612</u>	<u>\$ (6,160,839)</u>	<u>\$ 73,955,421</u>	<u>\$ 6,218,083</u>

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Governmental Activities:

Capital Leases:

2004 Fire Apparatus Lease:

The City entered into a long-term lease arrangement in fiscal year 2003-04 to finance the purchase of a replacement fire engine for \$362,264. The lease has a term of seven (7) years, an interest rate of 2.85%, and annual payments of \$57,759. 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 2011.

2006 Fire Apparatus Lease:

The City entered into a long-term lease arrangement in fiscal year 2005-06 to finance the purchase of a 2006 American LaFrance Eagle Pumper Fire Apparatus for \$358,544. The lease has a term of seven (7) years, an interest rate of 4.35%, and annual payments of \$56,607. 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 2012.

2007 Vac-Con Cleaner Lease:

The City entered into a long-term lease arrangement in fiscal year 2006-07 to finance the purchase of a new 2007 Vac-Con combination sewer and storm drain cleaner for \$231,358. The lease has a term of seven (7) years, an interest rate of 4.66%, and semi-annual payments of \$19,557. The City will own the equipment at the end of the lease term in fiscal year 2014.

2008 Civic Center Roof Replacement and Energy Optimization Project-Lease Financing:

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.

Bonded Debt:

1997 Refunding Certificates of Participation (COP's)-Series A (Encinitas Civic Center):

In December 1991, the EPFA issued the 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 \$275,000 to \$590,000. Interest is payable semi-annually with rates ranging from 3.70% to 5.05%. The certificates are not subject to optional redemption prior to maturity.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

2001 Lease Revenue Bonds (proposed Regional Parksite):

On April 1, 2001 the EPFA issued 2001 Lease Revenue Bonds-Series A in the amount of \$22,645,000 to provide funds for the acquisition of and improvements to a 43-acre proposed Parksite. The bonds consist of \$12,995,000 of serial bonds maturing from 2003 to 2023 in annual installments of \$952,758 to \$1,513,000, \$2,055,000 of term bonds maturing in 2025 and \$7,595,000 term bonds maturing in 2031. Interest is payable semi-annually with rates ranging from 4.00% to 5.25%.

The Bonds are subject to optional redemption beginning in 2008 at the following respective redemption prices (expressed as percentages of the principal amount of the Bonds to be redeemed), together with accrued interest thereon to the date fixed for redemption.

Redemption Period	Redemption Price
April 1, 2008 through March 31, 2009	102%
April 1, 2009 through March 31, 2010	101%
April 1, 2010 and thereafter	100%

Refer to Note 17 for information on the refunding of the bond issue.

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 serially on July 1 from 2004 through 2018 in amounts ranging from \$240,000 to \$670,000. The Term Bonds due July 1, 2022 and 2032 are subject to mandatory sinking fund requirements. Interest is due and payable semi-annually at rates ranging from 3.00% to 4.65%.

The City advanced funds to the Encinitas Sanitary Division and the San Dieguito Water District, which are being repaid to the City according to the underlying terms of the bond issue. The remaining balances owed to the City are summarized in Note 9.

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), together with accrued interest thereon.

Redemption Period	Redemption Price
July 1, 2012 through June 30, 2013	101%
July 1, 2013 through June 30, 2014	100.5%
July 1, 2014 and thereafter	100%

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

2006 Lease Revenue Bonds:

On October 1, 2006 the EPFA issued 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 library located on 2.1 acres immediately above the Encinitas Civic Center. The bonds consist of \$10,405,000 of serial bonds and \$9,595,000 in term bonds. The serial bonds mature from 2008 to 2026 in annual installments ranging from \$390,000 to \$755,000. The term bonds mature from 2027 to 2036 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 4.375%.

The bonds were issued at a discount of \$300,000, and the City paid \$381,360 in bond issuance costs. The bond discount and issuance costs were capitalized and are being amortized over the 30 year period of the bonds. On the *government-wide statement of net assets*, the issuance costs, net of amortization is shown as *Other noncurrent assets*, while the unamortized discount reduces the balance of the long-term debt.

The Bonds maturing on or after October 1, 2015 are subject to optional redemption beginning on or after October 1, 2014 at the following respective redemption prices:

Redemption Period	Redemption Price
October 1, 2014 through September 30, 2015	102%
October 1, 2015 through September 30, 2016	101%
October 1, 2016 and thereafter	100%

The debt service requirements to maturity of the capital leases and the bonded debt, excluding claims payable and compensated absences, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	\$ 2,126,221	\$ 2,100,647	\$ 4,226,868
2012	2,148,166	2,011,031	4,159,197
2013	2,004,991	1,922,153	3,927,144
2014	1,991,307	1,835,894	3,827,201
2015	2,043,304	1,746,547	3,789,851
2016-2020	9,129,789	7,406,251	16,536,040
2021-2025	8,511,789	5,535,763	14,047,552
2026-2030	10,100,000	3,374,000	13,474,000
2031-2035	6,310,000	1,120,611	7,430,611
2036-2037	2,260,000	99,969	2,359,969
Totals	<u>\$ 46,625,567</u>	<u>\$ 27,152,866</u>	<u>\$ 73,778,433</u>

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Business-type Activities:

2003 CSD Note Payable to San Elijo Joint Powers Authority(SEJPA):

In April 2003, the SEJPA issued Refunding Revenue Bonds in the amount of \$18,640,000 for the purpose of refunding its 1993 Revenue Bonds. The proceeds of the original issue were loaned to its two member agencies (CSD and the City of Solana Beach) to finance and upgrade the jointly-owned wastewater treatment plant. CSD's portion of the 2003 Refunding Revenue Bonds, in the form of an amended loan agreement, totaled \$8,735,000. Principal is due and payable annually in amounts ranging from \$395,000 to \$705,000. Interest is payable semi-annually with rates ranging from 2.00% to 5.00%. CSD accounts for its share of the Bonds as a Note Payable to SEJPA.

CSD has pledged net revenues to pay the outstanding debt for the above mentioned outstanding debt. Net revenues are computed as gross revenues less operations and maintenance costs. CSD has covenanted to have net revenues at least equal to 110% of the annual debt service of the bonds. Total principal and interest outstanding as of June 30, 2010 is \$7,328,200. During the year, principal and interest paid was \$741,800 and net revenues were \$2,839,586.

2004 SDWD Water Revenue Refunding Bonds:

On January 22, 2004, SDWD issued \$13,845,000 of Water Revenue Refunding Bonds, Series 2004, to redeem all of the outstanding 1993 Water Revenue Refunding Bonds. The Bonds consist of \$10,170,000 of serial bonds maturing from 2004 through 2019 in annual installments of \$505,000 to \$820,000 and one term bond of \$3,675,000 maturing on October 1, 2023. The Term Bond is subject to sinking fund requirements. Interest is payable semi-annually at rates ranging from 2.5% to 5.0%. The Bonds maturing on or after October 1, 2015 are subject to optional redemption at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

2007 SDWD Note Payable to R.E. Badger Water Facilities Financing Authority (WFFA):

On November 20, 2007, the WFFA issued \$20,685,000 of 2007 Water Revenue Refunding Bonds while concurrently redeeming all of its outstanding 1999 Water Revenue Bonds, on behalf of its member agencies, the Santa Fe Irrigation District and the San Dieguito Water District. The transaction was a current refunding intended to save the member agencies future interest costs due to lower market interest rates, new Installment Purchase Agreements were executed. The overall Bond Issue consists of \$20,685,000 of serial bonds maturing from 2008 through 2024. The SDWD portion of the refinancing totaled \$7,705,000. Principal is due and payable annually in amounts ranging from \$360,000 to \$620,000. Interest is due and payable semi-annually at rates ranging from 3.5% to 4.5%. SDWD accounts for its share of the bonds as a Note Payable to R.E. Badger WFFA. The bonds maturing on or before October 1, 2017 are not subject to optional redemption prior to maturity. The bonds maturing on October 1, 2018 and thereafter are subject to redemption prior to their stated maturity at the option of the Authority, as a whole or in part on any date, by such maturities as are selected by the Authority from any available source of funds on or after October 1, 2017 at a redemption price equal to the principal amount of the bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

SDWD has pledged its net revenues to pay the debt service of the 2007 Note Payable and 2004 Water Revenue Refunding Bonds. Net revenues are computed as gross revenues less operations and maintenance costs, which do not include depreciation, amortization and interest expense. SDWD has covenanted to have net revenues to at least equal to 115% of the annual debt service of the bonds. Total principal and interest outstanding of the above mentioned debts as of June 30, 2010 is \$23,744,131. During the year, principal and interest was \$1,629,426 and net revenue was \$2,476,157.

2004 EHA Housing Mortgage Note Payable:

In conjunction with the purchase of 16 affordable housing units in 2004, the EHA executed a mortgage loan payable with a local commercial lender of \$1,905,338, secured by a first trust deed on the subject property. The note bears interest at 90% of the one year Treasury note, adjustable every six years, with a final maturity of April 5, 2034. Payments of principal and interest of \$8,775 are due and payable monthly. EHA is solely responsible for repayment on this note. The City of Encinitas is not obligated to repay this note under any circumstances.

The debt service requirements to maturity for the Business-type Activities, excluding compensated absences, were as follows:

Year Ending June 30	Principal	Interest	Total
2011	\$ 1,440,825	\$ 1,061,978	\$ 2,502,803
2012	1,497,247	1,011,387	2,508,634
2013	1,549,008	952,307	2,501,315
2014	1,605,684	779,157	2,384,841
2015	1,677,417	818,823	2,496,240
2016-2020	9,549,980	2,900,274	12,450,254
2021-2025	6,873,235	858,983	7,732,218
2026-2030	406,101	95,223	501,324
2031-2034	354,320	23,312	377,632
Totals	<u>\$ 24,953,817</u>	<u>\$ 8,501,444</u>	<u>\$ 33,455,261</u>

(8) OPERATING LEASES:

The City has various operating leases for office equipment with remaining terms of two years and a value at inception of approximately \$600,000.

Future minimum lease payments are as follows:

Fiscal Year	Payments
2011	\$ 64,648
2012	64,648

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

(9) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

Due To and Due From:

Individual interfund receivables and payables at June 30, 2010, were as follows:

	Due From Other Funds	Due To Other Funds
Governmental Funds:		
General Fund	\$ 1,086,249	\$ -
Nonmajor Funds	<u>-</u>	<u>1,086,249</u>

The amounts due to the General Fund are all short-term borrowings in anticipation of grant revenue or debt service payments not yet received.

Advances To and Advances From:

Advances receivable and payable between funds at June 30, 2010, were as follows:

	Advances To Other Funds	Advances From Other Funds
Governmental Funds:		
Nonmajor Funds	\$ 335,000	\$ -
Enterprise Funds:		
San Dieguito Water District	-	270,000
Encinitas Sanitary Division	-	65,000
Totals	<u>\$ 335,000</u>	<u>\$ 335,000</u>

During fiscal year 2002-03, the City advanced monies to the enterprise funds from the proceeds of the ABAG financing to fund the refinancing of sewer fund debt and to finance the Water District's meter replacement and automation program. The advances are repayable semi-annually at principal and interest amounts consistent with the underlying financing. Repayments to the City during the year totaled \$85,000 for San Dieguito Water District and \$65,000 for Encinitas Sanitary.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Transfers In and Out:

Transfers in and out between funds for the year ended June 30, 2010, were as follows:

	Transfers Out		
	General Fund	Nonmajor Funds	Total All Funds
Transfers In:			
General fund	\$ -	\$ 183,813	\$ 183,813
Capital improvement capital projects fund	2,665,738	4,165,374	6,831,112
Nonmajor governmental funds	4,051,195	-	4,051,195
Total all funds	<u>\$ 6,716,933</u>	<u>\$ 4,349,187</u>	<u>\$ 11,066,120</u>

The transfers in to the General Fund consist of reimbursements 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.

All capital improvement expenditures related to governmental-type funds are recorded in a separate Capital Improvement Projects Fund, which is reimbursed on a monthly basis by the Fund(s) which are providing the source funding.

All debt service expenditures of the governmental-type funds are recorded in a separate Debt Service Fund, which is within the Nonmajor Governmental Funds. The fund is reimbursed on a monthly basis by the fund(s) which are providing the source funding.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

(10) RESERVATION AND DESIGNATION OF FUND BALANCES:

The City's reserves and designations of fund balances as shown on the *balance sheet – governmental funds* at June 30, 2010 are tabulated below, followed by explanations as to the nature and purpose of each reserve or designation.

	General	Total Nonmajor Funds	Totals
Reserved for:			
Long term receivable	\$ 650,907	\$ -	\$ 650,907
Advances to other funds	-	335,000	335,000
Self-insurance	679,660	-	679,660
Construction and capital outlay	627,827	-	627,827
Prepaid asset CalPERS	2,327,632	-	2,327,632
Debt service	-	3,073,409	3,073,409
Total Reserves	<u>4,286,026</u>	<u>3,408,409</u>	<u>7,694,435</u>
Unreserved, designated for:			
Self-insurance	2,886,282	-	2,886,282
Special revenue purposes	-	10,430,543	10,430,543
Construction and capital outlay	22,349,049	-	22,349,049
Budget stabilization	2,512,615	-	2,512,615
Contingencies	9,165,423	-	9,165,423
Total designations	<u>36,913,369</u>	<u>10,430,543</u>	<u>47,343,912</u>
Unreserved - undesignated	<u>5,789,899</u>	<u>-</u>	<u>5,789,899</u>
Total fund balances	<u>\$ 46,989,294</u>	<u>\$ 13,838,952</u>	<u>\$ 60,828,246</u>

Reserved for Long-Term Receivable:

Reserve for long-term receivable represents sales tax advances to a developer that are non-current in nature.

Reserved for Advances to Other Funds:

A reserve is maintained for advanced monies to the enterprise funds from the proceeds of the ABAG financing to fund the refinancing of sewer fund debt and to finance the San Dieguito Water District's meter replacement and automation program.

Reserved for Self-Insurance:

A self-insurance reserve is maintained for estimated claims as of June 30, 2010 that are not covered by the pooled insurance program and claims within the self-insurance retention limit.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Reserved for Construction and Capital Outlay:

The reserve for construction and capital outlay consists of bond proceeds held by Trustee that are restricted by the bond indenture for paying development costs on the specified capital project.

Reserved for Prepaid Asset - CalPERS:

The reserve for prepaid assets (CalPERS) represents prepaid pension obligations. These are not resources that are or will become available to fund public services. The related asset is being amortized over a 10 year period.

Reserved for Debt Service:

The reserve for debt service includes amounts restricted by the covenants of debt agreements and held by fiscal agents. The funds are restricted for payment of long-term debt principal and interest maturing in future years.

Designated for Self-Insurance:

A portion of general fund resources are designated for estimated future claims.

Designated for Special Revenue Purposes:

Certain special revenue funds are required to be segregated by State or Federal law. All unreserved amounts in these funds are designated for future expenditures for that specific program or fund.

Designated for Construction and Capital Outlay:

Designations for construction and capital outlay consist of amounts appropriated but unspent for approved capital projects as of June 30, 2010.

Designated for Budget Stabilization:

These are funds that are designated by City Council action in the Budget process for the purpose of providing an additional funding source, in the event that unforeseen circumstances cause actual revenues to fall short of projections, or unexpected spending needs arise during a fiscal year.

Designated for Contingencies:

These are funds that are designated by City Council action in the Budget process for general contingencies.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

(11) OTHER INFORMATION:

(a) Litigation, Commitments and Contingencies:

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 maintains a self-insurance fund, within the general fund, to account for and finance its self-insured risks of loss. Based upon information received from the City's contract attorney and the self-insurance administrator, the estimated liability under such claims would be adequately covered by self-insurance reserves and insurance coverage. The City, which includes CSD, and ESD are members of the San Diego Pooled Insurance Program Authority (SANDPIPA). 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.

SDWD is a member of the Association of California Water Agencies - Joint Powers Insurance Authority (JPIA). Coverage includes general liability, property, and workers' compensation, with self-insured retention levels of \$10,000 to \$25,000. At June 30, 2010, in the opinion of the District's management, there were no material claims, which would require accrual in the accompanying financial statements. For liability and workers' compensation, SDWD pays a premium commensurate with the level of self-insured retention level requested. For property coverage premiums are based on values declared for property. SDWD carries a self-insured retention of \$10,000.

The City is self-insured for liability claims and losses up to \$150,000 per occurrence, and is covered for covered losses between \$150,000 and \$2,000,000 by the SANDPIPA reserve pool. The members share the risk of claims in excess of reserves. For claims incurred prior to July 1, 1992, SANDPIPA reimburses the member a proportionate amount of expenses incurred (mainly legal expenses), based on the percentage of the cost of the claim. 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 \$2,000,000 and \$47,000,000 via excess insurers. Losses in excess of \$47,000,000 are not covered and are self-funded by the City.

The City is self-insured for worker's compensation claims and losses up to \$350,000 per occurrence. Coverage for claims between \$350,000 and \$5,000,000 is provided by LACWX, a California Joint Powers Insurance Authority. Excess worker's compensation and commercial coverage between \$5,000,000 and \$45,000,000 is provided through contract reinsurance. City departments contribute premiums to the self-insurance fund (which is a part of the general fund for financial statement purposes) based on annual rates set for each work class.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

The claims liability of \$679,660 (for both workers' compensation and liability) reported in long-term liabilities at June 30, 2010, is based on the requirements of GASB Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The City has designated in the general fund net assets of \$2,886,282 for future claims:

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended June 30, 2010	Year Ended June 30, 2009
Unpaid Claims, Beginning of Fiscal Year	\$ 1,207,928	\$ 1,118,781
Incurred Claims	160,235	584,957
Claim Payments	(688,503)	(495,810)
Unpaid Claims, End of Fiscal Year	<u>\$ 679,660</u>	<u>\$ 1,207,928</u>

There have been no claim settlements in the last three years that have exceeded insurance coverage.

(12) PUBLIC EMPLOYEES RETIREMENT SYSTEM

(a) Public Employees Retirement System:

Plan Description:

The City and SDWD (collectively, "the City") have entered into a total of four (4) separate defined benefit pension plans covering miscellaneous and safety employees with the California Public Employees Retirement System (CalPERS). The *City Miscellaneous Employees Plan* is an agent multiple-employer (agent employer) Plan. The *City Fire Safety Employees Plan*, the *City Lifeguard Safety Plan* and the *SDWD Miscellaneous Employees Plan* are participants in cost-sharing multiple employer (cost-sharing employer) plans with other local agencies with the same benefit formulas. The four plans described herein are referred as "the Plans."

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 ordinance. CalPERS issues a separate comprehensive annual financial report, which can be obtained from the CalPERS Executive Office – 4000 P Street – Sacramento, CA 95814.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Funding Policy:

Participants are required to contribute 8% for miscellaneous members and 9% for safety members of their annual covered salary (the "employee contribution"). The City makes those contributions on behalf of the employees, which are credited to their individual accounts. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (the "employer contribution"). All miscellaneous members are required under existing labor agreements to reimburse the City for a portion of the cost of providing retirement benefits. In fiscal year 2009-2010, the employees contributed 4.4% of their qualified salaries.

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The employee contribution requirements are established by State statute, and the employer contribution rates are established by the CalPERS Board of Administration on an annual basis.

Annual Pension Costs:

For fiscal year 2009-2010, the annual pension cost of \$2,081,450 for the agent employer Plan and \$1,093,868 for the cost-sharing employer Plans was equal to the City's required contributions. The required contribution for fiscal year 2009-2010 was determined as part of the June 30, 2007 actuarial valuation using the entry-age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45%, and (c) 3.25% cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). CalPERS' unfunded actuarial accrued liability (or excess assets) are being amortized as a level percentage of projected payroll on a closed basis depending on the size of investment gains and/or losses. The remaining amortization period of the unfunded actuarial liability ends on June 30, 2030 for the agent employer Plan.

<u>Agent Employer Plan</u>			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	\$ 2,035,348	100%	\$ -
6/30/2009	2,072,529	100%	-
6/30/2010	2,081,450	100%	-

<u>Cost Sharing Plans</u>			
Fiscal Year Ended	Contractually Required Contribution (CRC)	Percentage of CRC Contributed	Net Pension Liability
6/30/2008	\$ 855,993	100%	\$ -
6/30/2009	949,015	100%	-
6/30/2010	1,093,868	100%	-

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

Schedule of Funding Progress for the agent employer Plan:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B-A/C)
6/30/2009	\$ 40,484,775	\$ 55,662,304	\$ 15,177,529	72.7%	\$ 13,267,844	114.4%

The Schedule of Funding Progress presented as Required Supplementary Information following the Notes to the Basic Financial Statements, presents 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. The assumptions for the June 30, 2009 actuarial valuation for the funded status were the same as those of the June 30, 2007 valuation that determined the required contributions.

(13) OTHER POSTEMPLOYMENT BENEFITS

(b) City of Encinitas

Plan Description:

The City provides postretirement health care benefits through the CalPERS healthcare program (PEMHCA) 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 No. 43, 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 Assumption:

The actual contributions of the City to the Trust were established by City Council action. The contribution requirements are established via an actuarial valuation of the City's Retiree Healthcare Plan as of June 30, 2007, performed in conformance with GASB 45 requirements. The required contribution is measured on an accrual basis rather than on a pay-as-you-go basis. The actuarial cost method used to determine the benefit obligations is the entry-age cost method. The valuation is determined using a discount rate of 7.75%. The actuary used the following

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

assumptions: medical premiums would increase by 10% to 11% depending on type of plan and assumed the average retirement for City employees to be 60 years of age. The unfunded actuarial accrued liability is being amortized over a closed thirty-year period.

Annual OPEB Cost (ARC):

The ARC 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. For both fiscal years 2008-2009 and 2009-2010, the City's annual OPEB contribution to the Trust of \$857,000 was equal to the ARC, which resulted in a zero OPEB obligation at the end of the year.

Funded Status and Funding Progress:

The Funded Status of the City's Plan as of June 30, 2009 was as follows (000's):

Actuarial accrued liability (AAL)	\$ 9,990
Actuarial value of Plan assets	467
Unfunded actuarial accrued liability (UAAL)	<u>\$ 9,523</u>
Funded ratio (actuarial value of plan assets/AAL)	4.67%
Covered payroll (active Plan members)	17,138
UAAL as a percentage of covered payroll	55.57%

The assumptions used for an actuarial valuation of the City's Retiree Healthcare Plan as of June 30, 2009 are the same as the City's Retiree Healthcare Plan as of June 30, 2007.

(b) San Dieguito Water District:

Plan Description:

SDWD provides postretirement health care benefits through PEMHCA to eligible employees who retire directly from SDWD. SDWD pays the cost for the PEMHCA minimum benefit. 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.

SDWD has also elected to join the Trust, which provides a means to fund the ARC. SDWD makes an annual contribution to the Trust, pays benefits through PEMHCA during the year, and then seeks reimbursement for these pay-as-you-go expenses from the Trust.

Funding Policy:

The actual contributions of SDWD to the Trust are established by Board of Director action. The contribution requirements were established via an actuarial valuation of SDWD's Retiree Healthcare Plan as of June 30, 2007. The required contribution is measured on an accrual basis rather than on a pay-as-you-go basis. The valuation is determined using a discount rate of 7.75%.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

The actuary used the following assumptions: medical premiums would increase by 10% to 11% depending on type of plan and assumed the average retirement for SDWD employees to be 60 years of age. The unfunded actuarial accrued liability is being amortized over a closed thirty-year period.

Annual OPEB Cost (ARC):

The annual OPEB cost is referred to as the Annual Required Contribution (ARC). The ARC 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. For both fiscal years 2008-2009 and 2009-2010, the SDWD's annual OPEB contribution to the Trust of \$25,000 was equal to the ARC, which resulted in a zero OPEB obligation at the end of the year.

Funded Status and Funding Progress:

The Funded Status of SDWD's Plan as of June 30, 2009, was as follows (000's):

Actuarial accrued liability (AAL)	\$ 302
Actuarial value of Plan assets	<u>13</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 289</u>
Funded ratio (actuarial value of plan assets/AAL)	4.30%
Covered payroll (active Plan members)	1,049
UAAL as a percentage of covered payroll	27.55%

The assumptions used for an actuarial valuation of the SDWD's Retiree Healthcare Plan as of June 30, 2009 are the same as the SDWD's Retiree Healthcare Plan as of June 30, 2007.

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, 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 the benefits.

The Schedules of Funding Progress for the City and SDWD Retiree Health Care Plan are presented as Required Supplementary Information following the Notes to the Basic Financial Statements, presents 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.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

(14) JOINT VENTURE

The Encinitas Ranch Golf Authority (the Authority) is a joint powers authority formed by the City of Encinitas (the City) and the San Dieguito Water District 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. The golf course opened to the public on March 1, 1998. The golf course is managed and operated under a contract arrangement with JC Resorts, LLC (the Operator), a privately-held company specializing in the management and operation of golf courses.

The 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 2026, when the golf course bonded debt is expected to be paid off. The debts and obligations of the Authority are not the debts and obligations of the City or SDWD. Separate audited financial statements of the Authority are available at City's administrative office.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

(15) OTHER INFORMATION

(c) Special Assessment and Agency Debt:

Requeza Street/Bracero Road Assessment District 93-1:

During fiscal year 1997-98, the City issued \$1,356,400 of limited obligation improvement bonds to finance improvements and pay eligible costs of the City of Encinitas Assessment District 93-1 - Requeza Street/Bracero Road. Series A bonds totaling \$945,000 were sold to the public, while Series B (subordinated) bonds totaling \$411,000 were purchased by the City. Both series of bonds are secured solely by the related property assessments. Due to an initial high property tax delinquency factor, the issue is structured such that all assessments collected go first to satisfy the Series A obligations, with any excess applied to Series B. At June 30, 2010, the outstanding balance on the special assessment debt was \$445,000.

Community Facilities District #1 Mello-Roos Assessments:

During fiscal year 1996-97, the City issued \$23,000,000 of Special Tax Bonds, Series 1995-A, to provide funds for the design, acquisition, and construction of the mixed-use Encinitas Ranch master planned community, which includes approximately 950 residential units, a regional shopping center, and other retail and commercial uses. During fiscal year 1998-99, the City issued \$39,590,000 and \$3,000,000 of 1998 Special Tax Bonds, Series A and Series B, respectively, to provide funds for the complete defeasance and refunding of the Special Tax Bonds, Series 1995-A, and to provide funds to pay for costs of design, acquisition and construction of additional public facilities (Encinitas Ranch Phase II). During fiscal year 2003-04, the 1998 bonds were completely refunded on a current basis, resulting in the issuance of \$43,495,000 of 2004 Special Tax Refunding Bonds. At June 30, 2010, the outstanding balance on the 2004 Bonds was \$37,830,000.

The City acts solely as an agent for these special districts. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the City has no duty to pay the delinquency out of any available funds of the City. Neither the faith, the credit, nor the taxing power of the City is pledged to the payment of the bonds. Therefore, such bonds are not an appropriate liability of the City and are not included in the accompanying basic financial statements.

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2010

(16) RESTATEMENT OF NET ASSETS

During the year ended June 30, 2010, the City implemented GASB Statement No.51 *Accounting and Financial Reporting for Intangible Assets*, which required the City to record land easements that City had from previous years in the enterprise funds. Therefore, the City restated capital assets and beginning net assets, which affected the individual enterprise fund and total business-type activities net assets reported in the proprietary funds and the government-wide statement of net assets as follow:

	Cardiff Sanitary Division	San Dieguito Water District	Encinitas Sanitary Division	Business-Type Activities
Net assets as of July 1, 2009	\$ 32,817,887	\$ 31,986,566	\$ 22,185,311	\$ 89,154,909
Land easements	1,311,168	2,713,834	451,070	4,476,072
Net assets as of July 1, 2009, as restated	<u>\$ 34,129,055</u>	<u>\$ 34,700,400</u>	<u>\$ 22,636,381</u>	<u>\$ 93,630,981</u>

(17) SUBSEQUENT EVENT

In early July 2010, the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued \$19,530,000 of its 2010 Lease Revenue Refunding Bonds, Series A (Park Project) at a fixed rate in order to redeem all of the outstanding bonds of its 2001 Lease Revenue Bonds, Series A (Acquisition Project). The 2001 Issue funded the acquisition of a 43 acre future park site and certain pre-development costs of the Project. The transaction qualified as a current refunding under all applicable laws and regulations. The proceeds of the sale were deposited into an escrow account to: (1) redeem all of the existing bonds from the 2001 Issue, (2) fund a new debt service reserve fund, and (3) pay qualified costs of issuance. The existing bonds were called on September 1, 2010.

The purpose of the refunding was to save money of future interest costs. No new money was raised in the issuance. The City realized an economic gain (net present value benefit) of \$1,311,000, or 6.88% of the refunded bonds. This results in average annual savings through 2031 of \$100,000 per year. The City paid issuance costs of approximately \$400,000, which will be capitalized and amortized over the remaining life of the new bond issue.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

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CITY OF ENCINITAS
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Property	\$ 32,142,225	\$ 32,330,507	\$ 31,941,731	\$ (388,776)
Sales	9,434,430	8,820,232	9,324,936	504,704
Franchise	2,115,435	2,115,435	2,031,924	(83,511)
Real property transfer	280,000	280,000	343,423	63,423
Transient occupancy	944,808	944,808	944,397	(411)
Total taxes	<u>44,916,898</u>	<u>44,490,982</u>	<u>44,586,411</u>	<u>95,429</u>
Licenses and permits	245,400	224,085	212,736	(11,349)
Intergovernmental	301,200	503,648	567,405	63,757
Charges for services	4,649,380	4,560,114	5,164,315	604,201
Fines, forfeitures and penalties	780,150	666,150	761,202	95,052
Use of money and property	854,020	764,020	945,056	181,036
Other	908,896	908,896	1,413,138	504,242
Total revenues	<u>52,655,944</u>	<u>52,117,895</u>	<u>53,650,263</u>	<u>1,532,368</u>
Expenditures:				
General government:				
Community enhancement	54,000	54,000	53,618	(382)
City council	363,662	363,662	323,582	(40,080)
City manager	3,713,614	3,713,614	3,595,859	(117,755)
City clerk	539,133	539,133	535,070	(4,063)
Legal and risk management	1,842,286	1,842,286	2,086,556	244,270
Finance and administration	1,356,686	1,356,686	1,318,736	(37,950)
Non-departmental	2,177,921	2,478,851	2,524,329	45,478
Total general government	<u>10,047,302</u>	<u>10,348,232</u>	<u>10,437,750</u>	<u>89,518</u>
Public safety:				
Law enforcement	12,022,099	11,467,099	10,985,000	(482,099)
Fire and marine safety	10,940,012	11,105,924	10,873,528	(232,396)
Total public safety	<u>22,962,111</u>	<u>22,573,023</u>	<u>21,858,528</u>	<u>(714,495)</u>
Public works:				
Administration	261,661	261,661	231,188	(30,473)
Facility maintenance	965,249	965,249	1,009,499	44,250
Stormwater	776,266	776,266	756,643	(19,623)
Street maintenance	512,882	512,882	495,406	(17,476)
Total public works	<u>2,516,058</u>	<u>2,516,058</u>	<u>2,492,736</u>	<u>(23,322)</u>

(Continued)

CITY OF ENCINITAS
Budgetary Comparison Schedule
General Fund (Continued)
For the Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Planning and building:				
Planning	\$ 2,640,778	\$ 2,660,778	\$ 2,529,738	\$ (131,040)
Building services	614,849	880,499	1,019,519	139,020
Total planning and building	<u>3,255,627</u>	<u>3,541,277</u>	<u>3,549,257</u>	<u>7,980</u>
Engineering services:				
City engineering	2,437,441	2,437,441	2,412,136	(25,305)
Traffic engineering	731,224	731,224	728,759	(2,465)
Stormwater	725,550	725,550	701,389	(24,161)
Total engineering services	<u>3,894,215</u>	<u>3,894,215</u>	<u>3,842,284</u>	<u>(51,931)</u>
Parks and recreation:				
Administration	507,179	507,179	512,945	5,766
Park services	1,246,823	1,246,823	1,164,564	(82,259)
Beach services	497,174	497,174	460,138	(37,036)
Recreational trails	106,105	106,105	103,033	(3,072)
Recreational services	2,001,205	1,867,886	1,834,486	(33,400)
Community and senior center	1,142,778	1,126,243	1,085,082	(41,161)
Animal regulation	322,120	322,120	322,330	210
Total parks and recreation	<u>5,823,384</u>	<u>5,673,530</u>	<u>5,482,578</u>	<u>(190,952)</u>
Total expenditures	<u>48,498,697</u>	<u>48,546,335</u>	<u>47,663,133</u>	<u>(883,202)</u>
Excess of revenues over expenditures	<u>4,157,247</u>	<u>3,571,560</u>	<u>5,987,130</u>	<u>2,415,570</u>
Other financing sources (uses):				
Transfers in	50,007	50,007	183,813	133,806
Transfers out	(4,989,051)	(5,122,585)	(6,716,933)	1,594,348
Total other financing sources (uses)	<u>(4,939,044)</u>	<u>(5,072,578)</u>	<u>(6,533,120)</u>	<u>1,460,542</u>
Net change in fund balance	<u>(781,797)</u>	<u>(1,501,018)</u>	<u>(545,990)</u>	<u>955,028</u>
Fund balance - Beginning of year	<u>47,535,284</u>	<u>47,535,284</u>	<u>47,535,284</u>	<u>-</u>
Fund balance - End of year	<u>\$ 46,753,487</u>	<u>\$ 46,034,266</u>	<u>\$ 46,989,294</u>	<u>\$ 955,028</u>

See Accompanying Note to Required Supplementary Information.

CITY OF ENCINITAS
Note to Required Supplementary Information
June 30, 2010

(1) BUDGETARY INFORMATION:

(a) Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information and other supplementary information budgetary comparison schedules:

The City Council adopts a two-year operating budget, with appropriations for the first year only. This annual budget provides for the general operations of the City. It includes all proposed expenditures and inter-fund transfers, and the means of financing them. The Council also approves any amendments to appropriations throughout the year, generally at the mid-year budget review in February. This "appropriated budget" covers substantially all City expenditures, with the exception of capital improvement projects, which expenditures constitute a legally authorized "non-appropriated budget". The legal level of budgetary control is the fund level. The budget figures used in the required supplementary information are both original and final budgeted amounts. The final budget amounts include any amendments adopted during the year.

Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations which are unencumbered at year-end lapse. City Council approval is required to include any unencumbered appropriations at year-end in the following fiscal year's budget as continuing appropriations.

Budgets for the general and special revenue funds are adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America. Accordingly, actual revenue and expenditures can be compared with related budgeted amounts without any significant reconciling items. No budgetary comparisons are presented for the debt service, capital projects or proprietary funds, as the City is not legally required to adopt an annual budget for those types of funds.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must be either refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. Further, Section 5 of Article XIII B allows the City to designate a portion of fund balance for general contingencies to be used in future years without limitation.

CITY OF ENCINITAS
Required Supplementary Information
Other Postemployment Benefits Schedules of Funding Progress
June 30, 2010

City Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/2007	\$ -	\$ 10,045,000	\$ 10,045,000	0.00%	\$ 16,599,000	60.52%
6/30/2009	467,000	9,990,000	9,523,000	4.67%	17,138,000	55.57%

SDWD Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Payroll
6/30/2007	\$ -	\$ 344,000	\$ 344,000	0.00%	\$ 1,016,000	33.86%
6/30/2009	13,000	302,000	289,000	4.30%	1,049,000	27.55%

CITY OF ENCINITAS
Required Supplementary Information
Schedule of Funding Progress for CalPERS
June 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Overfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll (B-A/C)
6/30/2007	\$ 30,914,615	\$ 41,901,894	\$ 10,987,279	73.8%	\$ 11,553,936	95.1%
6/30/2008	35,862,082	47,091,832	11,229,750	76.2%	12,567,367	89.4%
6/30/2009	40,484,775	55,662,304	15,177,529	72.7%	13,267,844	114.4%

SUPPLEMENTARY

INFORMATION SECTION



City of Encinitas
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CITY OF ENCINITAS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	Special Revenue Funds		
	Grants and Housing	Development Impact	Lighting and Landscaping
Assets:			
Cash and investments	\$ 2,308,613	\$ 4,669,752	\$ 2,119,919
Receivables	486,439	9,573	31,331
Other assets	162,858	-	-
Advance to other funds	-	-	-
Cash and investments with fiscal agent - restricted	-	-	-
Total assets	<u>\$ 2,957,910</u>	<u>\$ 4,679,325</u>	<u>\$ 2,151,250</u>
Liabilities and fund balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 236,953	\$ -	\$ 129,369
Interest payable	-	-	-
Deferred revenue	11,697	-	-
Due to other funds	325,141	-	-
Deposits and other liabilities	8,390	360	-
Total liabilities	<u>582,181</u>	<u>360</u>	<u>129,369</u>
Fund balances:			
Reserved for			
Unreserved, designated	2,375,729	4,678,965	2,021,881
Total fund balances	<u>2,375,729</u>	<u>4,678,965</u>	<u>2,021,881</u>
Total liabilities and fund balances	<u>\$ 2,957,910</u>	<u>\$ 4,679,325</u>	<u>\$ 2,151,250</u>

Infrastructure Improvements Special Revenue	Debt Service Fund	Total Nonmajor Governmental Funds
\$ 2,457,223	\$ -	\$ 11,555,507
292,424	-	819,767
-	-	162,858
-	335,000	335,000
-	3,591,796	3,591,796
<u>\$ 2,749,647</u>	<u>\$ 3,926,796</u>	<u>\$ 16,464,928</u>
\$ 50,393	\$ -	\$ 416,715
-	56,168	56,168
1,046,397	-	1,058,094
298,889	462,219	1,086,249
-	-	8,750
<u>1,395,679</u>	<u>518,387</u>	<u>2,625,976</u>
	3,408,409	3,408,409
<u>1,353,968</u>		<u>10,430,543</u>
<u>1,353,968</u>	<u>3,408,409</u>	<u>13,838,952</u>
<u>\$ 2,749,647</u>	<u>\$ 3,926,796</u>	<u>\$ 16,464,928</u>

CITY OF ENCINITAS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	Special Revenue Funds		
	Grants and Housing	Development Impact	Lighting and Landscaping
Revenues:			
Taxes and assessments	\$ 172,158	\$ -	\$ 1,811,258
Intergovernmental	2,520,184	-	-
Development impact fees	-	798,863	-
Use of money and property	4,195	36,253	51,597
Other	355,655	-	34,915
Total revenues	<u>3,052,192</u>	<u>835,116</u>	<u>1,897,770</u>
Expenditures:			
Current:			
General government	129,326	-	-
Public safety	190,711	-	-
Public works	302,635	-	1,777,516
Community services	2,050,357	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>2,673,029</u>	<u>-</u>	<u>1,777,516</u>
Excess (deficiency) of revenues over (under) expenditures	<u>379,163</u>	<u>835,116</u>	<u>120,254</u>
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	<u>(318,837)</u>	<u>(494,871)</u>	<u>(8,272)</u>
Total other financing sources (uses)	<u>(318,837)</u>	<u>(494,871)</u>	<u>(8,272)</u>
Net change in fund balances	60,326	340,245	111,982
Fund balances - Beginning of year	<u>2,315,403</u>	<u>4,338,720</u>	<u>1,909,899</u>
Fund balances - End of year	<u>\$ 2,375,729</u>	<u>\$ 4,678,965</u>	<u>\$ 2,021,881</u>

Infrastructure Improvements Special Revenue	Debt Service Fund	Total Nonmajor Governmental Funds
\$ 235,392	\$ -	\$ 2,218,808
3,786,633	4,113	6,310,930
-	-	798,863
5,373	43,507	140,925
668	-	391,238
<u>4,028,066</u>	<u>47,620</u>	<u>9,860,764</u>
-	-	129,326
-	-	190,711
1,315,274	-	3,395,425
-	-	2,050,357
-	2,091,882	2,091,882
-	<u>2,332,574</u>	<u>2,332,574</u>
<u>1,315,274</u>	<u>4,424,456</u>	<u>10,190,275</u>
<u>2,712,792</u>	<u>(4,376,836)</u>	<u>(329,511)</u>
37,800	4,013,395	4,051,195
<u>(3,527,207)</u>	<u>-</u>	<u>(4,349,187)</u>
<u>(3,489,407)</u>	<u>4,013,395</u>	<u>(297,992)</u>
(776,615)	(363,441)	(627,503)
<u>2,130,583</u>	<u>3,771,850</u>	<u>14,466,455</u>
<u>\$ 1,353,968</u>	<u>\$ 3,408,409</u>	<u>\$ 13,838,952</u>

CITY OF ENCINITAS
Budgetary Comparison Schedule
Grants and Housing Special Revenue Fund
For the Year Ended June 30, 2010

	Final Budget	Actual	Over (Under) Variance With Final Budget
Revenues:			
Taxes and assessments	\$ 130,800	\$ 172,158	\$ 41,358
Intergovernmental	2,787,265	2,520,184	(267,081)
Use of money and property	4,933	4,195	(738)
Other	<u>415,323</u>	<u>355,655</u>	<u>(59,668)</u>
Total revenues	<u>3,338,321</u>	<u>3,052,192</u>	<u>(286,129)</u>
Expenditures:			
General government	90,546	129,326	38,780
Public safety	195,690	190,711	(4,979)
Public works	448,360	302,635	(145,725)
Community services	<u>2,106,688</u>	<u>2,050,357</u>	<u>(56,331)</u>
Total expenditures	<u>2,841,284</u>	<u>2,673,029</u>	<u>(168,255)</u>
Excess (deficiency) of revenues over (under) expenditures	497,037	379,163	(117,874)
Other financing (uses):			
Transfers out	<u>(504,815)</u>	<u>(318,837)</u>	<u>(185,978)</u>
Net change in fund balance	(7,778)	60,326	68,104
Fund balance - Beginning of year	<u>2,315,403</u>	<u>2,315,403</u>	<u>-</u>
Fund balance - End of year	<u>\$ 2,307,625</u>	<u>\$ 2,375,729</u>	<u>\$ 68,104</u>

CITY OF ENCINITAS
Budgetary Comparison Schedule
Development Impact Special Revenue Fund
For the Year Ended June 30, 2010

	Final Budget	Actual	Over (Under) Variance With Final Budget
Revenues:			
Development impact fees	\$ 1,468,475	\$ 798,863	\$ (669,612)
Use of money and property	<u>62,841</u>	<u>36,253</u>	<u>(26,588)</u>
Total revenues	<u>1,531,316</u>	<u>835,116</u>	<u>(696,200)</u>
Other financing (uses):			
Transfers out	<u>(1,110,007)</u>	<u>(494,871)</u>	<u>(615,136)</u>
Net change in fund balance	421,309	340,245	(81,064)
Fund balance - Beginning of year	<u>4,338,720</u>	<u>4,338,720</u>	<u>-</u>
Fund balance - End of year	<u>\$ 4,760,029</u>	<u>\$ 4,678,965</u>	<u>\$ (81,064)</u>

CITY OF ENCINITAS
Budgetary Comparison Schedule
Lighting and Landscaping Special Revenue Fund
For the Year Ended June 30, 2010

	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Variance With Final Budget</u>
Revenues:			
Taxes and assessments	\$ 1,888,858	\$ 1,811,258	\$ (77,600)
Use of money and property	43,010	51,597	8,587
Other	-	34,915	34,915
Total revenues	<u>1,931,868</u>	<u>1,897,770</u>	<u>(34,098)</u>
Expenditures:			
Public works	<u>1,863,438</u>	<u>1,777,516</u>	<u>(85,922)</u>
Excess of revenues over expenditures	68,430	120,254	51,824
Other financing (uses):			
Transfers out	<u>(78,800)</u>	<u>(8,272)</u>	<u>(70,528)</u>
Net change in fund balance	(10,370)	111,982	122,352
Fund balance - Beginning of year	<u>1,909,899</u>	<u>1,909,899</u>	<u>-</u>
Fund balance - End of year	<u>\$ 1,899,529</u>	<u>\$ 2,021,881</u>	<u>\$ 122,352</u>

CITY OF ENCINITAS
Budgetary Comparison Schedule
Infrastructure Improvements Special Revenue Fund
For the Year Ended June 30, 2010

	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Variance with Final Budget</u>
Revenues:			
Taxes and assessments	\$ 1,387,500	\$ 235,392	\$ (1,152,108)
Intergovernmental	604,078	3,786,633	3,182,555
Use of money and property	9,554	5,373	(4,181)
Other	<u>16,600</u>	<u>668</u>	<u>(15,932)</u>
Total revenues	<u>2,017,732</u>	<u>4,028,066</u>	<u>2,010,334</u>
Expenditures:			
Public works	<u>1,439,162</u>	<u>1,315,274</u>	<u>(123,888)</u>
Excess of revenues over expenditures	578,570	2,712,792	2,134,222
Other financing sources (uses):			
Transfers in	37,800	37,800	-
Transfers out	<u>(3,284,591)</u>	<u>(3,527,207)</u>	<u>242,616</u>
Total other financing uses	<u>(3,246,791)</u>	<u>(3,489,407)</u>	<u>242,616</u>
Net change in fund balance	(2,668,221)	(776,615)	1,891,606
Fund balance - Beginning of year	<u>2,130,583</u>	<u>2,130,583</u>	<u>-</u>
Fund balance - End of year	<u>\$ (537,638)</u>	<u>\$ 1,353,968</u>	<u>\$ 1,891,606</u>

CITY OF ENCINITAS
Combining Statement of Net Assets
Internal Service Funds
June 30, 2010

	<u>Wastewater Support</u>	<u>Vehicle Maintenance</u>	<u>Vehicle Replacement</u>	<u>Total Internal Service</u>
Assets:				
Current assets:				
Cash and investments	\$ 38,081	\$ 19,376	\$ 1,755,891	\$ 1,813,348
Noncurrent Assets:				
Capital assets:				
Vehicles and equipment	-	-	6,358,912	6,358,912
Accumulated depreciation	-	-	(4,357,743)	(4,357,743)
Total capital assets, net	-	-	2,001,169	2,001,169
Total noncurrent assets	-	-	2,001,169	2,001,169
Total assets	38,081	19,376	3,757,060	3,814,517
Liabilities:				
Accounts payable and accrued liabilities	38,081	19,376	-	57,457
Total liabilities	38,081	19,376	-	57,457
Net Assets				
Invested in capital assets, net of related debt	-	-	2,001,169	2,001,169
Unrestricted	-	-	1,755,891	1,755,891
Total net assets	\$ -	\$ -	\$ 3,757,060	\$ 3,757,060

CITY OF ENCINITAS
Combining Statement of Revenues, Expenses and Changes in Net Assets
Internal Service Funds
For the Year Ended June 30, 2010

	<u>Wastewater Support</u>	<u>Vehicle Maintenance</u>	<u>Vehicle Replacement</u>	<u>Total Internal Service</u>
Operating revenues:				
Administrative support	\$ 97,789	\$ -	\$ -	\$ 97,789
Operational support services	716,394	471,179	236,250	1,423,823
Total operating revenues	814,183	471,179	236,250	1,521,612
Operating expenses:				
Depreciation	-	-	382,350	382,350
Administrative support	102,654	-	-	102,654
Operational support services	711,529	471,179	-	1,182,708
Total operating expenses	814,183	471,179	382,350	1,667,712
Operating income (loss)	-	-	(146,100)	(146,100)
Nonoperating revenues				
Gain on sale of capital assets	-	-	23,928	23,928
Change in net assets	-	-	(122,172)	(122,172)
Net assets - Beginning of year	-	-	3,879,232	3,879,232
Net assets - End of year	\$ -	\$ -	\$ 3,757,060	\$ 3,757,060

CITY OF ENCINITAS
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2010

	<u>Wastewater Support</u>	<u>Vehicle Maintenance</u>	<u>Vehicle Replacement</u>	<u>Total Internal Service</u>
Cash flows from operating activities:				
Receipts from users	\$ 814,183	\$ 471,179	\$ 245,055	\$ 1,530,417
Payments to suppliers and vendors	<u>(814,403)</u>	<u>(469,758)</u>	<u>(256,198)</u>	<u>(1,540,359)</u>
Net cash provided by operating activities	<u>(220)</u>	<u>1,421</u>	<u>(11,143)</u>	<u>(9,942)</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	-	-	23,928	23,928
Purchases of capital assets	<u>-</u>	<u>-</u>	<u>(308,234)</u>	<u>(308,234)</u>
Net cash (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>(284,306)</u>	<u>(284,306)</u>
Net increase (decrease) in cash and cash equivalents	(220)	1,421	(295,449)	(294,248)
Cash and cash equivalents - Beginning of year	<u>38,301</u>	<u>17,955</u>	<u>2,051,340</u>	<u>2,107,596</u>
Cash and cash equivalents - End of year	<u><u>\$ 38,081</u></u>	<u><u>\$ 19,376</u></u>	<u><u>\$ 1,755,891</u></u>	<u><u>\$ 1,813,348</u></u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ -	\$ -	\$ (146,100)	\$ (146,100)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	-	-	382,350	382,350
Decrease in accounts receivable	-	-	8,805	8,805
Increase (decrease) in accounts payable and accrued liabilities	<u>(220)</u>	<u>1,421</u>	<u>(256,198)</u>	<u>(254,997)</u>
Net cash provided by operating activities	<u><u>\$ (220)</u></u>	<u><u>\$ 1,421</u></u>	<u><u>\$ (11,143)</u></u>	<u><u>\$ (9,942)</u></u>

CITY OF ENCINITAS
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2010

	<u>Community Facilities District #1</u>	<u>Requeza Assessment District</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 2,351,345	\$ 193,042	\$ 2,544,387
Cash and investments with fiscal agents	2,794,406	-	2,794,406
Interest receivable	4,913	-	4,913
Special assessments receivable	37,830,000	445,000	38,275,000
Current assessments receivable	<u>5,604</u>	<u>-</u>	<u>5,604</u>
Total assets	<u><u>\$ 42,986,268</u></u>	<u><u>\$ 638,042</u></u>	<u><u>\$ 43,624,310</u></u>
Liabilities:			
Due to bondholders	<u><u>\$ 42,986,268</u></u>	<u><u>\$ 638,042</u></u>	<u><u>\$ 43,624,310</u></u>

CITY OF ENCINITAS
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2010

Community Facilities District #1				
	Beginning Balance	Additions	Deletions	Ending Balance
Assets:				
Cash and investments	\$ 2,477,606	\$ 2,666,993	\$ (2,793,254)	\$ 2,351,345
Cash and investments with fiscal agents	2,799,415	2,758,465	(2,763,474)	2,794,406
Interest receivable	11,231	4,913	(11,231)	4,913
Special assessments receivable	39,015,000	-	(1,185,000)	37,830,000
Current assessments receivable	13,068	5,604	(13,068)	5,604
 Total assets	<u>\$ 44,316,320</u>	<u>\$ 5,435,975</u>	<u>\$ (6,766,027)</u>	<u>\$ 42,986,268</u>
 Liabilities:				
Due bondholders	<u>\$ 44,316,320</u>	<u>\$ 5,435,975</u>	<u>\$ (6,766,027)</u>	<u>\$ 42,986,268</u>
 Requeza Assessment District				
	Beginning Balance	Additions	Deletions	Ending Balance
Assets:				
Cash and investments	\$ 264,358	\$ 111,145	\$ (182,461)	\$ 193,042
Interest receivable	1,135	-	(1,135)	-
Special assessments receivable	585,000	-	(140,000)	445,000
Current assessments receivable	1,883	-	(1,883)	-
 Total assets	<u>\$ 852,376</u>	<u>\$ 111,145</u>	<u>\$ (325,479)</u>	<u>\$ 638,042</u>
 Liabilities:				
Due to bondholders	<u>\$ 852,376</u>	<u>\$ 111,145</u>	<u>\$ (325,479)</u>	<u>\$ 638,042</u>

CITY OF ENCINITAS
Combining Statement of Changes in Assets and Liabilities
Agency Funds (Continued)
For the Year Ended June 30, 2010

Total				
	Beginning Balance	Additions	Deletions	Ending Balance
Assets:				
Cash and investments	\$ 2,741,964	\$ 2,778,138	\$ (2,975,715)	\$ 2,544,387
Cash and investments with fiscal agents	2,799,415	2,758,465	(2,763,474)	2,794,406
Interest receivable	12,366	4,913	(12,366)	4,913
Special assessments receivable	39,600,000	-	(1,325,000)	38,275,000
Current assessments receivable	14,951	5,604	(14,951)	5,604
 Total assets	<u>\$ 45,168,696</u>	<u>\$ 5,547,120</u>	<u>\$ (7,091,506)</u>	<u>\$ 43,624,310</u>
 Liabilities:				
Due to bondholders	<u>\$ 45,168,696</u>	<u>\$ 5,547,120</u>	<u>\$ (7,091,506)</u>	<u>\$ 43,624,310</u>

STATISTICAL

SECTION

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City of Encinitas
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The section of the City of Encinitas' Comprehensive Annual Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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CITY OF ENCINITAS
NET ASSETS BY COMPONENT
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2002	2003	2004	2005
Government activities:				
Invested in capital assets, net of related debt	\$ 78,842,949	\$ 84,762,814	\$ 101,006,065	\$ 99,822,192
Restricted	9,498,494	44,247,747	18,410,061	7,336,647
Unrestricted	43,868,649	17,575,861	33,463,725	52,506,975
Total Governmental activities net assets	<u>\$ 132,210,092</u>	<u>\$ 146,586,422</u>	<u>\$ 152,879,851</u>	<u>\$ 159,665,814</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 23,123,556	\$ 30,606,971	\$ 35,749,169	\$ 32,464,901
Restricted	5,763,400	12,669,778	9,681,193	8,170,042
Unrestricted	37,653,909	26,239,700	25,544,548	32,494,310
Total business-type activities net assets	<u>\$ 66,540,865</u>	<u>\$ 69,516,449</u>	<u>\$ 70,974,910</u>	<u>\$ 73,129,253</u>
Primary government:				
Invested in capital assets, net of related debt	101,966,505	115,369,785	136,755,234	132,287,093
Restricted	15,261,894	56,917,525	28,091,254	15,506,689
Unrestricted	81,522,558	43,815,561	59,008,273	85,001,285
Total primary government net assets	<u>\$ 198,750,957</u>	<u>\$ 216,102,871</u>	<u>\$ 223,854,761</u>	<u>\$ 232,795,067</u>

	Fiscal Year				
	2006	2007	2008	2009	2010
Government activities:					
Invested in capital assets, net of related debt	\$ 110,362,657	\$ 120,651,504	\$ 125,786,039	\$ 131,703,037	\$ 130,912,728
Restricted	6,011,187	6,264,431	5,207,761	4,340,090	4,219,623
Unrestricted	51,645,424	52,721,705	56,901,871	53,452,967	54,755,944
Total Governmental activities net assets	<u>\$ 168,019,268</u>	<u>\$ 179,637,640</u>	<u>\$ 187,895,671</u>	<u>\$ 189,496,094</u>	<u>\$ 189,888,295</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ 26,265,471	\$ 18,865,708	\$ 19,204,679	\$ 19,422,684	\$ 28,623,514
Restricted	1,815,913	1,806,768	1,814,716	1,048,426	-
Unrestricted	47,263,919	60,256,625	65,301,729	68,683,799	68,307,431
Total business-type activities net assets	<u>\$ 75,345,303</u>	<u>\$ 80,929,101</u>	<u>\$ 86,321,124</u>	<u>\$ 89,154,909</u>	<u>\$ 96,930,945</u>
Primary government:					
Invested in capital assets, net of related debt	136,628,128	139,517,212	144,990,718	151,125,721	159,536,242
Restricted	7,827,100	8,071,199	7,022,477	5,388,516	4,219,623
Unrestricted	98,909,343	112,978,330	122,203,600	122,136,766	123,063,375
Total primary government net assets	<u>\$ 243,364,571</u>	<u>\$ 260,566,741</u>	<u>\$ 274,216,795</u>	<u>\$ 278,651,003</u>	<u>\$ 286,819,240</u>

Note: The City began to report accrual information when it implemented GASB Statement 34 in the fiscal year ended June 30, 2002. Information prior to the implementation of GASB Statement 34 is not available.

Source: City of Encinitas Finance Department

CITY OF ENCINITAS
CHANGES IN NET ASSETS
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2002	2003	2004	2005
Expenses:				
Government activities:				
General government	\$ 6,456,504	\$ 7,747,595	\$ 8,936,450	\$ 11,371,884
Public safety	15,637,045	15,500,052	18,376,352	18,883,165
Public works	6,957,187	3,237,546	8,698,419	8,441,146
Planning and building	3,932,550	3,698,424	3,766,482	3,275,168
Engineering services	4,212,998	4,118,152	2,348,760	2,615,298
Community Services	-	-	-	1,077,558
Parks and recreation	5,573,443	5,523,752	5,444,334	4,791,064
Interest and fiscal charges on long-term debt	1,551,744	1,647,415	2,035,705	1,563,771
Total governmental activities expenses	44,321,471	41,472,936	49,606,502	52,019,054
Business-type activities:				
Cardiff Sanitary Division	2,453,440	2,578,070	3,123,260	2,702,948
San Diegoito Water District	9,053,531	9,006,186	10,008,027	9,335,523
Encinitas Sanitary Division	1,179,654	1,167,210	1,296,435	1,227,303
Affordable Housing	-	-	1,381,062	1,594,702
Total business-type activities expenses	12,686,625	12,751,466	15,808,784	14,860,476
Total primary government expenses	57,008,096	54,224,402	65,415,286	66,879,530
Program revenues:				
Government activities:				
Charges for services:				
General government	610,204	1,829,281	1,205,596	448,271
Public safety	688,769	636,092	550,377	802,913
Public Works	-	-	-	-
Planning and building	2,454,975	2,079,642	1,753,197	1,563,196
Engineering services	822,160	610,317	685,832	731,638
Parks and recreation	460,434	759,089	914,625	965,685
Operating grants and contributions	3,671,024	3,367,396	5,127,262	5,279,931
Capital grants and contributions	3,652,736	6,091,066	5,235,672	5,458,200
Total governmental activities program revenues	12,360,302	15,372,883	15,472,561	15,249,834
Business-type activities:				
Charges for services:				
Cardiff Sanitary Division	2,305,145	2,326,552	2,392,338	4,154,963
San Diegoito Water District	7,406,138	7,794,597	8,033,298	8,059,594
Encinitas Sanitary Division	1,230,614	1,273,533	1,545,151	1,928,979
Affordable Housing	-	-	67,979	1,474,837
Capital grants and contributions	1,540,810	1,385,142	4,969,157	534,135
Total business-type activities program revenues	12,482,707	12,779,824	17,007,923	16,152,508
Total primary government program revenues	24,843,009	28,152,707	32,480,484	31,402,342
Governmental activities	(31,961,169)	(26,100,053)	(34,133,941)	(36,769,220)
Business-type activities	(203,918)	28,358	1,199,139	1,292,032
Total net revenue (expense)	(32,165,087)	(26,071,695)	(32,934,802)	(35,477,188)

Fiscal Year									
2006		2007		2008		2009		2010	
\$	11,026,711	\$	11,858,189	\$	12,783,573	\$	14,249,545	\$	12,163,416
	20,244,227		20,783,243		21,015,336		22,039,493		22,269,616
	6,783,035		6,728,553		11,595,020		9,360,563		9,520,416
	3,716,694		3,826,565		4,020,288		3,608,623		3,549,257
	2,890,832		3,078,645		3,972,242		4,010,485		3,842,284
	1,102,571		1,065,636		1,266,770		1,224,920		2,050,357
	5,132,178		5,318,816		6,594,001		6,902,715		6,518,623
	1,511,337		1,978,163		2,261,104		2,266,817		2,296,422
	52,407,585		54,637,810		63,508,334		63,663,161		62,210,391
	3,278,916		2,948,112		2,985,912		2,854,368		3,569,880
	10,826,162		11,712,887		11,894,734		12,955,085		11,633,694
	1,332,980		1,357,343		1,823,088		1,805,624		1,855,279
	3,028,297		1,405,094		242,553		260,130		256,873
	18,466,355		17,423,436		16,946,287		17,875,207		17,315,726
	70,873,940		72,061,246		80,454,621		81,538,368		79,526,117
	1,701,854		2,248,666		2,895,795		1,608,273		1,962,344
	836,439		1,127,923		1,006,293		103,641		105,799
							19,276		668
	1,896,751		2,341,988		2,284,066		1,539,851		1,521,889
	839,176		1,430,282		1,655,539		759,885		660,734
	907,974		928,810		1,224,923		810,667		1,126,285
	5,299,476		5,086,623		5,736,957		4,838,455		5,392,117
	5,638,059		4,372,149		2,699,027		3,613,636		3,437,302
	17,119,729		17,536,441		17,502,600		13,293,684		14,207,138
	4,939,158		4,826,970		4,926,104		5,009,340		4,979,238
	9,515,054		10,961,760		11,283,219		11,379,337		11,046,650
	2,557,690		2,556,281		2,685,490		2,811,359		2,816,963
	105,559		-		-		222,507		202,499
	380,593		277,210		746,586		299,326		231,362
	17,498,054		18,622,221		19,641,399		19,721,869		19,276,712
	34,617,783		36,158,662		37,143,999		33,015,553		33,483,850
	(35,287,856)		(37,101,369)		(46,005,734)		(50,369,477)		(48,003,253)
	(968,301)		1,198,785		2,695,112		1,846,662		1,960,986
	(36,256,157)		(35,902,584)		(43,310,622)		(48,522,815)		(46,042,267)

Note: The City began to report accrual information when it implemented GASB Statement 34 in the fiscal year ended June 30, 2002. Information prior to the implementation of GASB Statement 34 is not available.

Source: City of Encinitas Finance Department

(Continued)

CITY OF ENCINITAS
CHANGES IN NET ASSETS
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(CONTINUED)

	Fiscal Year				Fiscal Year				
	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Revenues and Other Changes in Net Assets:									
Governmental activities:									
Taxes									
Property taxes and transfer fees	16,364,303	17,473,191	19,375,968	26,417,943	29,290,854	32,593,979	33,858,150	35,064,401	32,285,155
Sales taxes	9,496,757	10,408,617	10,773,548	8,606,077	8,807,630	9,043,912	8,130,837	7,340,410	8,780,202
Transient occupancy taxes	938,494	932,964	777,195	790,943	1,094,994	1,089,065	1,182,816	1,099,817	1,179,789
Franchise taxes	1,919,420	1,741,499	1,511,676	1,837,213	1,951,637	2,011,947	2,212,915	2,162,729	2,031,924
Intergovernmental revenues	4,000,930	3,850,349	3,158,289	2,077,519	569,757	753,722	1,335,594	1,866,726	794,362
Use of money and property	4,511,616	2,649,626	1,942,927	3,506,285	2,670,990	3,957,869	3,842,268	2,884,233	1,085,981
Other general revenues	1,178,724	3,249,057	1,561,650	2,605,280	554,750	502,115	568,884	1,551,584	2,238,041
Gain/(Loss) on sale of assets	-	-	-	-	(32,510)	(5,682)	-	-	-
Transfers	259,560	171,080	481,715	(1,456,893)	(1,266,792)	(1,227,186)	-	-	-
Total governmental activities	38,669,804	40,476,383	39,582,968	44,384,367	43,641,310	48,719,741	51,131,464	51,969,900	48,395,454
Business-type activities:									
Property taxes	378,676	420,394	475,898	168,038	228,881	651,195	690,407	721,628	718,212
Intergovernmental-unrestricted	-	-	-	-	-	893,500	-	-	-
Use of money and property	1,618,515	1,086,560	587,222	1,304,963	1,550,626	1,374,862	1,756,153	974,702	392,152
Other general revenues	299,615	1,440,272	223,397	451,640	138,052	238,270	250,351	45,193	228,614
Transfers	-	-	(481,715)	1,456,893	1,266,792	1,227,186	-	-	-
Total business-type activities	2,296,806	2,947,226	804,802	3,381,534	3,184,351	4,385,013	2,696,911	1,741,523	1,338,978
Total primary government	40,966,610	43,423,609	40,387,770	47,765,901	46,825,661	53,104,754	53,828,375	53,711,423	49,734,432
Changes in Net Assets									
Government activities	6,708,635	14,376,330	5,449,027	7,614,147	8,353,454	11,618,372	5,125,730	1,600,423	392,201
Business-type activities	2,092,888	2,975,584	2,003,941	4,673,566	2,216,050	5,583,798	5,392,023	3,588,185	3,299,964
Total primary government	\$ 8,801,523	\$ 17,351,914	\$ 7,452,968	\$ 12,287,713	\$ 10,569,504	\$ 17,202,170	\$ 10,517,753	\$ 5,188,608	\$ 3,692,165

Note: The City began to report accrual information when it implemented GASB Statement 34 in the fiscal year ended June 30, 2002. Information prior to the implementation of GASB Statement 34 is not available.

Source: City of Encinitas Finance Department

CITY OF ENCINITAS
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST NINE FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2002	2003	2004	2005
General fund:				
Reserved	\$ 27,201,424	\$ 24,456,970	\$ 22,200,278	\$ 3,644,856
Unreserved, designated	-	-	-	-
Unreserved, undesignated	<u>8,034,604</u>	<u>10,640,608</u>	<u>13,254,418</u>	<u>36,390,504</u>
Total general fund	<u>\$ 35,236,028</u>	<u>\$ 35,097,578</u>	<u>\$ 35,454,696</u>	<u>\$ 40,035,360</u>
All other governmental funds:				
Reserved	\$ 6,689,539	\$ 8,137,510	\$ 12,756,026	\$ 3,691,791
Unreserved, designated	13,985,477	15,639,620	5,654,035	15,771,318
Unreserved, undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total all other governmental funds	<u>\$ 20,675,016</u>	<u>\$ 23,777,130</u>	<u>\$ 18,410,061</u>	<u>\$ 19,463,109</u>
Total all governmental funds	<u><u>\$ 55,911,044</u></u>	<u><u>\$ 58,874,708</u></u>	<u><u>\$ 53,864,757</u></u>	<u><u>\$ 59,498,469</u></u>

Fiscal Year									
2006		2007		2008		2009		2010	
\$	4,092,489	\$	15,196,796	\$	6,210,167	\$	5,255,137	\$	4,286,026
	-		-		35,790,162		38,413,388		36,913,369
	36,866,828		36,488,893		9,126,804		3,866,759		5,789,899
\$	40,959,317	\$	51,685,689	\$	51,127,133	\$	47,535,284	\$	46,989,294
\$	3,525,818	\$	4,176,025	\$	3,908,007	\$	3,771,850	\$	3,408,409
	14,605,153		16,909,261		10,968,342		10,694,605		10,430,543
	-		-		-		-		-
\$	18,130,971	\$	21,085,286	\$	14,876,349	\$	14,466,455	\$	13,838,952
\$	59,090,288	\$	72,770,975	\$	66,003,482	\$	62,001,739	\$	60,828,246

The City of Encinitas has elected to show only nine years of data for this schedule.

Source: City of Encinitas Finance Department

CITY OF ENCINITAS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST NINE FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2002	2003	2004	2005
Revenues:				
Taxes and assessments	\$ 29,436,597	\$ 31,662,100	\$ 33,943,667	\$ 39,383,642
Intergovernmental	9,626,090	11,048,984	9,098,006	9,301,017
Charges for services	5,775,892	6,219,303	6,504,237	5,582,317
Fines, forfeitures, and penalties	581,104	421,065	501,297	745,744
Use of money and property	4,511,616	2,649,625	1,942,914	3,506,285
Other	836,447	3,136,771	2,425,547	2,571,086
Total Revenues	50,767,746	55,137,848	54,415,668	61,090,091
Expenditures:				
Current:				
General government	6,360,595	7,899,375	8,180,099	10,129,726
Public safety	15,702,832	16,401,813	18,241,314	18,591,043
Public works	2,602,304	3,093,519	2,580,317	4,537,345
Planning and building	3,742,491	3,140,417	3,293,067	3,275,168
Engineering services	2,745,517	2,626,217	2,348,760	2,615,298
Community services	-	-	-	1,077,558
Parks and recreation	5,406,936	6,464,220	5,444,334	4,791,064
Capital outlay	22,719,793	13,443,499	17,369,542	5,440,192
Debt service:				
Principal	420,000	5,063,027	1,015,000	1,327,445
Interest and fiscal charges	1,804,106	503,177	1,520,899	1,553,393
Total expenditures	61,504,574	58,635,264	59,993,332	53,338,232
Excess (deficiency) of revenues over (under) expenditures	(10,736,828)	(3,497,416)	(5,577,664)	7,751,859
Other Financing Sources (Uses):				
Transfer in from CFD debt service	259,560	171,080	85,998	-
Operating transfers in	22,309,639	14,700,428	22,781,022	8,548,333
Operating transfers out	(22,309,639)	(15,000,428)	(22,299,307)	(10,005,226)
Proceeds of debt	200,000	6,590,000	-	-
Bond Discounts	-	-	-	-
Total other financing sources (uses)	459,560	6,461,080	567,713	(1,456,893)
Net change in fund balances	\$ (10,277,268)	\$ 2,963,664	\$ (5,009,951)	\$ 6,294,966
Debt service as a percentage of noncapital expenditures	6.1%	14.0%	6.3%	6.4%

	Fiscal Year				
	2006	2007	2008	2009	2010
Revenues:					
Taxes and assessments	\$ 44,026,335	\$ 46,922,540	\$ 47,483,312	\$ 47,800,573	\$ 46,805,219
Intergovernmental	6,464,129	5,596,224	5,999,680	5,950,205	6,917,521
Charges for services	6,642,855	8,022,053	9,293,303	6,621,931	5,164,315
Fines, forfeitures, and penalties	832,570	949,606	884,446	746,023	761,202
Use of money and property	2,586,286	3,943,512	3,851,877	2,008,557	1,085,981
Other	1,423,460	4,679,351	1,227,055	1,110,325	2,875,491
Total Revenues	61,975,635	70,113,286	68,739,673	64,237,614	63,609,729
Expenditures:					
Current:					
General government	9,378,799	9,601,089	11,903,557	13,036,815	11,859,415
Public safety	19,948,909	20,674,992	20,896,882	21,636,969	22,049,239
Public works	4,768,226	4,679,795	5,432,032	6,033,513	5,888,161
Planning and building	3,716,694	3,826,565	4,020,288	3,589,360	3,549,257
Engineering services	2,890,832	3,078,645	3,972,242	3,986,859	3,873,432
Community services	1,102,571	1,065,636	1,266,770	1,221,660	2,050,357
Parks and recreation	5,132,178	5,318,816	5,585,446	5,811,778	5,482,578
Capital outlay	11,215,699	23,383,302	20,704,628	8,473,396	5,606,327
Debt service:					
Principal	1,450,404	1,499,032	1,581,033	2,197,891	2,091,882
Interest and fiscal charges	1,512,712	1,780,651	2,244,288	2,251,116	2,332,574
Total expenditures	61,117,024	74,908,523	77,607,166	68,239,357	64,783,222
Excess (deficiency) of revenues over (under) expenditures	858,611	(4,795,237)	(8,867,493)	(4,001,743)	(1,173,493)
Other Financing Sources (Uses):					
Transfer in from CFD debt service	-	-	-	-	-
Operating transfers in	13,552,280	23,774,352	25,007,578	12,631,197	11,066,120
Operating transfers out	(14,819,072)	(24,998,428)	(25,007,578)	(12,631,197)	(11,066,120)
Proceeds of debt	-	20,000,000	2,100,000	-	-
Bond Discounts	-	(300,000)	-	-	-
Total other financing sources (uses)	(1,266,792)	18,475,924	2,100,000	-	-
Net change in fund balances	\$ (408,181)	\$ 13,680,687	\$ (6,767,493)	\$ (4,001,743)	\$ (1,173,493)
Debt service as a percentage of noncapital expenditures	6.3%	6.8%	7.2%	8.0%	8.1%

The City of Encinitas has elected to show only nine years of data for this schedule.

Source: City of Encinitas Finance Department

CITY OF ENCINITAS
 ASSESSED VALUE AND ESTIMATED
 ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (Dollars in thousands)

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	All Other Property (1)	Total Net Taxable Assessed Value (2)	Total Direct Tax Rate %
2001	\$4,814,676	\$562,870	\$26,026	\$451,994	\$5,855,566	0.24124
2002	\$5,321,184	\$605,730	\$27,664	\$426,843	\$6,381,421	0.24033
2003	\$5,795,218	\$648,842	\$28,772	\$455,916	\$6,928,748	0.23882
2004	\$6,466,136	\$703,029	\$29,622	\$473,921	\$7,672,708	0.23750
2005	\$7,218,507	\$748,540	\$30,209	\$457,085	\$8,454,341	0.23720
2006	\$7,995,632	\$805,108	\$32,074	\$504,680	\$9,337,494	0.23747
2007	\$8,742,273	\$852,894	\$32,714	\$562,621	\$10,190,502	0.23789
2008	\$9,355,905	\$927,637	\$33,375	\$583,340	\$10,900,257	0.23837
2009	\$9,800,179	\$969,642	\$35,427	\$451,831	\$11,257,079	0.23278
2010	\$9,774,056	\$1,063,161	\$36,255	\$454,096	\$11,327,568	0.23338

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Note: In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

(1) Includes the following categories: dry farm, institutional, irrigated, recreation, vacant land, SBC nonunitary, possessory interest, unsecured, and unknown.

(2) The "total net taxable assessed value" is net of tax-exempt property. In addition, homeowners exemptions are not included in the above totals.

Source: San Diego County Assessor 2000/2001 - 2009/2010 Tax Rate Table
 The HdI Companies

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CITY OF ENCINITAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

	Fiscal Year			
	2001	2002	2003	2004
	%	%	%	%
City of Encinitas Basic Rate	0.24124	0.24033	0.23882	0.23750
Other Applicable Rates	0.00000	0.00000	0.00000	0.00000
City of Encinitas Direct Rate (1)	0.24124	0.24033	0.23882	0.23750
Overlapping Rates: (2)				
City of Encinitas	0.26641	0.26641	0.26641	0.26641
Encinitas Landscape & Lighting District	0.01596	0.01596	0.01596	0.01596
Autistic Pupils Monors Elem	0.00009	0.00009	0.00009	0.00009
Autistic Pupils Monors High	0.00009	0.00009	0.00009	0.00009
Cardiff Elementary	0.26238	0.26238	0.26238	0.26238
Children's Institutions Tuition	0.00146	0.00146	0.00146	0.00146
County General	0.08264	0.08264	0.08264	0.08264
County Library	0.01298	0.01298	0.01298	0.01298
County School Service	0.00687	0.00687	0.00687	0.00687
County School Service-Capital Outlay	0.00173	0.00173	0.00173	0.00173
County Service Area No. 17	0.00291	0.00291	0.00291	0.00291
CWA San Dieguito Water District	0.00344	0.00344	0.00344	0.00344
Development Centers for Handicapped Elem	0.00043	0.00043	0.00043	0.00043
Development Centers for Handicapped High	0.00044	0.00044	0.00044	0.00044
Educable Mentally retarded Minors	0.00196	0.00196	0.00196	0.00196
Educational Revenue Augmentation Fund	0.08574	0.08574	0.08574	0.08574
Mira Costa community College	0.08594	0.08594	0.08594	0.08594
Physically Handicapped Minors Elem	0.00303	0.00303	0.00303	0.00303
Physically Handicapped Minors High	0.00304	0.00304	0.00304	0.00304
Regional Occupational Centers	0.00438	0.00438	0.00438	0.00438
San Dieguito Union High	0.14404	0.14404	0.14404	0.14404
San Dieguito Water District	0.00992	0.00992	0.00992	0.00992
Trainable Mentally Retarded Minors Elem	0.00197	0.00197	0.00197	0.00197
Trainable Mentally Retarded Minors High	0.00198	0.00198	0.00198	0.00198
Vista Project (19/85701)	0.00017	0.00017	0.00017	0.00017
Total Prop 13 Rate (3)	1.00000	1.00000	1.00000	1.00000

	Fiscal Year				
	2005	2006	2007	2008	2009
	%	%	%	%	%
0.23720	0.23747	0.23789	0.23837	0.23278	0.23338
0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
0.23720	0.23747	0.23789	0.23837	0.23278	0.23338
0.26641	0.26641	0.26641	0.26641	0.26648	0.26648
0.01596	0.01596	0.01596	0.01596	0.01596	0.01596
0.00009	0.00009	0.00009	0.00009	0.00009	0.00009
0.00009	0.00009	0.00009	0.00009	0.00009	0.00009
0.26238	0.26238	0.26237	0.26237	0.26240	0.26240
0.00146	0.00146	0.00146	0.00146	0.00146	0.00146
0.08264	0.08264	0.08264	0.08264	0.07570	0.07570
0.01298	0.01298	0.01298	0.01298	0.01995	0.01995
0.00687	0.00687	0.00687	0.00687	0.00687	0.00687
0.00173	0.00173	0.00173	0.00173	0.00173	0.00173
0.00291	0.00291	0.00291	0.00291	0.00291	0.00291
0.00344	0.00344	0.00344	0.00344	0.00344	0.00344
0.00043	0.00043	0.00043	0.00043	0.00043	0.00043
0.00044	0.00044	0.00044	0.00044	0.00044	0.00044
0.00196	0.00196	0.00196	0.00196	0.00196	0.00196
0.08574	0.08574	0.08574	0.08574	0.08570	0.08570
0.08594	0.08594	0.08594	0.08594	0.08590	0.08590
0.00303	0.00303	0.00303	0.00303	0.00303	0.00303
0.00304	0.00304	0.00304	0.00304	0.00304	0.00304
0.00438	0.00438	0.00438	0.00438	0.00438	0.00438
0.14404	0.14404	0.14405	0.14405	0.14400	0.14400
0.00992	0.00992	0.00992	0.00992	0.00992	0.00992
0.00197	0.00197	0.00197	0.00197	0.00197	0.00197
0.00198	0.00198	0.00198	0.00198	0.00198	0.00198
0.00017	0.00017	0.00017	0.00017	0.00017	0.00017
1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

Notes:

- (1) Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information.
- (2) General fund tax rates are representative and based upon the direct and overlapping rates for the largest General Fund tax rate area (TRA) by net taxable value.
- (3) In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold.
- The assessed valuation data shown above represents the only data currently available with respect to the actual market value
- Source: San Diego County Assessor 2000/2001 - 2009/2010 Tax Rate Table
- The HdI Companies

(Continued)

CITY OF ENCINITAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(CONTINUED)

	Fiscal Year			
	2001	2002	2003	2004
	%	%	%	%
CWA San Dieguito Water Dist-Debt Service	0.00091	0.00083	0.00075	0.00067
Gen Bond Cardiff 2000A	0.04286	0.04432	0.04254	0.03975
MWD D/S Remainder of SDCWA 1501999	0.00880	0.00770	0.00670	0.00610
Oceanside Project (19/87001)	0.00000	0.00000	0.00000	0.00000
Vista Project (19/85701)	0.00000	0.00000	0.00000	0.00000
Total Voter Approved Rate	0.05257	0.05285	0.04999	0.04652
Total Tax Rate	1.05257	1.05285	1.04999	1.04652

2005	2006	2007	2008	2009	2010
%	%	%	%	%	%
0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
0.03913	0.03409	0.03508	0.03306	0.03212	0.03518
0.00580	0.00520	0.00470	0.00450	0.00430	0.00430
0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
0.04493	0.03929	0.03978	0.03756	0.03642	0.03948
1.04493	1.03929	1.03978	1.03756	1.03642	1.03948

CITY OF ENCINITAS
PRINCIPAL PROPERTY TAXPAYERS
CURRENT FISCAL YEAR AND TEN YEARS AGO

Taxpayer	2010		2000	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Collwood Pines Apartments	\$ 70,979,046	6.27%		
PK III Encinitas Marketplace LP	\$ 39,717,270	3.51%		
Belmont Village Cardiff LP	\$ 33,546,200	2.96%		
Encinitas Town Center Associates LLC	\$ 32,123,522	2.84%	\$ 31,098,038	2.75%
North Coast Health Center LLC	\$ 32,011,781	2.83%	\$ 17,235,415	1.52%
WRI El Camino LP	\$ 31,813,910	2.81%		
Lofts at Moonlight Beach LLC	\$ 31,155,758	2.75%		
Home Depot	\$ 28,228,851	2.49%	\$ 9,654,110	0.85%
North Coast Business Park	\$ 23,628,937	2.09%	\$ 13,205,660	1.17%
Urschel Laboratories Inc.	\$ 22,402,164	1.98%	\$ 18,341,030	1.62%
ASN Encinitas LLC	\$ 22,347,830	1.97%		
S D C C Properties	\$ 21,848,400	1.93%		
K S I Encinitas Resort Corporation	\$ 21,536,280	1.90%		
Vons Companies Inc	\$ 21,392,678	1.89%	\$ 14,099,510	1.24%
Quail Pointe Apartments LP	\$ 18,566,995	1.64%		
Pacific Station Property LLC	\$ 18,117,684	1.60%		
Encinitas Plaza Limited Partnership	\$ 17,278,863	1.53%		
Sterling Family Trust	\$ 17,102,759	1.51%		
Ptenc El Camino LLC	\$ 16,802,557	1.48%		
Scripps Health	\$ 16,515,834	1.46%		
Hughes Encinitas Limited	\$ 16,348,444	1.44%	\$ 13,360,936	1.18%
Keith B. and Sara S. Harrison	\$ 16,126,379	1.42%		
ARV Assisted Living Inc	\$ 14,565,600	1.29%		
Encinitas Terraces LLC	\$ 14,056,502	1.24%		
Bellflower Capital LP	\$ 13,438,253	1.19%		
Enrique Apartment Company Limited			\$ 19,699,043	1.74%
Northwestern Mutual Life Insurance			\$ 18,998,000	1.68%
Burnham Pacific Operating Partnership, LP			\$ 14,025,150	1.24%
Mitsui SBD America Fund 87			\$ 12,988,292	1.15%
Security Title Insurance Trust			\$ 12,372,633	1.09%
Comquest			\$ 11,625,373	1.03%
Barratt American, Inc.			\$ 10,655,761	0.94%
Dayton Hudson Corporation Target Stores			\$ 10,389,005	0.92%
Five Stars Associates			\$ 9,973,980	0.88%
Delaplaza Partners			\$ 9,707,965	0.86%
Donald B. Gaines Revocable Trust 04-01-86			\$ 9,244,885	0.82%
LVM California Corporation			\$ 8,963,064	0.79%
Lumberyard Retail Investments, LLC			\$ 8,657,504	0.76%
Cox Communications San Diego			\$ 8,488,248	0.75%
Coast Federal Bank			\$ 8,475,579	0.75%
Scripps Memorial Hospital			\$ 8,264,596	0.73%
Donald T. Sterling			\$ 8,069,989	0.71%
BHC San Luis Rey Hospital			\$ 7,835,939	0.69%
	\$ 611,652,497	54.00%	\$ 315,429,705	27.85%

NOTE: Actual revenues are not available
Source: San Diego County Assessor Combined Tax Rolls & the HdI Company

CITY OF ENCINITAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year Ended June 30	(1) Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy	
		Amount	Percent of Levy
2001	\$ 14,826,832	\$ 14,457,276	97.51%
2002	\$ 16,035,862	\$ 15,751,274	98.23%
2003	\$ 17,622,586	\$ 17,238,992	97.82%
2004	\$ 19,685,171	\$ 19,145,685	97.26%
2005	\$ 22,082,262	\$ 21,269,966	96.32%
2006	\$ 24,285,772	\$ 23,360,483	96.19%
2007	\$ 25,857,065	\$ 24,741,077	95.68%
2008	\$ 26,950,803	\$ 25,584,630	94.93%
2009	\$ 27,441,558	\$ 26,326,996	95.94%
2010	\$ 27,421,386	\$ 26,490,783	96.61%

Note: Subsequent collections by year is not available.

(1) City of Encinitas general fund

The City of Encinitas has elected to show ten years of data for this schedule.

Source: San Diego County Assessor Combined Tax Rolls

CITY OF ENCINITAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST NINE FISCAL YEARS

Fiscal Year Ended June 30	Governmental Activities			Business-type Activities					Percentage of Personal Income (1)	Debt Per Capita (1)
	Bonded Debt	Capital Leases	Total Governmental Activities	Water Bonds and Notes	CSD Note Payable	EHA Note Payable	Total Business-type Activities	Total Primary Government		
2002	\$ 32,170,000	\$ 1,507,421	\$ 33,677,421	\$ 23,725,000	\$ 9,685,607	-	\$ 33,410,607	\$ 67,088,028	1.87%	1,120
2003	\$ 34,970,000	-	\$ 34,970,000	\$ 23,120,000	\$ 8,735,000	-	\$ 31,855,000	\$ 66,825,000	1.85%	1,090
2004	\$ 33,730,000	\$ 361,897	\$ 34,091,897	\$ 22,475,000	\$ 8,295,000	\$ 1,895,883	\$ 32,665,883	\$ 66,757,780	1.77%	1,069
2005	\$ 32,450,000	\$ 314,452	\$ 32,764,452	\$ 21,575,000	\$ 7,900,000	\$ 1,862,347	\$ 31,337,347	\$ 64,101,799	1.68%	1,024
2006	\$ 31,105,000	\$ 559,048	\$ 31,664,048	\$ 20,815,000	\$ 7,500,000	\$ 1,825,255	\$ 30,140,255	\$ 61,804,303	1.59%	984
2007	\$ 49,410,000	\$ 696,373	\$ 50,106,373	\$ 20,030,000	\$ 7,085,000	\$ 1,786,769	\$ 28,901,769	\$ 79,008,142	NA	1254
2008	\$ 47,960,000	\$ 2,670,340	\$ 50,630,340	\$ 19,340,000	\$ 6,660,000	\$ 1,723,832	\$ 27,723,832	\$ 78,354,172	NA	1227
2009	\$ 46,005,000	\$ 2,432,449	\$ 48,437,449	\$ 18,440,000	\$ 6,220,000	\$ 1,681,534	\$ 26,341,534	\$ 74,778,983	NA	1166
2010	\$ 44,165,000	\$ 2,185,567	\$ 46,350,567	\$ 17,545,000	\$ 5,770,000	\$ 1,638,817	\$ 24,953,817	\$ 71,304,384	NA	1112

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

NA: Information not available

(1) These ratios are calculated using personal income and population for the prior calendar year.

The City of Encinitas has elected to show only nine years of data for this schedule.

Source: City of Encinitas Finance Department

CITY OF ENCINITAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST NINE FISCAL YEARS

Fiscal Year Ended June 30	Outstanding General Bonded Debt		Percentage of Assessed Value	Per Capita
	Certificates Of Participation	Assessed Valuation (1)		
2002	\$ 32,170,000	\$ 6,381,421,000	0.50%	537
2003	\$ 34,970,000	\$ 6,928,748,000	0.50%	570
2004	\$ 33,730,000	\$ 7,672,708,000	0.44%	540
2005	\$ 32,450,000	\$ 8,454,341,000	0.38%	518
2006	\$ 31,105,000	\$ 9,337,494,000	0.33%	495
2007	\$ 49,410,000	\$ 10,190,502,000	0.48%	781
2008	\$ 47,960,000	\$ 10,900,257,000	0.44%	751
2009	\$ 46,005,000	\$ 11,257,079,000	0.41%	717
2010	\$ 44,165,000	\$ 11,327,568,000	0.39%	678

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds of which, the City has none.

(1) Assessed valuation has been used because the actual market value of taxable property is not readily available in the State of California.

The City of Encinitas has elected to show only nine years of data for this schedule.

Source: City of Encinitas Finance Department
San Diego County Assessor Combined Tax Rolls

CITY OF ENCINITAS
SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2010

2009-10 Assessed Valuation:	\$11,338,887,373		
	Total Debt 6/30/10	Estimated Share of Overlapping Debt Applicable % (1) 6/30/10	
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	\$ 264,220,000	0.627%	\$ 1,656,659
Cardiff School District	\$ 8,315,198	100%	\$ 8,315,198
Encinitas Union School District	\$ 15,603,847	67.981%	\$ 10,607,651
Olivenhain Municipal Water District, Assessment District No. 96-1	\$ 16,830,000	25.142%	\$ 4,231,399
City of Encinitas 1915 Act Bonds	\$ 445,000	100%	\$ 445,000
City of Encinitas Community Facilities District No. 1	\$ 37,830,000	100%	\$ 37,830,000
San Dieguito Union High School District Community Facilities Districts	\$ 55,008,880	1.920-100%	\$ 15,249,877
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 78,335,784
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>			
San Diego County General Fund Obligations	\$ 415,240,000	3.257%	\$ 13,524,367
San Diego County Pension Obligations	\$ 853,514,739	3.257%	\$ 27,798,975
San Diego County Superintendent of Schools Obligations	\$ 21,187,500	3.257%	\$ 690,077
Mira Costa Community College District Certificates of Participation	\$ 3,675,000	14.675%	\$ 539,306
San Dieguito Union High School District General Fund Obligations	\$ 13,015,000	23.596%	\$ 3,071,019
Encinitas Union School District Certificates of Participation	\$ 320,000	67.981%	\$ 217,539
City of Encinitas Certificates of Participation	\$ 44,440,000	100%	\$ 44,440,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 90,281,284
COMBINED TOTAL DEBT			\$ 168,617,068 (2)

(1) Percentage of overlapping agency's assessed valuation located within the boundaries of the city.

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

<u>Ratios to 2009-10 Assessed Valuation:</u>	
Total Combined Direct Debt for the City of Encinitas (\$44,440,000).....	0.39%
Total Overlapping Tax and Assessment Debt.....	0.69%
Combined Total Debt.....	1.49%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Source: California Municipal Statistics

CITY OF ENCINITAS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(in thousands)

	2001	2002	2003	2004	2005
Assessed valuation	\$ 5,679,785	\$ 6,220,342	\$ 6,928,748	\$ 7,672,708	\$ 8,454,341
Conversion percentage equal to 25% of Assessed valuation	25%	25%	25%	25%	25%
Adjusted assessed valuation	1,419,946	1,555,086	1,732,187	1,918,177	2,113,585
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	212,992	233,263	259,828	287,727	317,038
Total net debt applicable to limit:	32,590	32,170	34,970	33,730	32,450
Legal debt margin	\$ 180,402	\$ 201,093	\$ 224,858	\$ 253,997	\$ 284,588
Total debt applicable to the limit as a percentage of debt limit	15.30%	13.79%	13.46%	11.72%	10.24%

Fiscal Year				
2006	2007	2008	2009	2010
\$ 9,337,494	\$ 10,190,502	\$ 10,900,257	\$ 11,257,079	\$ 11,327,568
25%	25%	25%	25%	25%
2,334,374	2,547,626	2,725,064	2,814,270	2,831,892
15%	15%	15%	15%	15%
350,156	382,144	408,760	422,141	424,784
31,105	49,410	47,960	46,005	44,165
\$ 319,051	\$ 332,734	\$ 360,800	\$ 376,136	\$ 380,619
8.88%	12.93%	11.73%	10.90%	10.40%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Source: City of Encinitas Finance Department
San Diego County Assessor Combined Tax Rolls

CITY OF ENCINITAS
PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS

San Dieguito Water District

Fiscal Year Ended June 30	Water Revenue (1)	Less Operating Expenses (2)	Net Available Revenue	Debt Service		Total Debt Service	Coverage
				Principal	Interest		
2001	\$9,819,358	\$6,606,945	\$3,212,413	\$525,000	\$1,263,725	\$1,788,725	1.80
2002	9,942,868	7,113,716	2,829,152	580,000	1,239,395	1,819,395	1.55
2003	10,829,218	7,065,930	3,763,288	605,000	1,212,915	1,817,915	2.07
2004	9,371,428	6,922,971	2,448,457	635,000	999,516	1,634,516	1.50
2005	9,246,493	7,028,291	2,218,202	900,000	997,749	1,897,749	1.17
2006	10,745,456	8,223,878	2,521,578	760,000	969,098	1,729,098	1.46
2007	12,456,763	9,091,622	3,365,141	785,000	943,324	1,728,324	1.95
2008	12,933,518	9,284,654	3,648,864	810,000	817,266	1,627,266	2.24
2009	12,651,491	9,934,063	2,717,428	900,000	776,517	1,676,517	1.62
2010	12,147,161	9,671,003	2,476,158	895,000	734,426	1,629,426	1.52

Cardiff Sanitary Division

Fiscal Year Ended June 30	WasteWater Revenue (1)	Less Operating Expenses (2)	Net Available Revenue	Debt Service		Total Debt Service	Coverage
				Principal	Interest		
2001	\$3,432,275	\$1,861,291	\$1,570,984	\$432,287	\$522,187	\$954,474	1.64
2002	2,903,505	1,676,684	1,226,821	448,050	501,005	949,055	1.29
2003	3,170,616	1,835,831	1,334,785	318,880	478,602	797,482	1.67
2004	2,953,442	1,931,809	1,021,633	440,000	301,611	741,611	1.38
2005	4,801,559	1,718,905	3,082,654	395,000	347,088	742,088	4.15
2006	5,501,670	2,732,801	2,768,869	400,000	393,713	793,713	3.49
2007	5,380,909	2,140,602	3,240,307	415,000	330,325	745,325	4.35
2008	6,111,028	2,250,984	3,860,044	425,000	319,950	744,950	5.18
2009	5,455,278	2,248,371	3,206,907	440,000	307,200	747,200	4.29
2010	5,211,640	2,372,054	2,839,586	450,000	291,800	741,800	3.83

(1) Includes operating revenue, non-operating revenue, and interest income capitalized during construction

(2) Does not include interest expense, depreciation and amortization, amortization of bond issuance costs, COI on 2004 San Dieguito Water Revenue Bonds, or amortization of the Cardiff Sanitary Division's Investment in the San Elijo Joint Powers Authority

Source: City of Encinitas Finance Department

CITY OF ENCINITAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Year	City Population	% of San Diego County Population	% Change from Previous Year	Median Age	Avg. Household Size	Median Household Income	Unemployment Rate
2001	59,075	2%	1.8%	37.9	2.54	NA	2.9%
2002	59,919	2%	1.4%	38.3	2.56	NA	3.6%
2003	61,308	2%	2.3%	38.8	2.61	NA	3.7%
2004	62,463	2%	1.9%	39.2	2.64	NA	3.3%
2005	62,605	2%	0.2%	40.2	2.64	NA	3.0%
2006	62,826	2%	0.4%	40.5	2.64	NA	2.8%
2007	63,259	2%	0.7%	41.0	2.65	NA	3.2%
2008	63,864	2%	1.0%	NA	NA	NA	4.2%
2009	64,145	2%	0.4%	41.7	2.69	\$99,043	6.9%
2010	65,171	2%	1.6%	42.3	2.77	NA	NA

NA: Information not available

Source: All information except unemployment - San Diego Association of Governments (SANDAG) Unemployment rate estimates are from California Employment Development Department

CITY OF ENCINITAS
TOP 25 EMPLOYERS - SAN DIEGO COUNTY
AS OF 2009

Employer	Number of Employees	Business Category
Marine Corps Base, Camp Pendleton	60,000	Government/Defense
Federal Government	43,500	Federal administration
State of California	40,900	State government
United States Navy, San Diego	26,000	Military/Defense
University of California, San Diego	26,000	University
County of San Diego	20,500	County government
City of San Diego	19,500	City government
San Diego Unified School District	15,881	School/education
Sharp HealthCare	14,390	Health care service provider
Scripps Health	12,700	Hospital
Scripps Mercy Hospital (combined with Scripps M	11,000	Hospital
Qualcomm Inc.	9,444	Technology/Communications
Kaiser Foundation Hospital	7,608	Health care
San Diego State University	6,939	Higher education
United States Postal Service	6,854	Mail Delivery
AT&T Inc.	5,800	Telecommunications
Sempra Energy	5,092	Utility
San Diego Community College District	4,950	Education
General Dynamics NASSCO	4,700	Defense
National Steel & Shipbuilding Co. (NASSCO)	4,600	Ship Building/Construction
Grossmont Union High School District	4,490	Education
YMCA of San Diego County	4,400	Non-profit
SBC Communications Inc.	4,200	Technology
Northrop Grumman	4,190	Technology
Science Applications International Corp. (SAIC)	4,158	Technology

CITY OF ENCINITAS
FULL-TIME AND PART-TIME EMPLOYEES BY FUNCTION
LAST FIVE YEARS
As of June 30

Function	Fiscal Year				
	2006	2007	2008	2009	2010
General government	45.45	45.45	45.45	45.45	43.00
Public safety	67.00	67.00	67.00	67.00	68.00
Public works	28.55	29.40	30.40	30.40	29.55
Engineering services	25.22	25.22	27.12	27.12	27.47
Parks and recreation	20.38	20.38	21.38	21.18	21.18
Community services	2.00	2.00	2.00	2.00	2.00
Planning and building	25.10	25.25	24.75	24.75	24.75
San Dieguito Water District	22.70	22.70	22.70	22.70	25.70
Total	236.40	237.40	240.80	240.60	241.65

The City of Encinitas has elected to show only five years of data for this schedule.

Source: City of Encinitas

Employer information specific to the City of Encinitas is not readily available.

NA: The data for ten years ago is not available

Source: The Daily Transcript Source Book - 2010 Source Book/San Diego's Top Influentials

CITY OF ENCINITAS
OPERATING INDICATORS BY FUNCTION
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2006	2007	2008	2009	2010
San Diego County Sheriff's Dept					
Criminal arrests	1,646	1,544	1,560	1,715	1,803
Traffic arrests	407	352	371	424	482
Traffic accidents	552	555	522	438	385
Traffic citations	9,117	9,785	11,690	11,974	11,714
Calls for service	20,088	20,432	20,460	19,764	21,216
Deputy initiated action	20,523	25,810	26,971	29,098	25,401
Fire:					
Number of emergency fire calls	168	137	134	113	106
Number of EMS/rescue	3,122	3,231	3,290	3,179	3,291
Other	1,172	1,498	1,498	1,645	1,475
Inspections	N/A	N/A	N/A	4,099	2,055
Engineering:					
Number of permits issued	448	425	405	325	301
Parks and recreation:					
Number of recreation class registrations	9,000	9,000	10,927	11,368	11,435
Number of facility rentals	286	527	524	491	459
Planning and building:					
Number of planning permits issued	163	131	110	97	181
Number of New Dwelling Units Issued	145	107	98	86	39
Environmental review	23	18	11	8	11
Appeals	6	12	11	12	1
Plan checks	886	820	825	906	805
Code enforcement complaints	1,346	1,878	1,881	1,973	1,667
Water:					
New connections	7	63	26	6	18
Average daily consumption (millions of gallons)	7.00	6.80	6.02	4.83	5.00
Sewer:					
New connections	77	69	39	14	26
Average daily sewage treatment (millions of gallon)	2.55	2.55	2.55	2.55	2.46

CITY OF ENCINITAS
CAPITAL ASSET STATISTICS BY FUNCTION
LAST SEVEN FISCAL YEARS

	Fiscal Year						
	2004	2005	2006	2007	2008	2009	2010
Police protection:*							
Number of sub-Stations	1	1	1	1	1	1	1
Fire:							
Fire stations	5	5	5	5	5	5	5
Public works:							
Streets (miles)	192	192	192	197.7	197.7	200.6	200.6
Engineering:							
Signalized intersections	n/a	n/a	60	60	63	65	63
Parks and recreation:							
Community and senior center	1	1	1	1	1	1	1
Developed parks	15	18	18	18	18	18	18
Undeveloped parks	8	3	3	3	3	3	3
Parkland acres developed	256.98	257.91	268.11	268.11	268.11	268.11	268.11
Parkland acres undeveloped	145.48	57.14	57.14	57.14	57.14	57.14	57.14
Habitat/open space acreage		94.93	94.93	94.93	94.93	94.93	94.93
Marine life refuge	1	1	1	1	1	1	1
Trails/streetscapes (miles)	18/7	30.5/10	30.5/10	35	35	35.5/10	40.5
Lifeguard towers	7	7	7	7	7	7	7
Water:							
Water mains (miles)	133	133	140	140	140	166	166
Maximum daily capacity (millions of gallons)	11.88	11.88	15	15	15	15	15

* The City of Encinitas contracts with the County of San Diego sheriff's department to provide police protection.

The City of Encinitas has elected to show only seven years of data for this schedule.

Source: City of Encinitas

Notes: The City of Encinitas contracts with the County of San Diego Sheriff's Department to provide police protection.

The City of Encinitas has elected to show only five years of data for this schedule.

Source: City of Encinitas

TABLE 1

**SAN DIEGUITO WATER DISTRICT
SCHEDULE OF WATER RATES (1)
(As of June 30, 2010)**

<u>Customer Class</u>	<u>Residential rate tier</u>	<u>Rate</u>	
		<u>Potable</u>	<u>Recycled</u>
Single-family residential	0-12 units	\$2.15	
	13-20 units	\$3.20	
	21-40 units	\$3.79	
	41+ units	\$4.79	
Multi-family residential	0-8 units	\$2.15	
	9-12 units	\$3.20	
	13-16 units	\$3.79	
	17+ units	\$4.79	
Agriculture		\$2.58	\$2.19
Commercial		\$2.92	\$2.48
Landscaping		\$3.71	\$3.15
Construction		\$3.71	\$2.15

Source: San Dieguito Water District

(1) Per Unit (one hundred cubic feet or 748 gallons)

**SAN DIEGUITO WATER DISTRICT
BI-MONTHLY METER SERVICE AVAILABILITY CHARGES
(As of June 30, 2010)**

<u>Meter Size</u>	<u>Service Availability Charge</u>	<u>Infrastructure Access Charge</u>
5/8" & 3/4"	\$29.67	\$4.05
1"	\$47.18	\$6.48
1-1/2"	\$90.96	\$12.13
2"	\$143.48	\$21.03
3"	\$266.05	\$38.85
4"	\$441.14	\$66.34
8"	\$1,404.17	\$210.37

Source: San Dieguito Water District

San Dieguito charges a bi-monthly service availability charge, which is intended to cover the costs for maintenance of meters, water lines, and storage facilities to ensure that water is available upon demand. The service availability charge also includes customer service costs for meter reading and billing. The infrastructure access charge is a charge levied by the San Diego County Water Authority and collected by SDWD.

TABLE 2

**SAN DIEGUITO WATER DISTRICT
HISTORIC DOMESTIC WATER SYSTEM REVENUES
Fiscal year ending June 30th**

<u>Year</u>	<u>Domestic Water Sales</u>	<u>Percent Change (2)</u>	<u>Meter Availability Charges</u>	<u>Percent Change (2)</u>
2001	\$5,482,633	-6.5%	\$1,046,109	0.9%
2002	\$5,310,461	-3.1%	\$1,190,724	13.8%
2003	\$5,335,677	0.5%	\$1,654,335	38.9%
2004	\$5,762,184	8.0%	\$1,828,729	10.5%
2005	\$5,252,235	-8.8%	\$1,877,863	2.7%
2006	\$6,465,975	23.1%	\$2,061,454	9.8%
2007	\$7,579,205	17.2%	\$2,251,011	9.2%
2008	\$7,717,818	1.8%	\$2,404,547	6.8%
2009	\$7,525,927	-2.5%	\$2,453,075	2.0%
2010	\$7,146,854	-5.0%	\$2,501,264	2.0%

Source: San Dieguito Water District

(2) Because of the varying number of billing cycles in a fiscal year, changes from one year to the next may not be exactly comparable.

TABLE 3

**SAN DIEGUITO WATER DISTRICT
HISTORIC RECYCLED WATER SYSTEM SALES
Fiscal year ending June 30th**

<u>Year</u>	<u>Recycled Water Sales</u>	<u>Percent Change</u>	<u>Meter Availability Charges (3)</u>	<u>Percent Change</u>
2001	\$98,740	N/A	\$0	N/A
2002	\$251,337	154.5%	\$0	N/A
2003	\$255,014	1.5%	\$0	N/A
2004	\$421,245	65.2%	\$0	N/A
2005	\$387,607	-8.0%	\$0	N/A
2006	\$454,145	17.2%	\$0	N/A
2007	\$596,299	31.3%	\$0	N/A
2008	\$600,401	0.7%	\$0	N/A
2009	\$663,036	10.4%	\$0	N/A
2010	\$537,654	-18.9%	\$0	N/A

Source: San Dieguito Water District

(3) the District does not currently levy a meter availability charge for recycled customers

TABLE 4

**SAN DIEGUITO WATER DISTRICT
SUMMARY OF WATER PRODUCTION BY SOURCE (4)
Fiscal year ending June 30th**

<u>Fiscal Year</u>	<u>Local Water</u>	<u>Imported</u>	<u>Total Domestic</u>	<u>Recycled</u>	<u>Total Production</u>
2001	3,460	4,777	8,237	214	8,451
2002	2,778	5,620	8,398	405	8,803
2003	1,734	5,543	7,277	427	7,704
2004	454	6,867	7,321	711	8,032
2005	1,705	5,602	7,307	595	7,902
2006	2,765	5,093	7,858	600	8,458
2007	2,706	5,692	8,398	708	9,106
2008	3,539	3,753	7,292	676	7,968
2009	3,868	3,369	7,237	694	7,931
2010	2,156	4,399	6,555	498	7,053

Source: *San Dieguito Water District*

(4) Water Production is defined as water either produced locally or purchased (expressed in acre-feet)

TABLE 5

**SAN DIEGUITO WATER DISTRICT
HISTORIC WATER DELIVERIES (5)
Fiscal year ending June 30th**

<u>Fiscal Year</u>	<u>Domestic</u>	<u>Percent Increase</u>	<u>Recycled</u>	<u>Percent Increase</u>
2001	7,566	-8.3%	214	7.0%
2002	7,339	-3.0%	405	89.3%
2003	7,207	-1.8%	427	5.4%
2004	7,213	0.1%	711	66.5%
2005	6,719	-6.8%	595	-16.3%
2006	7,281	8.4%	600	0.8%
2007	7,592	4.3%	708	18.0%
2008	6,753	-11.1%	675	-4.7%
2009	6,463	-4.3%	694	2.8%
2010	5,649	-12.6%	498	-28.2%

Source: *San Dieguito Water District*

(5) Water deliveries represent actual sales to customers (expressed in acre-feet)

TABLE 6

**SAN DIEGUITO WATER DISTRICT
TEN LARGEST CUSTOMERS
(For the fiscal year ended June 30, 2010)**

<u>Customer Description</u>	<u>Acre-Feet Sold</u>	<u>Percent of Water Sold</u>
City of Encinitas	89	1.6%
Park Place Bluffs	75	1.3%
Scripps Memorial Hospital	74	1.3%
Cardiff by the Sea Apartments	55	1.0%
Seacrest Village	47	0.8%
Encinitas Ranch Community Assoc.	36	0.6%
Skyloft HOA	36	0.6%
Leucadia Seabluff Village	33	0.6%
Cal West Enterprises	30	0.5%
Encinitas Union School District	30	0.5%
	505	8.8%

Source: *San Dieguito Water District*

TABLE 7

**SAN DIEGUITO WATER DISTRICT
HISTORIC SERVICE CONNECTIONS
(As of June 30, 2010)**

<u>Fiscal Year</u>	<u>Potable</u>	<u>Percent Increase</u>	<u>Recycled</u>	<u>Percent Increase</u>
2001	10,661	1.0%	10	150.0%
2002	10,983	3.0%	22	120.0%
2003	11,144	1.5%	39	77.3%
2004	11,167	0.2%	44	12.8%
2005	11,268	0.9%	49	11.4%
2006	11,275	0.1%	55	12.2%
2007	11,338	0.6%	56	1.8%
2008	11,364	0.2%	59	5.4%
2009	11,370	0.1%	68	15.3%
2010	11,388	0.2%	73	7.4%

Source: *San Dieguito Water District*

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City of Encinitas California

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City of Solana Beach

Solana Beach, California

Comprehensive Annual Financial Report

For the year ended June 30, 2010

C&L
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

City of Solana Beach Comprehensive Annual Financial Report For the year ended June 30, 2010

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Comprehensive Annual Financial Report
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CITY OF SOLANA BEACH

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March 8, 2011

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, 2010.

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.

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The Comprehensive Annual Financial Report includes the financial activity for all funds of the City. The City provides a wide range of services including planning; building; 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 law enforcement 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

Caporicci and Larson, Inc. 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 end June 30, 2010, 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, 2010, provided two instances of material weaknesses in the internal control structure and no violations of applicable laws and regulations. The report restated the capital and net assets to remove the value of \$471 million which was recorded as part of the Governmental Accounting Standards Board (GASB) Statement No. 34 implementation. The previous auditors believed that this value should have been recorded while the current auditors believe that this value should not be included. The auditors also found a material asset that the City failed to capitalize in the previous year. This added approximately \$756,000 to the City's net assets.

The independent auditor concluded there was a basis for rendering an unqualified 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 July 1, 1986 under the general laws of the State of California and is home to a population of 13,547 per the State of California Department of Finance. Included within the City's financial statements is the financial information of the Solana Beach Redevelopment Agency (the Agency) and the Solana Beach Public Facilities Corporation. The City is considered the primary government and the Agency and Public Facilities Corporation are component units. Additionally, since the governing boards of the City and the component unit are the same, the financial statements of the City and the component units are blended.

The Solana Beach Redevelopment Agency was created and activated by the City of Solana Beach on December 2, 2003 by Ordinance No. 318 pursuant to the State of California Health and Safety Code Section 33200. On July 13, 2004, the City of Solana Beach adopted Ordinance No. 326 that formed the Solana Beach Redevelopment Project Area. The purpose of the Agency is to prepare and carryout plans for improvement, rehabilitation, and redevelopment in the blighted areas of the Solana Beach Redevelopment Project Area.

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, an affluent coastal community, encompasses approximately 3.4 square miles and is located twenty-one miles north of the City of San Diego. It is bordered to the North, South, and East by the cities of Encinitas, Del Mar, and San Diego respectively, and 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 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 the implementation of all policies established by 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.

Budgetary Process and Controls

The process of adopting a budget at the City of Solana Beach is generally a six-month process beginning in late December and ending in June when the City 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 City Council, and 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 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 City 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 departments with City Manager approval. The City budget is reviewed and has periodic adjustments at the middle of the fiscal year and at the end of the fiscal year. These adjustments are approved by the City Council.

The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. The adopted budget for Fiscal Year 2009-10 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.

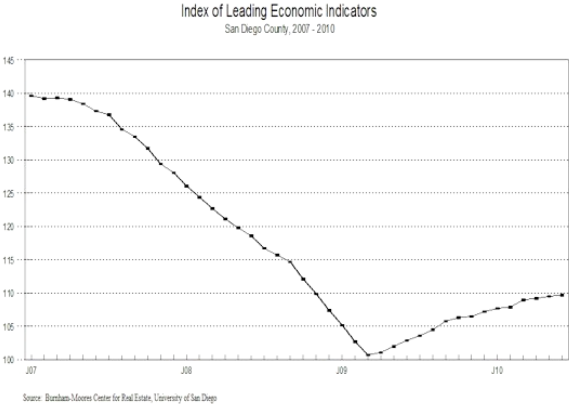
Economic Condition and Outlook

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, art and crafts, clothing, food, and gasoline. Such local economic generators as vacation tourism support a significant portion of the City's commercial base.

Professor Alan Gin of the School of Business at the University of San Diego, and the author of the University of San Diego's Index of Leading Economic Indicators, predicts that the local economy remains for continued growth but at a slow pace. He believes that it will take much longer to recover from the "Great Recession" than it took to get in to it. In 2009, the local economy lost nearly 80,000 jobs. The projection is that it may take between three to five years to regain all of the lost jobs.

In regards to San Diego's local economy, the University of San Diego's Index of Leading Economic Indicators 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. The Index has now climbed for 15 straight months after declining for 35 straight months, beginning in April 2006 at 143.8 and declining to 100.7 by March 2009, and rising to 109.7 in June 2010. The USD Index for the period January 2007 to June 2010 is charted below.



In addition to the effects of the state economy, the State of California's fiscal problems further undermine the City's fiscal outlook. The State has been in a critical fiscal crisis for the past few years and its budget has been balanced utilizing one-time revenues, borrowings between state funds, bond issues, and raids of local government revenues.

The State's financial woes are continuing. Governor Brown has introduced his proposed budget for FY 2011-12 which has projected a \$25.4 billion shortfall.

The projected shortfall is based upon a projected deficit of \$4.1 billion in the current fiscal year and a projected \$22.3 billion shortfall in FY 2011-12.

The governor proposes \$26.4 billion in actions so that the State would end the FY 2011-12 with \$1 billion in reserves. The proposed measures are as follows:

	State of California Proposed Budget Solutions (Dollars in Millions)		
	2010-11	2011-12	Total
Expenditure Reductions	\$ 422	\$ 12,075	\$ 12,497
Revenues	3,163	8,864	12,027
Other	506	1,376	1,885
Total	\$ 4,091	\$ 22,315	\$ 26,409

One of the governor's proposals in the new budget is the elimination of redevelopment agencies in California. The proposal is to use \$1.7 billion from the eliminated redevelopment agencies in addressing the State's shortfall in FY 2011-12 with no savings to the State's budget in the future years.

If this occurs it would severely affect the City in providing the funding for \$35.4 million infrastructure projects of and \$ 15.5 million of affordable housing programs over the life of the redevelopment project area.

Long-Term Financial Planning

Solana Beach's conservative fiscal policies have helped the City build and maintain a strong reserve for times such as now 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 2009-10, actual dollars received in General Fund property taxes increased from 2008-09 by \$13,057, while sales tax decreased for the third fiscal year in a row by \$85,263 or 3.6%. Overall, the City's General Fund revenues decreased \$523,097 in FY 2009-10 from FY 2008-09 or 3.7%.

For Fiscal Year 2010-11, budgeted property and sales taxes are expected to increase slightly as compared to actual for the prior fiscal year. Total General Fund revenues, including transfers in, are budgeted at \$13,063,700. It is the City's goal not to rely on General Fund reserves to operate the City annually. However, due to the current economic downturn, the General Fund will use \$595,860 of reserve balances to support expenditures, including transfers out, of \$14,101,971 for Fiscal Year 2009-10.

The City has taken steps to help maintain its fiscal sustainability over the next years by:

- 1) signing a five year contract beginning July 2004 with the San Diego Sheriff's Department to provide law enforcement services with increases from year to year capped at no more than 5.5 %;
- 2) approving a Fire Department Management Services Cooperative Agreement with the Cities of Del Mar, Encinitas, and the Rancho Santa Fe Fire Protection District that provides a cost effective option to eliminate redundancy and increased levels of service by sharing common functions of organizational direction and control, and supervision of operations, training, fire prevention, administrative and fiscal management, and disaster preparedness;
- 3) maintaining a 17% of operating expenditures, including debt service, reserve in the General Fund to be used in the case of significant financial or other emergency.

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 2009-10 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. Despite the economic factors facing the City during the Fiscal Year 2009-10 budget process, Council again ensured that funds were appropriated to maintain adequate reserves in the Asset Replacement 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 in the Local Agency Investment Fund consistent with the City's Investment Policy.

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. Accordingly, deposits were either insured by the Federal Depository Insurance Corporation or collateralized.

The average yield on funds invested was 0.651% as compared to 2.18% the previous year. Investment income includes appreciation/depreciation in the fair value of investments. The total investment income for all funds for the year was \$249,293.

Major Projects and Financial Planning

Highway 101 Streetscape/Traffic Calming Project

At the October 4, 2010 City Council meeting, the City Council authorized Staff to move forward with a separate, stand-alone project on Highway 101 from Dahlia Drive to Cliff Street. This project will construct west side improvements such as curb, gutter, sidewalks, reverse-angle parking, drainage improvements and modifications to the existing median to make room for these improvements.

The City Council also approved a Memorandum of Agreement with the San Diego Association of Governments (SANDAG) to receive advanced funding of \$5.5 million to fund this project at the October 4, 2010 City Council meeting. The advance will be repaid by a portion of the City's annual Transnet funding allocations From FY 2010-11 through FY 2047-48.

The City Council meeting approved a contract with Nasland Engineering for the design of the Highway 101 West Side Improvements in the amount of \$455,008. The west side improvement project will be compatible with any future improvement work performed on Highway 101, including the installation of roundabouts.

La Colonia Needs Park Improvements

After completing a Request for Qualifications (RFQ) process, the City retained Van Dyke Landscape Architects (Van Dyke) to prepare design concepts for improvements to La Colonia Park (LCP). After soliciting input through a series of community/public workshops, Van Dyke developed three design options that were presented to the Council in December 2008 at which time the Council selected a preferred option. At the City's request, minor modifications were made to the preferred option. The modified design was approved at the March 11, 2009 Council meeting. A design contract was approved at the October 28, 2009 City Council meeting.

A meeting of the La Colonia Park Ad-Hoc Committee was held in April 2010 at which the consultant presented the preliminary design of the park. The 35 percent design level drawings were recently presented at the September 8, 2010 Council meeting. At this meeting, Van Dyke presented the major items that will be contained as part of the project such as the upgrades to the community center, relocation of the Stevens House Museum, skate park, basketball court, picnic areas, gazebo, amphitheater and other miscellaneous landscape and hardscape features. The next step for this project is to submit a Coastal Development Permit application to the California Coastal Commission.

Fletcher Cove Community Center

On July 9, 2009 the City Council approved, in concept, a scope of work for the project. This work included refurbishment of the building and disabled access improvements as shown in the building plans and elevations prepared pro-bono by Stephen Dalton, Architects. The project is partially funded and has been designed to be completed in three phases as adequate funds are identified in the budget from public funds, private donated funds, qualified volunteer labor or donated materials or a combination of all of these for each phase. In addition, a Coastal Development Permit was issued by the California Coastal Commission in August 2010 for the project.

A separate staff report on the project detailing the scope of each phase, the estimated cost and schedule for the work plan was provided as a separate item for Council consideration and direction on the July 14, 2010 Council Agenda. In summary, the following phasing is proposed:

Phase I: Accessible parking lot improvements. Final Construction Costs - \$83,209. This project was completed in November 2010.

Phase II: Fletcher Cove Community Center Building accessibility improvements and refurbishment. Public and Private fund raising efforts are underway to fund this phase of the project. The City Council approved a construction contract with Delta Builders for \$279,450 for the Phase II construction on January 26, 2011.

Awards and 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 Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009. This was the ninth consecutive year 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, Marie Marron Berkuti, David Kloz, Sandi Lewis, and Aina Grant 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,



David Ott
City Manager/Director of Public Safety

Respectfully submitted,



Dennis M. Coleman
Finance Director/City Treasurer

**CITY OF SOLANA BEACH
FISCAL YEAR 2009-10
DIRECTORY OF OFFICIALS AND ADVISORY BODIES**

CITY COUNCIL

Thomas M. Campbell, Mayor
Lesa Heebner, Deputy Mayor
Joe G. Kellejian, Council Member
David W. Roberts, Council Member
Mike Nichols, Council Member

TERM EXPIRES

November 2014
November 2012
November 2012
November 2012
November 2014

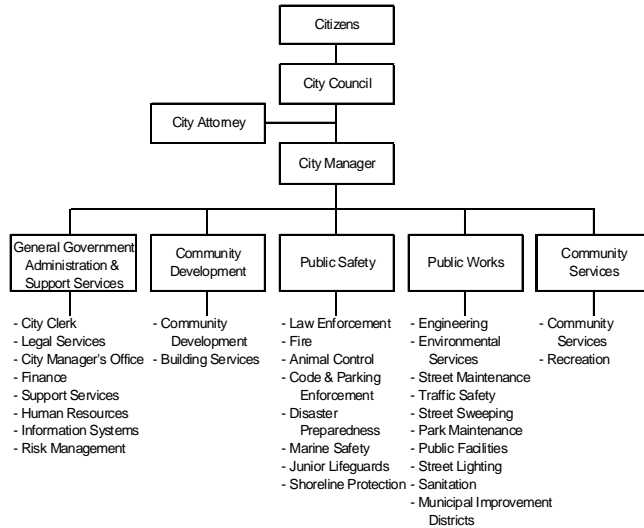
COMMITTEES AND COMMISSIONS

Budget & Finance Commission
Public Safety Commission
Parks & Recreation Committee
Public Arts Advisory Committee
View Assessment Committee

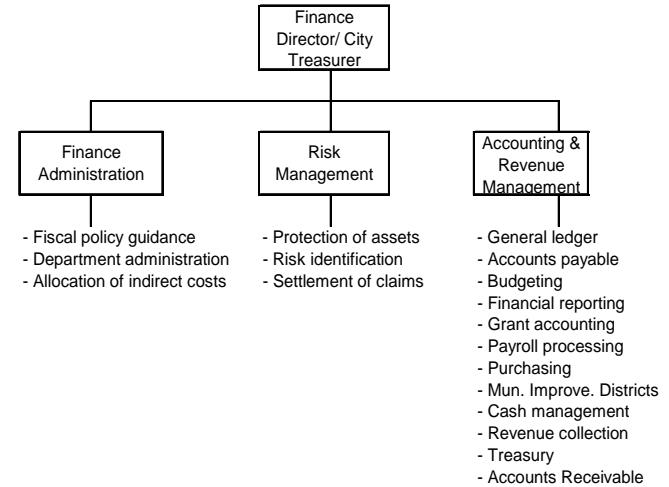
APPOINTED OFFICIALS AND DEPARTMENT DIRECTORS

David Ott	City Manager/Director of Public Safety
Wendé Protzman	Director of Administrative Services/Deputy City Manager
Tina Christiansen	Director of Community Development
Dennis M. Coleman	Director of Finance/City Treasurer
Mohammed Sammak	Director of Public Works/City Engineer
Angela Ivey	City Clerk
Johanna Canlas	City Attorney

CITY OF SOLANA BEACH
CITY GOVERNMENT
ORGANIZATIONAL CHART
FISCAL YEAR 2008/2009



CITY OF SOLANA BEACH
FINANCE DEPARTMENT
ORGANIZATIONAL CHART
FISCAL YEAR 2009/2010



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, 2009

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




President

Executive Director

C&L
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Solana Beach
Solana Beach, California

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 Solana Beach, California (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Elijo Joint Powers Authority (Authority), which represent \$17,995,032 of investment in joint venture at June 30, 2010 and \$203,963 of net gain on investment in joint venture for the year then ended of the business-type activities in the government-wide financial statements and in the Sanitation major fund of the fund financial statements. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the basic financial statements of the City, insofar as it related to those amounts included for the Authority in the accompanying basic financial statements of the City, is based solely on the reports of the other auditors. The prior year partial comparative information has been derived from the financial statements of the City of Solana Beach for the year ended June 30, 2009 dated November 23, 2009 which were also audited by other auditors whose report has been furnished to us. We did not audit the prior year comparative information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, such basic financial statements referred to above present fairly, in all material respects, the 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and Members of the City Council
of the City of Solana Beach
Solana Beach, California

As described in Note 12 to the basic financial statements, the City recorded prior period adjustments due to misapplication of GASB 34 in recording right-of-way totaling \$471,913,798 and unrecorded capital assets related to a capital lease totaling \$765,599. Accordingly, net assets at July 1, 2009 have been restated from \$521,780,671 to \$51,632,472.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, budgetary comparison information and other information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary 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 accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the Introductory Section.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
March 8, 2011

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, 2010. 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 Governmental Net Assets were restated for July 1, 2009 from \$521,781 to \$51,632 to remove the value of \$470,914 recorded as non-depreciable capital assets, right-of-way for the value of land under the residential streets and roads and to add \$766 of previously non-recorded assets.
- The City's Total Net Assets were restated for July 1, 2009 from \$549,022 to \$78,874 for the removal of the value of \$470,914 recorded as non-depreciable capital assets, right-of-way for the value of land under the residential streets and roads and to add \$766 of previously non-recorded assets.
- The City's net assets decreased to \$76,474, or by \$1,636, as a result of this year's operations.
- During the year, the City's expenses exceeded taxes, other governmental revenues, and business activity revenues by \$2,401.
- Governmental net assets were \$47,893.
- The total revenues from all sources were \$20,468.
- The total cost of all City programs was \$22,867.
- The General Fund reported an excess of expenditures and other financing uses over revenue of \$567.
- The General Fund's final revenue budget exceeded actual resources received by \$402 while actual expenditures were \$39 more than final budget before other financing uses.
- At the end of the fiscal year, the undesignated fund balance for the General Fund was \$2,310 or 16.8% of total General Fund expenditures of \$13,720 (excluding other financing 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 Assets 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 Assets 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 overall financial well-being. The Statement of Net Assets 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 assets and changes thereto. Net assets, 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 assets 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 Assets 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 two separate legal entities: The City of Solana Beach Public Facilities Corporation and the Solana Beach Redevelopment Agency. Although legally separate, these "component units" are important because the City is financially accountable for them. Separate component unit financial statements are issued for the Solana Beach Redevelopment Agency but are 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 as explained below.

- **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 Assets and the Statement of Activities) and governmental *funds* through a reconciliation in Note 1 in the Notes To Basic 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 Assets 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 Assets and Changes in Fiduciary Net Assets. 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.

THE CITY AS A WHOLE

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business activities.

	Governmental Activities		Business Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	\$ 19,555	\$ 20,205	\$ 33,625	\$ 35,377	\$ 53,180	\$ 55,582
Capital assets, net	38,948	40,145	11,938	9,452	50,886	49,597
Total assets	58,503	60,350	45,563	44,829	104,066	105,179
Liabilities:						
Long-term debt outstanding	5,235	6,110	15,435	15,932	20,670	22,042
Other liabilities	5,376	3,373	1,547	1,656	6,923	5,029
Total liabilities	10,611	9,483	16,982	17,588	27,593	27,071
Net assets:						
Invested in capital assets, net of debt	33,269	35,470	10,073	7,397	43,342	42,867
Restricted	7,086	6,228	-	-	7,086	6,228
Unrestricted	7,538	9,169	18,508	19,844	26,046	29,013
Total net assets	<u>\$ 47,893</u>	<u>\$ 50,867</u>	<u>\$ 28,581</u>	<u>\$ 27,241</u>	<u>\$ 76,474</u>	<u>\$ 78,108</u>

The City's combined net assets for the fiscal year ended June 30, 2010 were \$76,474. 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 assets for governmental activities decreased from \$50,867 to \$47,893. The following is an explanation of the governmental activity changes between fiscal years as shown in Table 1:

- Current and other assets decreased \$650 or 3.2% because of reduced fiscal year end balances for cash and investments, cash with fiscal agent and due from other governments as compared to the prior fiscal year due to decreases in intergovernmental revenue.

- Capital assets, net of prior period adjustment, decreased \$1,961 (net of \$37,258 depreciation and disposition) as detailed in Table 4. During fiscal year 2009-10, ongoing budgeted capital projects were reduced in scope or delayed to future years due to the downturn in the City's economic situation. This change resulted in capital asset additions, less deletions, being \$1,911 less than the previous fiscal year, after the fiscal year's 2009-10 expense for depreciation. The major capital project construction projects were the designs for Highway 101 Streetscaping and La Colonia Park. The City also had construction activities for the annual street pavement project and the City Hall Parking Lot reconfiguration.
- Governmental long-term debt decreased \$159 due to routine principle payments made on existing debt principle plus increase to Claims Payable. See Table 5 for additional detail.
- Other liabilities increased \$964 primarily due to an increase in claims payable due to new actuarial studies. In addition, the amount for the City's Other Postemployment Benefits Other than Pension liability increase as well.
- Investment in capital assets net of debt (net of prior period adjustment) decreased \$2,968 from an increase in accumulated depreciation over the prior fiscal year.
- Restricted net assets increased \$593 primarily due to revenues related to budgeted capital projects that were put on hold during the current fiscal year remained unspent.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements, decreased from \$9,169 at June 30, 2009 to \$7,538 at the end of this fiscal year. This net decrease of \$1,631 is due principally to lower sales tax, franchise taxes, charges for services, and interest income revenue received in fiscal year 2009-10 as compared to the prior fiscal year, and an increase over the same period in costs associated with law enforcement and fire services.

Governmental Activities

The cost of all Governmental activities this year was \$19,366 as shown on Tables 2 and 2.1. \$1,666 of this cost was paid for by those who directly benefited from the programs; \$284 was subsidized by grants received from other governmental organizations for both capital and operating activities; and \$13,727 was financed through general City revenues. Overall governmental program revenues, including intergovernmental aid and fees for services were \$1,950. Items of significance within Table 2 are:

Revenues:

- Charges for services decreased by 29% as a result of Community Development, Public Safety and Public Works revenue, such as fees for planning applications, building plan checks, building permits, engineering permits, and mitigation fees, being lower than the previous fiscal year.
- Grants and contributions decreased 98% due to the receipt in the last fiscal year of monies received from the Marsolan Undergrounding Assessment District, Transnet, CALTRANS and Community Development Block Grants. Additionally, there is the inherent nature of timing differences between actual project expenditures and when reimbursements are received. The City makes every effort to request reimbursement from granting agencies shortly after project expenditures are known and paid.
- The general revenue categories decreased \$113 (less than 1%) predominantly because of decreased Intergovernmental revenue received as compared to the previous fiscal year.

Expenses:

- General Government expenses increased 33% due to the increased claims payables for the new liability and Workers Compensation actuarial studies reflecting the storm events in January 2010 and the recent previous years Worker's Compensation Expenses respectively.

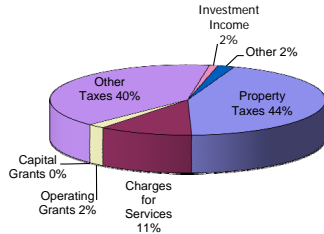
- The Public Safety line item increased 6% due to the increases in law enforcement and other public safety costs.
- Public Works experienced a 30% decrease in expenses primarily due to the completion of smaller capital works projects in FY 2010 as compared to the previous fiscal year that included the undergrounding of utilities paid for by assessment districts and the Cliff Street Pedestrian Bridge funded by the Solana Beach Redevelopment District.
- There was a 5% decrease in Community Development costs. The Planning Department decreased its expenses slightly from the prior fiscal year. Decreases in the Building department resulted from a decrease in private construction building permit processing and professional services costs.
- Community Services decreased 39% as compared to last fiscal year due to the addition of the decrease in capital projects.
- Interest on Long-term Debt increased by 41% due to the increase in pass through payments by the Redevelopment Agency to the Supplemental ERAF payment to the State of California of \$210.

Table 2
City of Solana Beach Changes in Net Assets
(in Thousands)

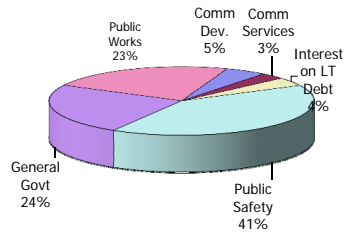
	Governmental Activities		Business Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 1,666	\$ 2,342	\$ 4,498	\$ 4,297	\$ 6,164	\$ 6,639
Operating grants and contributions	258	350			258	350
Capital grants and contributions	26	1,149			26	1,149
General revenues:						
Property taxes	6,880	6,291			6,880	6,291
Other taxes	6,326	6,366			6,326	6,366
Other	521	983	292	261	813	1,244
Total revenues	15,677	17,481	4,790	4,558	20,467	22,039
Expenses:						
General government	4,680	3,518			4,680	3,518
Public safety	8,066	7,544			8,066	7,544
Public works	4,351	6,254			4,351	6,254
Community development	1,056	1,116			1,056	1,116
Community services	526	863			526	863
Interest on long-term debt	738	523			738	523
Sanitation			3,450	3,599	3,450	3,599
Total expenses	19,417	19,818	3,450	3,599	22,867	23,417
Increase/(decrease) in net assets	(3,740)	(2,337)	1,340	959	(2,400)	(1,378)
Net assets - 07/01/09	51,632	53,204	27,241	26,282	78,873	79,486
Net assets - 06/30/10	\$ 47,892	\$ 50,867	\$ 28,581	\$ 27,241	\$ 76,473	\$ 78,108

**Fiscal Year 2009
Governmental Activities**
(Graphic representation of Table 2 in percentages)

Sources of Revenue



Program Expenses



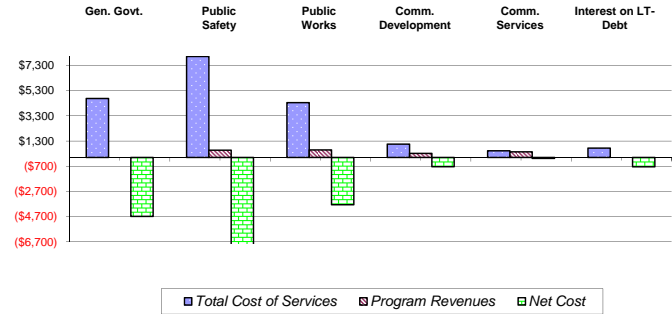
Net Cost of Governmental Activities

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	
	2010	2009	2010	2009	2010	2009
General government	\$ 4,680	\$ 3,518	\$ -	\$ -	\$ (4,680)	\$ (3,518)
Public safety	8,066	7,544	579	914	(7,487)	(6,630)
Public works	4,351	6,254	598	2,281	(3,753)	(3,973)
Community development	1,056	1,116	325	540	(731)	(576)
Community services	526	863	448	106	(78)	(757)
Interest on long-term debt	738	523	-	-	(738)	(523)
Totals	\$ 19,417	\$ 19,818	\$ 1,950	\$ 3,841	\$ (17,467)	\$ (15,977)

**Total Cost of Services, Program Revenues & Net Cost
Governmental Activities
(in Thousands)**



Total resources available during the year to finance governmental operations were \$66,544 consisting of net assets at July 1, 2009 of \$51,632, program revenues of \$1,950, and general revenues of \$13,727. Total governmental activities during the year were \$19,366; thus net assets decreased by \$3,740 to \$47,892.

Business Type Activities

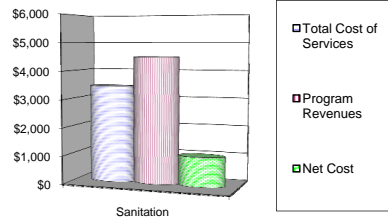
Net assets of the Proprietary Fund (Business Type activities) at June 30, 2010 as reflected in Table 1 were \$28,581. As shown in Table 3, amounts paid by users of the system were \$4,498 while the cost of providing all Proprietary (Business Type) activities this year was \$3,450 resulting in a net gain of \$1,048. With the addition of non-operating revenues of \$291, assets increased by \$1,339 or 4%, primarily due to holding expenses in line with revenues.

**Table 3
Net Cost of Business Activities
(in Thousands)**

	Total Cost of Services		Program Revenue		Net Cost of Services	
	2010	2009	2010	2009	2010	2009
Sanitation	\$ 3,654	\$ 3,599	\$ 4,498	\$ 4,297	\$ 844	\$ 698

Fiscal Year 2010

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 \$39 more than actual appropriations prior to other financing uses. The budget to actual variance in appropriations was principally due to conservative estimates at mid-year by management. Actual revenues were \$402 greater than the final budget (excluding other financing sources). 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:

- \$152 for increased overtime in the Fire department budget, and
- \$75 to cover increased legal costs associated with litigation

Significant budgetary variations between certain departments' final amended budget versus actual for the General Fund was:

- Support services: savings occurred in a lower than expected costs for damage claims and insurance premiums.
- Environmental Services (Shoreline) expenditures experience savings due to shared lobbying expenses with Sanitation
- Community Services experience savings from reduced costs associated with the recreation programs.
- Streets and other public works: professional service expense was lower than budgeted in environmental services, street maintenance, traffic safety, and park maintenance.

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. The City implemented GASB 34 in fiscal year 2001. The City restated the capital assets for the prior fiscal year

At June 30, 2010, net capital assets of the governmental activities totaled \$38,234 and the net capital assets of the business-type activities totaled \$11,938. 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 \$15,806 through fiscal 2014-15. Over the next five years, funding will come from current fund balances, projected revenues, and the Transit Extension Program. Significant projects are the Shoreline Management and Local Coastal Plan, the General Plan update, rebuilding the Solana Beach Pump Station, the Highway 101 Streetscape and Traffic Calming project, and replacement of the Del Mar Shores Staircase.

Table 4
City of Solana Beach Capital Assets at Year-End
(Net of Depreciation and Prior Period Adjustment)
(In Thousands)

	Governmental Activities		Business Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 2,538	\$ 2,538	\$ 112	\$ 112	\$ 2,650	\$ 2,650
Buildings & Improvements	10,725	10,998	6,619	6,719	17,344	17,717
Equipment & Vehicles	1,281	698	14	17	1,295	715
Infrastructure	23,270	25,091	-	-	23,270	25,091
Work in Progress	1,135	820	5,193	2,604	6,328	3,424
	<u>\$ 38,949</u>	<u>\$ 40,145</u>	<u>\$ 11,938</u>	<u>\$ 9,452</u>	<u>\$ 50,887</u>	<u>\$ 49,597</u>

Debt

At year-end, the City had \$7,514 in governmental type debt and \$15,937 in proprietary debt (including premium on debt issuance) totaling \$23,451. This debt is a liability of the government and amounts to \$1,731 per capita. Additions to debt schedule increases to the claims payable and the City's Other Post Employment Benefits Other than Pension liability as a result of the City implementing GASB 45. (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	
	2010	2009	2010	2009	2010	2009
Lease revenue bonds	\$ 1,875	\$ 2,100	\$ -	\$ -	\$ 1,875	\$ 2,100
Tax allocation bonds	3,370	3,435	-	-	3,370	3,435
Capital lease	435	569	-	-	435	569
JPA loan payable	-	-	6,595	7,110	6,595	7,110
Sewer revenue bond	-	-	9,320	9,510	9,320	9,510
Compensated absences	325	323	22	19	347	342
Claims payable	1,203	393	-	-	1,203	393
Other post employment benefits	306	151	-	-	306	151
	<u>\$ 7,514</u>	<u>\$ 6,971</u>	<u>\$ 15,937</u>	<u>\$ 16,639</u>	<u>\$ 23,451</u>	<u>\$ 23,610</u>

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2010-11, the focus of the City Council and management was fiscal sustainability. Budget decisions were made with the understanding that given the current economic downturn, the City's growth rate for revenues had slowed 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 reduced costs while continuing to provide high quality services and to move forward implementing the City's five-year capital improvement plan.

The result was that no new programs or services were added and there was a decrease in staffing by 1.0 FTE position in the Fire Department and 1.0 FTE position in the Public Works Department. Departments were asked to prepare budgets with at least a 5% decrease in their materials, supplies, and services categories and any requests for new monies needed to be justified.

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 continue to decrease based upon the economic activity in the California economy, including property taxes, where the assessed valuations are projected to decrease by 1.5% in FY 2010-11. The City's assessed valuations have increased over the past year while the City's sales tax is expected to increase by about 11% in FY 2010-11. Overall General Fund expenditures for fiscal year 2010-11 are budgeted 1% less than the previous fiscal year. The CIP budget was set to be \$4,256 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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Solana Beach
Statement of Net Assets
June 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 17,566,814	\$ 5,766,100	\$ 23,332,914
Receivables:			
Accounts, net	323,727	701,643	1,025,370
Taxes	219,286	-	219,286
Interest	20,892	6,320	27,212
Prepaid items	5,195	-	5,195
Due from other governments	50,328	-	50,328
Total current assets	18,186,242	6,474,063	24,660,305
Noncurrent assets:			
Cash and investments with fiscal agents	1,368,702	8,316,287	9,684,989
Investment in joint venture	-	17,995,032	17,995,032
Deferred charges, net	-	839,806	839,806
Capital assets:			
Non-depreciable assets	3,672,316	5,304,744	8,977,060
Depreciable assets, net	35,276,166	6,633,023	41,909,189
Total capital assets, net	38,948,482	11,937,767	50,886,249
Total noncurrent assets	40,317,184	39,088,892	79,406,076
Total assets	58,503,426	45,562,955	104,066,381

See accompanying Notes to Basic Financial Statements.

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	930,895	545,194	1,476,089
Accrued salaries and benefits	228,869	10,320	239,189
Interest payable	26,500	235,164	261,664
Unearned revenue	143,305	-	143,305
Compensated absences - due in one year	12,049	1,806	13,855
Long-term debt - due within one year	444,385	735,000	1,179,385
Total current liabilities	1,786,003	1,527,484	3,313,487
Noncurrent liabilities:			
Deposits payable	1,767,414	-	1,767,414
Net other postemployment benefits liability	305,900	-	305,900
Claims payable	1,203,000	-	1,203,000
Compensated absences - due in more than one year	313,285	19,861	333,146
Long-term debt - due in more than one year	5,235,535	15,434,752	20,670,287
Total noncurrent liabilities	8,825,134	15,454,613	24,279,747
Total liabilities	10,611,137	16,982,097	27,593,234
NET ASSETS			
Investments in capital assets, net of related debt	33,268,562	10,679,302	43,947,864
Restricted for:			
Redevelopment activities	4,554,789	-	4,554,789
Debt service	957,153	-	957,153
Capital projects	1,574,203	-	1,574,203
Total restricted	7,086,145	-	7,086,145
Unrestricted	7,537,582	17,901,556	25,439,138
Total net assets	\$ 47,892,289	\$ 28,580,858	\$ 76,473,147

See accompanying Notes to Basic Financial Statements.

City of Solana Beach
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2010

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	\$ 4,680,495	\$ -	\$ -	\$ -	\$ -
Public safety	8,066,129	397,971	181,174	-	579,145
Public works	4,350,781	571,933	1,000	25,500	598,433
Community development	1,055,575	447,581	-	-	447,581
Community services	526,188	248,803	76,250	-	325,053
Interest and fiscal charges	738,430	-	-	-	-
Total governmental activities	19,417,598	1,666,288	258,424	25,500	1,950,212
Business-type activities:					
Sanitation	3,654,076	4,498,181	-	-	4,498,181
Total business-type activities	3,654,076	4,498,181	-	-	4,498,181
Total primary government	\$ 23,071,674	\$ 6,164,469	\$ 258,424	\$ 25,500	\$ 6,448,393

See accompanying Notes to Basic Financial Statements.

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (4,680,495)	\$ -	\$ (4,680,495)
Public safety	(7,486,984)	-	(7,486,984)
Public works	(3,752,348)	-	(3,752,348)
Community development	(607,994)	-	(607,994)
Community services	(201,135)	-	(201,135)
Interest and fiscal charges	(738,430)	-	(738,430)
Total governmental activities	(17,467,386)	-	(17,467,386)
Business-type activities:			
Sanitation	-	844,105	844,105
Total business-type activities	-	844,105	844,105
Total primary government	(17,467,386)	844,105	(16,623,281)
General revenues:			
Taxes:			
Property taxes	6,880,563	-	6,880,563
Sales taxes	2,515,183	-	2,515,183
Transit occupancy taxes	929,836	-	929,836
Intergovernmental (unrestricted)	51,731	-	51,731
Franchise taxes	652,485	-	652,485
Motor vehicle in lieu tax	1,166,461	-	1,166,461
Other taxes	1,010,187	-	1,010,187
Total taxes	13,206,446	-	13,206,446
Investment earnings	175,659	73,634	249,293
Miscellaneous	345,098	421,515	766,613
Total general revenues	13,727,203	495,149	14,222,352
Change in net assets	(3,740,183)	1,339,254	(2,400,929)
Net assets:			
Beginning of year as restated (Note 12)	51,632,472	27,241,604	78,874,076
End of year	\$ 47,892,289	\$ 28,580,858	\$ 76,473,147

See accompanying Notes to Basic Financial Statements.

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements
Proprietary Fund Financial Statements
Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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City of Solana Beach

Balance Sheet

Governmental Funds

June 30, 2010

(With comparative totals for June 30, 2009)

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2010	2009
ASSETS				
Cash and investments	\$ 11,223,207	\$ 6,343,607	\$ 17,566,814	\$ 18,085,389
Cash and investments with fiscal agents	-	1,368,702	1,368,702	1,430,029
Receivables:				
Accounts	232,598	91,129	323,727	223,019
Taxes	213,628	5,658	219,286	156,443
Interest	15,456	5,436	20,892	69,089
Prepaid items	5,195	-	5,195	5,784
Due from other governments	49,529	799	50,328	235,529
Due from other funds	184,540	669,707	854,247	756,832
Total assets	\$ 11,924,153	\$ 8,485,038	\$ 20,409,191	\$ 20,962,114
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 576,243	\$ 354,652	\$ 930,895	\$ 1,067,301
Accrued liabilities	222,551	6,318	228,869	67,888
Deposits payable	1,698,188	69,226	1,767,414	1,204,563
Due to other funds	-	854,247	854,247	756,832
Deferred revenue	-	114,450	114,450	123,037
Total liabilities	2,496,982	1,398,893	3,895,875	3,219,621
Fund Balances:				
Reserved for:				
Encumbrances	266,905	-	266,905	1,436,421
Debt service	-	1,368,702	1,368,702	1,265,468
Housing	-	671,027	671,027	952,564
Developer fees	323,490	-	323,490	321,701
Unreserved:				
Designated for:				
General fund projects and programs	6,526,649	-	6,526,649	6,780,336
Special revenue funds	-	-	-	289,367
Undesignated, reported in:				
General fund	2,310,127	-	2,310,127	2,535,309
Special revenue funds	-	3,883,762	3,883,762	2,495,790
Debt service funds	-	531,690	531,690	-
Capital projects funds	-	630,964	630,964	1,662,537
Total fund balances	9,427,171	7,086,145	16,513,316	17,739,493
Total liabilities and fund balances	\$ 11,924,153	\$ 8,485,038	\$ 20,409,191	\$ 20,959,114

See accompanying Notes to Basic Financial Statements.

City of Solana Beach

Reconciliation of the Governmental Funds Balance Sheet

to the Government-Wide Statement of Net Assets

June 30, 2010

Total Fund Balances - Total Governmental Funds **\$ 16,513,316**

Amounts reported for governmental activities in the Statement of Net Assets were different because:

Capital assets used in governmental activities were not financial resources and therefore were not reported in the governmental funds.

Nondepreciable	3,672,316
Depreciable, net of accumulated depreciation	35,276,166
Total capital assets	38,948,482

Long-term liabilities were not due and payable in the current period and therefore were not reported in the governmental funds.

Claims payable	(1,203,000)
Compensated absences - due within one year	(12,049)
Compensated absences - due in more than one year	(313,285)
Long-term liabilities - due within one year	(444,385)
Long-term liabilities - due in more than one year	(5,235,535)
Total long-term liabilities	(7,208,254)

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the governmental funds.

(26,500)

The annual business license revenue collected in January each fiscal year pertains to a license period extending six months into the following fiscal year; therefore, six months revenue was recorded as deferred revenue.

(28,855)

Net other postemployment benefits liability was not due and payable in the current period and therefore was not reported in the governmental funds.

(305,900)

Net Assets of Governmental Activities

\$ 47,892,289

See accompanying Notes to the Basic Financial Statements.

City of Solana Beach

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the year ended June 30, 2010

(With comparative totals for the year ended June 30, 2009)

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2010	2009
REVENUES:				
Taxes and assessments	\$ 10,137,032	\$ 2,162,469	\$ 12,299,501	\$ 12,299,829
Licenses, permits and fees	308,284	-	308,284	329,118
Intergovernmental	1,376,714	324,204	1,700,918	2,310,147
Charges for services	675,474	2,714	678,188	573,179
Contributions from property owners	-	-	-	732,846
Fines and forfeitures	349,291	-	349,291	322,777
Use of money and property	126,887	49,433	176,320	491,502
Other revenues	396,095	25,500	421,595	593,334
Total revenues	13,369,777	2,564,320	15,934,097	17,652,732
EXPENDITURES:				
Current:				
General government	3,277,422	155,932	3,433,354	3,373,964
Public safety	7,684,765	163,812	7,848,577	8,236,116
Public works	1,517,561	761,315	2,278,876	2,471,621
Community development	1,015,686	63,965	1,079,651	1,108,727
Community services	224,884	-	224,884	295,651
Capital outlay	-	1,134,878	1,134,878	1,751,802
Debt service:				
Principal	-	424,079	424,079	415,000
Interest and fiscal charges	-	282,725	282,725	292,415
Pass-through payments	-	453,250	453,250	256,033
Total expenditures	13,720,318	3,439,956	17,160,274	18,201,329
REVENUES OVER (UNDER)				
EXPENDITURES	(350,541)	(875,636)	(1,226,177)	(548,597)
OTHER FINANCING SOURCES (USES):				
Capital lease proceeds	-	-	-	703,999
Transfers in	165,541	691,686	857,227	946,080
Transfers out	(381,653)	(475,574)	(857,227)	(946,080)
Total other financing sources (uses)	(216,112)	216,112	-	703,999
Change in fund balances	(566,653)	(659,524)	(1,226,177)	155,402
FUND BALANCES:				
Beginning of year	9,993,824	7,745,669	17,739,493	17,584,091
End of year	<u>\$ 9,427,171</u>	<u>\$ 7,086,145</u>	<u>\$ 16,513,316</u>	<u>\$ 17,739,493</u>

See accompanying Notes to Basic Financial Statements.

City of Solana Beach

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets

For the year ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (1,226,177)

Amounts reported for governmental activities in the Statement of Activities were different because:

Governmental funds reported capital outlay as expenditures. Capital outlay expenditures were included in the Statement of Revenues, Expenditures, and Changes in Fund Balances. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over the estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period. 963,854

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as an expenditure in governmental funds. (2,925,493)

Compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, compensated absences were not reported as expenditures in governmental funds. (2,597)

Repayment of debt was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.

Bond principal payment	290,000
Capital lease payment	134,079
	424,079

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. The following amount represents the change in accrued interest from the prior year. (2,455)

Claims payable were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, the change in claim liability was not reported as an expenditure in the governmental funds. (809,479)

Net other postemployment benefits liability was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, the change in the net other postemployment liability was not reported as an expenditure in governmental funds. (154,800)

Business license revenues collected in January of the fiscal year pertained to a license period extending six months into the following fiscal year were recorded as deferred revenues on the Government-Wide Statement of Net Assets. (7,115)

Change in Net Assets of Governmental Activities \$ (3,740,183)

See accompanying Notes to the Basic Financial Statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

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City of Solana Beach
Statement of Net Assets
Proprietary Funds
June 30, 2010
(With comparative totals for June 30, 2009)

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	Sanitation Fund	
	2010	2009
ASSETS		
Current assets:		
Cash and investments	\$ 5,766,100	\$ 7,523,590
Receivables:		
Accounts	701,643	809,948
Interest	6,320	26,367
Total current assets	6,474,063	8,359,905
Noncurrent assets:		
Cash and investments with fiscal agents	8,316,287	8,313,612
Deferred issuance costs, net	839,806	901,901
Investment in joint venture	17,995,032	17,802,014
Capital assets:		
Non-depreciable	5,304,744	2,716,351
Depreciable, net	6,633,023	6,735,219
Total net capital assets	11,937,767	9,451,570
Total noncurrent assets	39,088,892	36,469,097
Total assets	45,562,955	44,829,002
LIABILITIES		
Current liabilities:		
Accounts payable	545,194	417,955
Accrued salaries and benefits	10,320	6,130
Interest payable	235,164	244,248
Compensated absences, due within one year	1,806	1,570
Long-term debt, due within one year	735,000	705,000
Total current liabilities	1,527,484	1,374,903
Noncurrent liabilities:		
Compensated absences, due in more than one year	19,861	17,268
Long-term debt, net of premium, due in more than one year	15,434,752	16,195,227
Total noncurrent liabilities	15,454,613	16,212,495
Total liabilities	16,982,097	17,587,398
NET ASSETS		
Invested in capital assets, net of related debt	10,679,302	7,974,955
Unrestricted	17,901,556	19,266,649
Total net assets	\$ 28,580,858	\$ 27,241,604

See accompanying Notes to Basic Financial Statements.

City of Solana Beach

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

For the year ended June 30, 2010

(With comparative totals for the year ended June 30, 2009)

	Sanitation Fund	
	2010	2009
OPERATING REVENUES:		
Charges for services	\$ 4,498,181	\$ 4,283,087
Other	217,552	13,803
Total operating revenues	4,715,733	4,296,890
OPERATING EXPENSES:		
Costs of sales and services	2,269,659	2,472,042
Administration	372,779	285,836
Depreciation	240,413	237,649
Total operating expenses	2,882,851	2,995,527
OPERATING INCOME (LOSS)	1,832,882	1,301,363
NONOPERATING REVENUES (EXPENSES):		
Interest income	73,634	261,554
Interest expense	(723,659)	(748,726)
Amortization of bond issuance costs	(36,621)	(36,621)
Amortization of investment premium	(10,945)	(10,945)
Share in joint venture net gain/capital contribution	203,963	192,323
Total nonoperating revenues (expenses)	(493,628)	(342,415)
Change in net assets	1,339,254	958,948
NET ASSETS:		
Beginning of year	27,241,604	26,282,656
End of year	<u>\$ 28,580,858</u>	<u>\$ 27,241,604</u>

See accompanying Notes to Basic Financial Statements.

City of Solana Beach

Statement of Cash Flows

Proprietary Funds

For the year ended June 30, 2010

(With comparative totals for the year ended June 30, 2009)

	Sanitation Fund	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 4,606,486	\$ 4,169,706
Cash payments to suppliers for goods and services	(2,142,420)	(2,045,693)
Cash payments to employees for services	(365,760)	(279,815)
Other	217,552	13,801
Net cash provided (used) by operating activities	2,315,858	1,857,999
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Intergovernmental revenue	-	530,028
Net cash provided (used) by noncapital financing activities	-	530,028
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(2,726,610)	(2,212,801)
Principal paid on capital-related debt	(705,000)	(685,000)
Interest paid on capital-related debt	(732,744)	(756,717)
Net cash provided (used) by capital and related financing activities	(4,164,354)	(3,654,518)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	82,300	284,378
Net cash provided (used) by investing activities	82,300	284,378
Net increase (decrease) in cash and investments	(1,766,196)	(982,113)
CASH AND INVESTMENTS:		
Beginning of year	14,987,263	15,969,376
End of year	<u>\$ 13,221,067</u>	<u>\$ 14,987,263</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS:		
Cash and investments	\$ 5,766,100	\$ 7,523,590
Cash and investments with fiscal agents	8,316,287	8,313,612
Less: investments that do not qualify as cash equivalents	(861,320)	(849,939)
Total cash and cash equivalents	\$ 13,221,067	\$ 14,987,263

See accompanying Notes to Basic Financial Statements.

City of Solana Beach
Statement of Cash Flows, Continued
Proprietary Funds
For the year ended June 30, 2010
(With comparative totals for the year ended June 30, 2009)

	Sanitation Fund	
	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 1,832,882	\$ 1,301,363
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	240,413	237,649
Changes in operating assets and liabilities:		
Accounts receivable	108,305	(113,381)
Due from joint venture	-	50,791
Accounts payable and accrued liabilities	127,239	376,587
Accrued salaries and benefits	4,190	-
Compensated absences	2,829	4,990
Total adjustments	482,976	556,636
Net cash provided (used) by operating activities	\$ 2,315,858	\$ 1,857,999

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

During the year ended June 30, 2010, there were noncash investment activities of \$203,963 which related to the increase in share of joint venture equity and \$10,945 which related to the amortization of investment premium. There was also \$36,621 which related to amortization of deferred issuance costs and bond premium.

FIDUCIARY FUND FINANCIAL STATEMENTS

City of Solana Beach
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010
(With comparative totals for June 30, 2009)

	Agency Funds	
	2010	2009
ASSETS		
Cash and investments	\$ 415,605	\$ 399,339
Taxes receivable	405	3,138
Interest receivable	-	964
Total assets	\$ 416,010	\$ 403,441
LIABILITIES		
Due to bondholders	\$ 416,010	\$ 403,441
Total liabilities	\$ 416,010	\$ 403,441

See accompanying Notes to Basic Financial Statements.

City of Solana Beach
Notes to Basic Financial Statements
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Solana Beach, California (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

Solana Beach Redevelopment Agency (Agency) - The Agency was created and activated by the City of Solana Beach on December 2, 2003 by Ordinance No. 318 pursuant to the State of California Health and Safety Code Section 33200. On July, 13, 2004, the City adopted Ordinance No. 326 which formed the Solana Beach Redevelopment Project Area. The Agency's purpose is to prepare and carry out plans for the improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the Solana Beach Redevelopment Project Area. Audited financial statements can be obtained from the City's Finance Department.

Solana Beach Public Facilities Corporation (Corporation) - The 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 above component units are included in the City's basic financial statements using the blended method since the governing bodies of the component units are substantially the same as the governing body of the City and the component units provide services entirely to the City. The activities of the component units are included in the special revenue, debt service, and capital projects funds.

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.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. 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.

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 Assets. The Statement of Activities presents changes in net assets. 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 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated.

The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

For its business-type activities and enterprise funds, the City has elected under Governmental Accounting Standard Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards that, along with subsequent GASB pronouncements (Statement of Interpretations), constitutes accounting principles generally accepted in the United States of America.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

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 assets as presented in these statements to the net assets 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.

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.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred 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 deferred 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 - This 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.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets, 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 Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. 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.

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 - The 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 Assets. The City’s fiduciary funds represent agency funds. 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.

C. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City’s policy is to apply restricted net assets first.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary accounting. Since encumbrances do not yet constitute expenditures or liabilities, encumbrances outstanding at year end are reported as reservations of fund balances. Unexpended appropriations lapse at year end.

E. 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.

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.

F. Restricted Cash and Investments

Certain restricted cash and investments are held by a fiscal agent for the redemption of bonded debt and for acquisition and construction of capital projects.

G. 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 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

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Capital Assets, Continued

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.

H. Long-Term Liabilities

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the appropriate funds.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Fund Financial Statements

The 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 Assets.

I. Compensated Absences

Government-Wide Financial Statements

For governmental activities, compensated absences are recorded as incurred and the related expenses and liabilities are reported.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Compensated Absences, Continued

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.

J. Net Assets

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt - 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 Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements

Reserved for encumbrances - Amounts reserved for encumbrances are commitments for materials and services on purchase orders and contracts that are not yet performed.

Reserved for debt service - The amount reserved for debt service is for future principal and interest payments on long-term debt.

Reserved for housing - The amount reserved for expenditures on low and moderate income housing in accordance with the California Health and Safety Code.

Reserved for developer fees - Amounts reserved for developer fees represent amounts from various developers that are restricted to specific uses related to their projects to ensure city code compliance.

Designated for specific projects and programs - This classification was established to reflect funds earmarked by the City Council or City administration for specific projects or programs in future years.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. 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.

L. 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.

2. CASH AND INVESTMENTS

The following is a summary of pooled cash and investments and restricted cash and investments at June 30, 2010:

	Government-Wide Statement of Net Assets		Fiduciary Funds	
	Governmental Activities	Business-Type Activities	Statement of Net Assets	Total
Cash and investments	\$ 17,566,814	\$ 5,766,100	\$ 415,605	\$ 23,748,519
Cash and investments with fiscal agent	1,368,702	8,316,287	-	9,684,989
Total	\$ 18,935,516	\$ 14,082,387	\$ 415,605	\$ 33,433,508

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

Cash and investments consisted of the following at June 30, 2010:

Cash:	
Cash on hand	\$ 800
Demand deposits	351,108
Total cash	351,908
Investments:	
Local Agency Investment Fund	23,396,611
Investments held by fiscal agent:	
Money market fund	8,832,834
Federal agency securities (FNMA)	852,155
Total investments	33,081,600
Total cash and investments	\$ 33,433,508

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$351,108 at June 30, 2010. Bank balances were \$848,145 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.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

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.

Investment Types	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	No	5 years	10%	None
Repurchase agreements	No	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	No	5 years	30%	None
Mutual funds	No	5 years	None	None
Money market mutual funds	No	5 years	None	None
Local Agency Investment Fund (LAIF)	Yes	5 years	\$40,000,000	None

* Based on state law or investment policy requirements, whichever is more restrictive.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

B. Investments, Continued

Investments Authorized by Debt Agreements

Investment 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 agent. 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
State or municipal obligations	None	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.

The City's investments with LAIF at June 30, 2010, 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.

As of June 30, 2010, the City had \$23,396,611 invested in LAIF which had invested 5.42% of the pool investment funds in Medium-Term and Short-Term Structured Notes and Asset-Backed Securities.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

D. Risk Disclosures

At June 30, 2010, the City had the following deposits and investments:

Disclosure Relating to 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 is. 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	1 year or less
Held by City:		
LAIF	\$ 23,396,611	\$ 23,396,611
Held by Fiscal Agent		
Money market funds	8,832,834	8,832,834
Federal agency (FNMA)	852,155	852,155
Total	\$ 33,081,600	\$ 33,081,600

Disclosure Relating to 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, 2010 for each investment type.

	Fair Value	Minimum Legal Rating	Ratings as of Year End	
			AAA	Not Rated
Held by City:				
Local Agency Investment Fund	\$ 23,396,611	N/A	\$ -	\$ 23,396,611
Held by fiscal agent:				
Money market funds	8,832,834	A	8,832,834	-
Federal agency (FNMA)	852,155	N/A	852,155	-
Total	\$ 33,081,600		\$ 9,684,989	\$ 23,396,611

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

D. Risk Disclosures, Continued

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code and the 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, 2010, 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.

Disclosure 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 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.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. INTERFUND TRANSACTIONS

A. Fund Financial Statements

Due from and to other funds

At June 30, 2010, the City had the following short-term interfund receivables and payables:

		Due from other funds		
		General Fund	Non-major Governmental Funds	Total
Due to other funds	Non-major Governmental Funds	\$ 184,540	\$ 669,707	\$ 854,247
	Total	\$ 184,540	\$ 669,707	\$ 854,247

Due from/to other funds balances arise from the advance payments by 1) the City's General Fund for projects, which are reimbursable through various Federal and State Grant Programs and 2) the City's Redevelopment Agency Debt Service fund for projects in the City's redevelopment area. In accordance with the requirements of the Grant Programs, the above expenditures have been incurred and reimbursement is expected to be received within the next fiscal year.

Transfers

At June 30, 2010, the City had the following transfers:

		Transfers In		
		General Fund	Non-major Governmental Funds	Total
Transfers Out	General Fund	\$ -	\$ 381,653	\$ 381,653
	Non-major Governmental Funds	165,541	310,033	475,574
	Total	\$ 165,541	\$ 691,686	\$ 857,227

The most significant interfund transfers were from 1) the General Fund and the Solana Beach Redevelopment Agency Debt Service fund to the City Capital Projects and Solana Beach Redevelopment Agency Capital Improvement Project funds in order to provide available funds for capital projects, and 2) the General Fund to the City Debt Service Fund for the City's principal and interest payments.

During the fiscal year ended June 30, 2010, 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 Basic Financial Statements, Continued
For the year ended June 30, 2010

4. CAPITAL ASSETS

A. Government-Wide Financial Statements

The following is a summary of capital assets for governmental activities:

	Balance July 1, 2009	Prior Period Adjustments (Note 12)	Additions	Deletions	Reclassification	Balance June 30, 2010
Non-Depreciable Assets:						
Land	\$ 473,451,238	\$ (470,913,798)	\$ -	\$ -	\$ -	\$ 2,537,440
Construction in progress	819,742	765,599	500,637	-	(951,102)	1,134,876
Total non-depreciable assets	474,270,980	(470,148,199)	500,637	-	(951,102)	3,672,316
Depreciable Assets:						
Buildings	5,434,448	-	-	-	-	5,434,448
Improvements	8,964,193	-	145,653	-	-	9,109,846
Equipment	1,953,344	-	65,962	(8,692)	-	2,010,614
Vehicles	1,059,775	-	43,150	-	765,599	1,868,524
Infrastructure	53,717,050	-	208,452	-	185,503	54,111,005
Total depreciable assets	71,128,810	-	463,217	(8,692)	951,102	72,534,437
Less accumulated depreciation:						
Buildings	(1,814,864)	-	(109,143)	-	-	(1,924,007)
Improvements	(1,585,724)	-	(309,110)	-	-	(1,894,834)
Equipment	(1,647,448)	-	(156,596)	8,692	-	(1,795,352)
Vehicles	(667,790)	-	(136,591)	-	-	(804,381)
Infrastructure	(28,625,644)	-	(2,214,053)	-	-	(30,839,697)
Total accumulated depreciation	(34,341,470)	-	(2,925,493)	8,692	-	(37,258,271)
Total depreciable assets, net	36,787,340	-	(2,462,276)	-	951,102	35,276,166
Total governmental activities	\$ 511,058,320	\$ (470,148,199)	\$ (1,961,639)	\$ -	\$ -	\$ 38,948,482

Governmental activities depreciation expense for capital assets for the year ended June 30, 2010 is as follows:

General government	\$ 163,941
Public safety	217,552
Public works	2,236,805
Community development	5,891
Community services	301,304
Total depreciation expense	\$ 2,925,493

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of capital assets for business-type activities:

	Balance July 1, 2009	Additions	Reclassification	Balance June 30, 2010
<i>Non-Depreciable Assets:</i>				
Land	\$ 111,706	\$ -	\$ -	\$ 111,706
Construction in progress	2,604,645	2,726,610	(138,217)	5,193,038
Total non-depreciable assets	2,716,351	2,726,610	(138,217)	5,304,744
<i>Depreciable Assets:</i>				
Buildings and improvements	10,189,029	-	138,217	10,327,246
Equipment	529,739	-	-	529,739
Total depreciable assets	10,718,768	-	138,217	10,856,985
<i>Less accumulated depreciation:</i>				
Buildings and improvements	(3,470,208)	(238,071)	-	(3,708,279)
Equipment	(513,341)	(2,342)	-	(515,683)
Total accumulated depreciation	(3,983,549)	(240,413)	-	(4,223,962)
Total depreciable assets, net	6,735,219	(240,413)	138,217	6,633,023
Total business-type activities	\$ 9,451,570	\$ 2,486,197	\$ -	\$ 11,937,767

Business-type activities depreciation expense for capital assets for the year ended June 30, 2010 is as follows:

Sanitation	\$ 240,413
Total depreciation expense	\$ 240,413

B. Fund Financial Statements

The fund financial statements do not present general government capital assets but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

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, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due within one year	Due in more than one year
Long-Term Debt:						
2006 Tax Allocation Bonds	\$ 3,435,000	\$ -	\$ (65,000)	\$ 3,370,000	\$ 70,000	\$ 3,300,000
Lease Revenue Bond - ABAG	2,100,000	-	(225,000)	1,875,000	235,000	1,640,000
Capital Lease Obligations	568,999	-	(134,079)	434,920	139,385	295,535
Total long-term debt	6,103,999	-	(424,079)	5,679,920	444,385	5,235,535
Compensated Absences	322,737	2,597	-	325,334	12,049	313,285
Total	\$ 6,426,736	\$ 2,597	\$ (424,079)	\$ 6,005,254	\$ 456,434	\$ 5,548,820

2006 Tax Allocation Bonds

On June 8, 2006, the Agency issued its 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 therefrom 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, 2010, \$235,813 was held in reserve.

The Agency has pledged a portion of future property tax revenue to repay the 2006 Tax Allocation Bonds. Annual debt service payments of the bonds require approximately 30% of the Agency's property tax increments. Total principal and interest remaining on the bond is \$6,065,564 payable through 2036.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. LONG-TERM OBLIGATIONS, Continued

Governmental Activities Long-Term Debt, Continued

2006 Tax Allocation Bonds, Continued

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 70,000	\$ 164,158	\$ 234,158
2012	70,000	161,357	231,357
2013	75,000	158,330	233,330
2014	80,000	155,043	235,043
2015	80,000	151,503	231,503
2016 - 2020	475,000	698,163	1,173,163
2021 - 2025	595,000	574,614	1,169,614
2026-2030	750,000	414,547	1,164,547
2031-2035	955,000	206,629	1,161,629
2036	220,000	11,220	231,220
Total	\$ 3,370,000	\$ 2,695,564	\$ 6,065,564

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. \$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 Assets. The 2002 bonds have annual interest ranging from 3.00% to 5.00% and annual principal installments ranging from \$95,000 to \$235,000 through December 1, 2023. Total principal and interest remaining on the bond is \$2,542,860, payable through fiscal year 2024.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 235,000	\$ 86,263	\$ 321,263
2012	95,000	78,894	173,894
2013	100,000	74,019	174,019
2014	105,000	68,894	173,894
2015	105,000	63,644	168,644
2016-2020	625,000	233,146	858,146
2021-2024	610,000	63,000	673,000
Total	\$ 1,875,000	\$ 667,860	\$ 2,542,860

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. LONG-TERM OBLIGATIONS, Continued

Governmental Activities Long-Term Debt, Continued

Capital Lease Obligations

On October 27, 2008, the City entered into a capital lease for the purchase of a fire truck. The annual interest rate is 3.9% and lease payments are due quarterly in the amount of \$38,581. The debt requirements due under the terms of the lease as of June 30, 2010 are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 139,385	\$ 14,939	\$ 154,324
2012	144,900	9,424	154,324
2013	150,635	3,689	154,324
Total	\$ 434,920	\$ 28,052	\$ 462,972

At June 30, 2010, the fire truck had a book value of \$714,559.

Compensated Absences

Compensated absences at June 30, 2010, amounted to \$325,334. This liability is expected to be paid from future resources from the General Fund.

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, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due within one year	Due in more than one year
Long-Term Debt:						
JPA Loan Payable - 2003	\$ 7,110,000	\$ -	\$ (515,000)	\$ 6,595,000	\$ 535,000	\$ 6,060,000
Sewer Revenue Bond - 2006	9,510,000	-	(190,000)	9,320,000	200,000	9,120,000
Bond Premium	280,227	-	(25,475)	254,752	-	254,752
Total long-term debt	16,900,227	-	(730,475)	15,915,000	735,000	15,434,752
Compensated Absences	18,838	2,829	-	21,667	1,806	19,861
Total	\$ 16,919,065	\$ 2,829	\$ (730,475)	\$ 15,936,667	\$ 736,806	\$ 15,454,613

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. LONG-TERM OBLIGATIONS, Continued

Business-type Activities Long-Term Debt, Continued

San Elijo JPA Loan Payable - 2003

On April 16, 2003, the City of Solana Beach and the San Elijo Joint Powers Authority (JPA) amended a loan agreement whereby the JPA loaned \$9,905,000 to the City to refund the 1993 Refunding Revenue Bonds. The 1993 Bonds were originally issued to refinance the cost of acquiring and constructing certain improvements to the San Elijo Wastewater Treatment Facilities owned by the JPA. Funding for the loan was provided through the issuance of Revenue Bonds by the JPA in the amount of \$18,640,000. \$10,282,918 of the 2003 Series proceeds were used to purchase U.S. Government Securities to advance refund the 1993 Series. As a result, the 1993 Series is considered defeased and the related liability has been removed from the Government-wide Statement of Net Assets.

The amended loan matures on March 1, 2020. Principal payments ranging from \$430,000 to \$810,000 are due annually on March 1. Interest payments are due semi-annually on September 1 and March 1. Total interest and principal remaining on the bonds is \$8,500,550 at June 30, 2010.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 535,000	\$ 313,000	\$ 848,000
2012	560,000	291,600	851,600
2013	580,000	269,200	849,200
2014	605,000	246,000	851,000
2015	635,000	215,750	850,750
2016 - 2020	3,680,000	570,000	4,250,000
Total	\$ 6,595,000	\$ 1,905,550	\$ 8,500,550

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. LONG-TERM OBLIGATIONS, Continued

Business-type Activities Long-Term Debt, Continued

San Elijo JPA Loan Payable - 2003, Continued

In compliance with bond issuance covenants, specifically Appendix F Section 4(c) of the \$18,640,000 San Elijo Joint Powers Authority, 2003 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 2009-10
Revenues:	
Operating revenues	\$ 4,498,181
Other operating	217,552
Non-operating	277,597
Gross revenues	4,993,330
Expenses	3,654,075
Net Income	\$ 1,339,255
Add back:	
Interest expense	\$ 723,659
Depreciation	240,413
Amortization of bond issuance costs	36,621
Amortization of investment in JPA	10,945
Net revenues available for debt service	\$ 2,350,893
2003 Refunding Revenue bonds debt service:	
Principal repayment	\$ 515,000
Interest charges	333,600
Total debt service	\$ 848,600
Coverage ratio	2.77

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. LONG-TERM OBLIGATIONS, Continued

Business-type Activities Long-Term Debt, Continued

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 \$15,941,654 at June 30, 2010.

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 – 2003.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 200,000	\$ 392,492	\$ 592,492
2012	205,000	385,493	590,493
2013	210,000	378,318	588,318
2014	220,000	370,758	590,758
2015	225,000	362,838	587,838
2016 - 2020	1,275,000	1,676,350	2,951,350
2021 - 2125	1,560,000	1,393,125	2,953,125
2126-2030	1,930,000	1,024,844	2,954,844
2031-2035	2,390,000	564,375	2,954,375
2036-2037	1,105,000	73,061	1,178,061
Total	\$ 9,320,000	\$ 6,621,654	\$ 15,941,654

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 2003 San Elijo JPA Refunding Revenue Bonds Issue.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. LONG-TERM OBLIGATIONS, Continued

Business-type Activities Long-Term Debt, Continued

2006 Subordinate Wastewater Revenue Bonds, Continued

Using net revenues available for debt service of \$2,350,893, the 2006 Subordinate Wastewater Revenue bonds debt service coverage requirement for fiscal year ended June 30, 2009 is calculated as follows:

Net revenues available for debt service	\$ 2,350,893
Less: 2003 Refunding Revenue bonds debt service	(848,600)
Net revenues available for 2006 Sewer Revenue Bonds debt service	\$ 1,502,293
2006 Sewer Revenue bonds debt service:	
Principal repayment	\$ 190,000
Interest charges	399,143
Total debt service	\$ 589,143
Coverage ratio	2.55

Compensated Absences

Business-type activities compensated absences at June 30, 2010, amounted to \$21,667. This liability is expected to be paid from future resources from the Sanitation Fund.

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.

Cedros Avenue Assessment District

During July 1989, the Cedros Avenue Assessment District No. 1 issued Improvement Bonds totaling \$216,939 (less bond issuance costs of \$19,807) to finance various capital improvements. The remaining balance of the bonds was paid in full at June 30, 2010.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. LONG-TERM OBLIGATIONS, Continued

Non-City Obligations – Special Assessment Debt, Continued

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 at June 30, 2010 were \$2,455,000.

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 at June 30, 2010 were \$550,000.

6. RISK MANAGEMENT

The City is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA), a consortium of twelve governmental entities in San Diego County who have joined together to achieve savings on insurance premiums through volume purchasing and risk management consulting. Each member pays for its proportionate share of its individually contracted insurance coverage and consulting services.

SANDPIPA is governed by a Board of Directors consisting of one member appointed by each member city. The Board elects a President, Vice-President, and Treasurer and meets bi-monthly to supervise and conduct Authority affairs. The day-to-day business of SANDPIPA is handled by a full-time manager employed by the Authority.

Lawsuits in the nature of claims for damages to persons and/or property have been filed against the City. The City Attorney directs and the Risk Manager assists in the disposition of these claims. In addition, claims management is provided by Carl Warren and Company. The City notifies all appropriate parties, including Carl Warren and Company, SANDPIPA and the excess insurance carriers of claims/suits that have been filed when appropriate.

SANDPIPA monitors the progress of claims/suits that are reported. The City records a liability up to the amount of its self-insurance retention. The City has no knowledge of any material liability in excess of insurance coverage for known suits or claims.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

6. RISK MANAGEMENT, Continued

General Liability Insurance

Annual deposits are paid by member cities and are adjusted retroactively to cover costs. Each member city has a specific retention level. The City has a retention level of \$100,000 and pays 100% of all losses incurred under \$100,000. The City does not share or pay for losses of other cities under \$100,000. Losses of \$100,000 to \$5,000,000 are prorated among all participating cities on a payroll basis. Losses in excess of \$5,000,000 are covered by excess insurance purchased by the participating cities, as a part of the pool, to a limit of \$10,000,000. This cost is also prorated on a payroll basis. This coverage is limited to \$45,000,000 in aggregate claims per policy year.

The City maintains insurance coverage in the following specific areas: real and personal property damage with loss of revenue and increased expenses, auto physical damage, machinery damage and faithful performance bonds.

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 \$4 million per claim; there is an additional \$45 million of reinsurance above CSAC-EIA coverage bringing the total coverage to over \$49 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 \$1,203,000 reported at June 30, 2010 were based on the requirements of Governmental Accounting Standards Board Statement No. 10, which required that a liability for claims be reported if 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
2007-2008	\$ 125,977	\$ 382,677	\$ (49,066)	\$ 459,588
2008-2009	459,588	583,152	(649,219)	393,521
2009-2010	393,521	1,156,139	(346,660)	1,203,000

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

6. RISK MANAGEMENT, Continued

Workers' Compensation, Continued

The latest financial information of the CSAC Excess Insurance Authority for fiscal year ended June 30, 2010, is as follows:

Total assets	\$ 546,764,817
Total liabilities	\$ 428,407,212
Total equities	\$ 118,357,605
Total revenues	\$ 416,173,553
Total expenses	\$ 443,609,321
Expenses over revenues	\$ 27,435,768

7. PUBLIC EMPLOYEE RETIREMENT SYSTEM

Plan Description

The City contributes to the California Public Employees Retirement System (PERS), a cost-sharing agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy

City employees are required by State statute to contribute 1.3% for miscellaneous employees and 2.0% for safety employees of their annual covered salary. The City employer makes the contributions required of City employees on their behalf and for their account which amounted to \$1,015,614 for the year ended June 30, 2010. The City employer is required to contribute for fiscal year 2009-2010 at an actuarially determined rate; the current rate as a percentage of annual covered payroll is 14.089% for miscellaneous employees, 32.255% for fire safety employees, and 30.432% for marine safety employees. Benefit provisions and all other requirements are established by State statute and City contract with employee bargaining groups.

Annual Pension Cost

For fiscal year ended June 30, 2010, the City's annual pension cost of \$1,015,614 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2009, actuarial valuations using the entry age normal actuarial cost method.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

7. PUBLIC EMPLOYEE RETIREMENT SYSTEM, Continued

Annual Pension Cost, Continued

The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases range from 3.55% to 14.45% depending on age, service, and type of employment, and (c) 3.25% per year individual salary growth. Each item (a), (b), and (c) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2009 was 30 years for prior and current service unfunded liability.

The City's covered payroll for PERS was \$1,611,281 for fire safety, \$233,157 for marine safety and \$3,016,117 for miscellaneous employees for the year ended June 30, 2010, while the City's total payroll during the same period was \$1,994,821 for fire safety employees, \$449,590 for marine safety employees and \$2,910,550 for miscellaneous employees. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2010, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2009 to June 30, 2010.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Miscellaneous Employees			
	Employer Contribution Rate	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	15.484%	\$ 401,098	100%	\$ -
6/30/2009	14.418%	408,066	100%	-
6/30/2010	14.089%	424,941	100%	-

Fiscal Year	Fire Safety Employees			
	Employer Contribution Rate	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	32.510%	\$ 496,585	100%	\$ -
6/30/2009	33.045%	510,192	100%	-
6/30/2010	32.255%	519,719	100%	-

Fiscal Year	Marine Safety Employees			
	Employer Contribution Rate	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	31.999%	\$ 71,305	100%	\$ -
6/30/2009	29.999%	68,761	100%	-
6/30/2010	30.432%	70,954	100%	-

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

7. PUBLIC EMPLOYEE RETIREMENT SYSTEM, Continued

Funded Status of Plan - Miscellaneous and Safety Employees

As of the actuarial valuation date of June 30, 2009, the City's miscellaneous and safety plans was part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required.

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 an audited, GAAP-basis financial report.

The City provides a retiree healthcare contribution for medical coverage up to dollar caps that vary by bargaining group.

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 \$80,600 during the 2010 fiscal year on a pay-as-you-go basis for current benefit payments. 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.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

8. OTHER POST EMPLOYMENT BENEFITS

Annual OPEB Cost and Net OPEB Obligation, Continued

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	\$ 240,200
Interest on net OPEB obligation	6,400
Adjustment to annual required contribution	<u>(11,200)</u>
Annual OPEB cost (expense)	235,400
Contributions made	<u>(80,600)</u>
Increase in net OPEB obligation	154,800
Net OPEB obligation - beginning of year	<u>151,100</u>
Net OPEB obligation - end of year	<u>\$ 305,900</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2010 and the two preceding fiscal years were as follows:

	Annual OPEB Cost (ARC)	Actual Contributions	Percentage Contribution	Increase in Net OPEB Asset	Net OPEB Obligation
2008-2009	\$ 221,000	\$ 69,900	31.6%	\$ 151,100	\$ 151,100
2009-2010	235,400	80,600	34.2%	154,800	305,900

Funded Status and Funding Progress

The most recent schedule of funding progress is presented below:

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
7/1/2009	\$ -	\$ 1,706,000	\$ 1,706,000	0.0%	\$ 3,348,000	51.0%

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

8. OTHER POST EMPLOYMENT BENEFITS, Continued

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, 2006 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses) and a 3% general inflation assumption. The City benefit caps for active employees, the basis of determining the City's retiree contribution, were assumed to remain at their current level. Premiums were assumed to increase with a medical cost increase rate of 11.0% for HMOs and 12.0% for PPOs for 2007, both grading down to 4.0% for HMOs and 5.0% for PPOs for 2017 and thereafter. The initial UAAL was amortized as a level percentage of projected payroll over a fixed 20-year period as of June 30, 2006. Gains and losses after the valuation date are amortized over a closed 15-year period.

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

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, 2010 is as follows:

Operating revenues	\$	5,637,544
Operating expenses		(5,867,025)
Non-operating expenses (net of revenues)		(56,318)
Capital grants		693,725
Change in net assets	\$	<u>407,926</u>
Total assets	\$	59,788,013
Total liabilities		<u>24,210,174</u>
Net assets - total fund equity	\$	<u><u>35,577,839</u></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, 2010 is as follows:

June 30, 2009 balance	\$	17,595,881
Add: unamortized premium		<u>206,133</u>
		17,802,014
FYE June 30, 2010 activity:		
Increase (decrease) in investment in joint venture		203,963
Less: amortization of premium		<u>(10,945)</u>
Total investment at June 30, 2010	\$	<u><u>17,995,032</u></u>

At June 30, 2010 the SEJPA had \$12,365,000 in 2003 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 Basic Financial Statements, Continued
For the year ended June 30, 2010

10. OTHER REQUIRED DISCLOSURES

At June 30, 2010, the following funds had deficit fund balances, which will be expected to be eliminated through future grant reimbursement:

Fund	Fund Type	Deficit
TEA 21 and TEA	Special Revenue Fund	\$ (168,970)
CDBG	Special Revenue Fund	(15,454)
Proposition A	Special Revenue Fund	(596)

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, 2010 with an estimated cost to complete of approximately \$1,063,420 in all fund types.

12. PRIOR PERIOD ADJUSTMENTS

During the implementation of GASB Statement No. 34, the City recorded right-of-way for the value of land underneath the City's residential streets and roads in the amount \$470,913,798 as a non-depreciable asset. After extensive research, management determined that the City had misapplied the implementation of GASB Statement No. 34 regarding the recording of capital assets. An adjustment was made to remove the right-of-way.

The City also failed to record an asset acquired during fiscal year 2009 in the amount of \$765,599.

Accordingly, the net assets as of July 1, 2009, have been restated as follows:

	Net Assets as Previously Reported	Prior Period Adjustments	Net Assets as Restated
Net assets	\$ 521,780,671	\$ (470,148,199)	\$ 51,632,472

City of Solana Beach
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

13. SUBSEQUENT EVENTS

State Legislation

In 2009, the State enacted legislation authorizing a two-year takeaway of Redevelopment Agency funds. The fiscal year 2009-2010 payment was \$209,741 and it is anticipated another \$43,182 will need to be submitted in fiscal year 2010-2011. This action was litigated by the California Redevelopment Association and other parties. This lawsuit challenges the constitutionality of ABX 4-26 and seeks to prevent the State from taking redevelopment funds for non-development purposes. As of the date of this report, the court's decision is currently being appealed and the results have not yet been determined.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Solana Beach
Required Supplementary Information
For the year ended June 30, 2010

1. BUDGETARY INFORMATION

The City is required by its municipal code to adopt an annual budget on or before June 30 for the ensuing fiscal year. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. From the effective date of the budget adoption, the amounts budgeted become the "annual appropriated budget." Annual appropriated budgets are adopted for the General, special revenue, debt service and capital projects (with the exception of the Assessment District capital project funds). Certain funds did not have original budgets adopted; however, these funds did have budgets adopted before fiscal year end.

The City Council may amend the budget by motion during the fiscal year. The City Manager is authorized to transfer budget amounts within any department and any fund during the budget year. However, any revisions that alter total expenditures of any fund must be approved by the City Council.

Expenditures may not legally exceed appropriations at the fund level. Appropriations lapse at the end of the fiscal year. Selected appropriations are carried over. Project-length financial plans are adopted for the City capital projects. Supplemental appropriations, which increase appropriations, may be made during the fiscal year.

In fiscal year 2009-10, no funds had expenditures that exceeded appropriations.

City of Solana Beach
Required Supplementary Information, Continued
For the year ended June 30, 2010

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule - General Fund

	2010		Actual Amounts	Variance with Final Budget	2009
	Budgeted Amounts				Actual
	Original	Final			Amounts
REVENUES:					
Taxes and assessments:					
Property	\$ 5,341,000	\$ 5,343,900	\$ 5,332,456	\$ (11,444)	\$ 5,319,399
Sales	2,700,000	2,369,000	2,515,183	146,183	2,682,769
Franchise and other	2,415,200	2,255,700	2,289,393	33,693	2,374,656
Intergovernmental	1,297,000	1,315,200	1,376,714	61,514	1,569,980
Licenses and permits	358,600	288,900	308,284	19,384	329,118
Charges for services	404,200	392,600	675,474	282,874	565,082
Fines and forfeitures	334,000	316,300	349,291	32,991	322,777
Investment income	254,500	69,000	88,407	19,407	261,590
Use of money and property	45,600	45,600	38,480	(7,120)	87,154
Other revenues	442,300	571,600	396,095	(175,505)	380,349
Total revenues	13,592,400	12,967,800	13,369,777	401,977	13,892,874
EXPENDITURES:					
General government:					
City Council	231,500	208,980	209,542	(562)	249,523
City Clerk	323,140	328,419	339,041	(10,622)	320,750
Legal services	354,600	468,077	471,076	(2,999)	504,060
City Manager	400,800	413,503	421,518	(8,015)	439,215
Finance	631,800	662,892	672,661	(9,769)	681,217
Personnel	242,100	235,280	238,360	(3,080)	231,197
Information systems	283,800	271,511	310,965	(39,454)	303,157
Support services	424,400	685,365	614,259	71,106	457,101
Total general government	2,892,140	3,274,027	3,277,422	(3,395)	3,186,220
Public safety:					
Junior lifeguard	123,500	187,775	187,713	62	151,732
Marine safety	659,500	620,611	672,396	(51,785)	656,102
Law enforcement	2,891,300	2,999,200	2,999,138	62	2,852,309
Code & parking enforcement	318,100	327,911	331,761	(3,850)	211,671
Fire department	3,083,900	3,306,763	3,354,891	(48,128)	4,000,804
Animal regulation	71,700	78,600	79,900	(1,300)	75,415
Civil defense	27,700	17,635	17,560	75	21,401
Environmental services	68,900	61,347	41,406	19,941	67,000
Total public safety	7,244,600	7,599,842	7,684,765	(84,923)	8,036,434

(Continued)

City of Solana Beach
Required Supplementary Information, Continued
For the year ended June 30, 2010

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule – General Fund, Continued

	2010				2009
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Public works:					
Street and other	1,194,700	1,064,697	1,028,253	36,444	1,086,650
Public facility	160,200	157,796	140,366	17,430	134,796
Engineering	403,500	340,238	348,942	(8,704)	455,227
Total public works	1,758,400	1,562,731	1,517,561	45,170	1,676,673
Community development:					
Planning	679,100	737,968	751,274	(13,306)	766,229
Building services	331,700	264,725	264,412	313	287,292
Total community development	1,010,800	1,002,693	1,015,686	(12,993)	1,053,521
Community services:					
Community services	91,300	83,105	80,622	2,483	130,643
Recreation programs	170,100	159,332	144,262	15,070	165,008
Total community services	261,400	242,437	224,884	17,553	295,651
	-	-	-	-	-
Total expenditures	13,167,340	13,681,730	13,720,318	(38,588)	14,248,499
REVENUE OVER (UNDER) EXPENDITURES	425,060	(713,930)	(350,541)	440,565	(355,625)
OTHER FINANCING SOURCES (USES):					
Transfers in	67,341	165,541	165,541	-	115,000
Transfers out	(475,400)	(381,652)	(381,653)	(1)	(521,400)
Capital lease	-	-	-	-	703,999
Total financing sources (uses)	(408,059)	(216,111)	(216,112)	(1)	297,599
Net change in fund balance	\$ 17,001	\$ (930,041)	(566,653)	\$ 440,564	(58,026)
FUND BALANCE:					
Beginning of year			9,993,824		10,051,850
End of year			\$ 9,427,171		\$ 9,993,824

(Concluded)

City of Solana Beach
Required Supplementary Information, Continued
For the year ended June 30, 2010

2. SCHEDULE OF FUNDING PROGRESS

A. Defined Benefits Pension Plan

As of the actuarial valuation date of June 30, 2009, the City's miscellaneous and safety plans became part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required.

B. Other Post-Employment Benefits Plan

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
7/1/2009	\$ -	\$ 1,706,000	\$ 1,706,000	0.0%	\$ 3,348,000	51.0%

OPEB information is not available in earlier years as the City adopted GASB Statement No. 45 in 2009.

SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

Gas Tax Fund - accounts for revenues received and expenditures made for street related activities. Revenues are received from the State of California for the City's share of gasoline taxes pursuant to California Streets and Highways Code Sections 2105, 2106, 2107, and 2107.5.

Municipal Improvement Districts Fund - used to account for receipts and expenditures related to landscape maintenance within the various improvement districts. Budgets for the maintenance costs are determined by the property owners who are then assessed on a per parcel basis. The assessments are collected via the County tax roll.

SEEG Fund - used to account for the State Environment Enhancement Grant.

Lighting District Fund - accounts for revenues received and expenditures made related to street lights on City streets. The City determines the yearly budget and property owners are charged their proportionate share based on a per unit basis. The assessments are collected via the County tax roll.

TransNet 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 agreements with the County of San Diego and with the San Diego Association of Governments (SANDAG).

Proposition A Fund - accounts for the San Diego County Proposition A one half (1/2) cent transportation sales tax which went into effect on July 1, 1988. All revenues in this fund must be expensed for transportation related purposes.

TEA 21/TEA Fund - the Intermodal Surface Transportation Enhancement Act (ISTEA) and Transportation Enhancement Act (TEA) fund accounts for transportation grant related receipts and expenditures.

COPS Fund - accounts for federal and state grants received for police services.

Fire Mitigation Fund - accounts for fire mitigation fees collected during new structural development based on construction type and size. The fees are restricted to equipment purchases only.

Transportation Development Act Fund - accounts for revenues and expenditures made for transportation development, transit and related studies. Funding is provided to the City as a secondary recipient under agreements with the County of San Diego and with the San Diego Association of Governments (SANDAG).

CDBG Fund - accounts for the revenues and expenditures of the Community Development Block Grant program.

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NON-MAJOR GOVERNMENTAL FUNDS

Caltrans Fund - these monies are derived from Congestion Mitigation and Air Quality funds. Caltrans is responsible for distributing these funds as well as Intermodal Surface Transportation Efficiency Act (ISTEA) funds from the federal governments to local agencies.

Coastal Area Business/Visitor Assistance and Enhancement Fund - this fund is for expenditures that include local visitor and business promotion such as assistance to the Chamber of Commerce and North County Convention and Visitors' Bureau, special events such as the Fiesta Del Sol, public art projects, and visitor enhancements to the Highway 101 business corridor or the Cedros Design District

Boating and Waterways Fund - used to account for grants received from the Department of Boating and Waterways. These funds are being used to fund the U.S. Army Corps of Engineers beach replenishment study.

Miscellaneous Grants Fund - used to account for grants received to fund various ongoing capital projects.

Redevelopment Agency Low/Mod Housing Fund - used to account for low and moderate housing set aside funds and projects.

Housing Fund - used to account for resources reserved to provide for low and moderate income housing.

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City Debt Service Fund - used to account for the accumulation of resources for the payment of interest and principal on the City's debt.

Redevelopment Agency Debt Service Fund - used to account for the collection of tax increment that is used to pay for principal and interest on long-term obligations issued by the Redevelopment Agency.

City CIP Fund - Capital Improvement Fund is used to account for the acquisition, construction, and improvement of capital facilities and infrastructure. The projects are funded by transfers from the General Fund.

Assessment Districts CIP Fund - used to account for capital projects in the assessment districts.

Redevelopment Agency CIP Fund - used to account for administration and capital projects in the redevelopment project area.

Sand Replenishment/Retention and Coastal Access CIP Fund - is limited to sand replenishment, sand retention, and coastal access capital projects. Seawall expenditures are excluded from this CIP fund.

City of Solana Beach
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2010
(With comparative totals for June 30, 2009)

	Special Revenue Funds		Debt Service Funds	
	2010	2009	2010	2009
ASSETS				
Cash and investments	\$ 4,847,452	\$ 4,858,503	\$ 66,644	\$ 797,344
Cash and investments with fiscal agents	-	-	425,463	481,886
Receivables:				
Accounts	79,198	3,976	11,931	15,905
Taxes	5,658	7,030	-	-
Interest	3,508	14,800	-	1,210
Due from other governments	-	72,115	799	-
Due from other funds	-	-	669,707	191,922
Total assets	\$ 4,935,816	\$ 4,956,424	\$ 1,174,544	\$ 1,488,267
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 78,510	\$ 187,361	\$ 217,391	\$ 222,799
Accrued liabilities	3,527	3,514	-	-
Due to other funds	184,540	184,541	-	-
Deposits payable	-	-	-	-
Deferred revenue	114,450	126,037	-	-
Total liabilities	381,027	501,453	217,391	222,799
Fund Balances:				
Reserved:				
For encumbrances	-	717,250	-	-
For debt service	-	-	425,463	1,265,468
For housing	671,027	952,564	-	-
Unreserved:				
Special revenue funds	3,883,762	2,785,157	-	-
Debt service funds	-	-	531,690	-
Capital projects funds	-	-	-	-
Total fund balances	4,554,789	4,454,971	957,153	1,265,468
Total liabilities and fund balances	\$ 4,935,816	\$ 4,956,424	\$ 1,174,544	\$ 1,488,267

	Capital Projects Funds		Total Non-Major Funds	
	2010	2009	2010	2009
Cash and investments	\$ 1,429,511	\$ 1,789,484	\$ 6,343,607	\$ 7,445,331
Cash and investments with fiscal agents	943,239	948,143	1,368,702	1,430,029
Receivables:				
Accounts	-	-	91,129	19,881
Taxes	-	-	5,658	7,030
Interest	1,928	6,395	5,436	22,405
Due from other governments	-	-	799	72,115
Due from other funds	-	-	669,707	191,922
Total assets	\$ 2,374,678	\$ 2,744,022	\$ 8,485,038	\$ 9,188,713
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 58,751	\$ 75,361	\$ 354,652	\$ 485,521
Accrued liabilities	2,791	1,914	6,318	5,428
Due to other funds	669,707	572,291	854,247	756,832
Deposits payable	69,226	69,226	69,226	69,226
Deferred revenue	-	-	114,450	126,037
Total liabilities	800,475	718,792	1,398,893	1,443,044
Fund Balances:				
Reserved:				
For encumbrances	-	362,693	-	1,079,943
For debt service	943,239	-	1,368,702	1,265,468
For housing	-	-	671,027	952,564
Unreserved:				
Capital projects funds	-	-	3,883,762	2,785,157
Debt service funds	-	-	531,690	-
Capital projects funds	630,964	1,662,537	630,964	1,662,537
Total fund balances	1,574,203	2,025,230	7,086,145	7,745,669
Total liabilities and fund balances	\$ 2,374,678	\$ 2,744,022	\$ 8,485,038	\$ 9,188,713

City of Solana Beach

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the year ended June 30, 2010

(With comparative totals for the year ended June 30, 2009)

	Special Revenue Funds		Debt Service Funds	
	2010	2009	2010	2009
REVENUES:				
Taxes and assessments	\$ 1,223,154	\$ 911,571	\$ 796,263	\$ 882,281
Use of money and property	27,608	76,890	11,683	21,675
Intergovernmental	324,204	740,167	-	-
Charges for services	2,714	8,097	-	-
Contributions from property owners	-	-	-	-
Other revenues	-	31,725	-	-
Total revenues	1,577,680	1,768,450	807,946	903,956
EXPENDITURES:				
Current:				
General government	-	-	5,726	4,290
Public safety	163,812	199,682	-	-
Public works	761,315	794,948	-	-
Community services	-	-	-	-
Community development	63,965	55,206	-	-
Capital outlay	648,023	535,048	-	-
Debt service:				
Principal	-	-	424,079	415,000
Interest and fiscal charges	-	-	282,725	292,415
Pass-through payments	-	-	453,250	256,033
Total expenditures	1,637,115	1,584,884	1,165,780	967,738
REVENUES OVER (UNDER)	(59,435)	183,566	(357,834)	(63,782)
OTHER FINANCING SOURCES (USES):				
Transfers in	159,253	176,456	359,552	478,400
Transfers out	-	-	(310,033)	(309,680)
Total other financing sources (uses)	159,253	176,456	49,519	168,720
Net changes in fund balances	99,818	360,022	(308,315)	104,938
FUND BALANCES:				
Beginning of year	4,454,971	4,094,949	1,265,468	1,160,530
End of year	\$ 4,554,789	\$ 4,454,971	\$ 957,153	\$ 1,265,468

Capital Projects Funds		Total Non-Major Funds	
2010	2009	2010	2009
\$ 143,052	\$ 129,153	\$ 2,162,469	\$ 1,923,005
10,142	44,193	49,433	142,758
-	-	324,204	740,167
-	-	2,714	8,097
-	732,846	-	732,846
25,500	181,260	25,500	212,985
178,694	1,087,452	2,564,320	3,759,858
150,206	183,454	155,932	187,744
-	-	163,812	199,682
-	-	761,315	794,948
-	-	-	-
-	-	63,965	55,206
486,855	1,216,754	1,134,878	1,751,802
-	-	424,079	415,000
-	-	282,725	292,415
-	-	453,250	256,033
637,061	1,400,208	3,439,956	3,952,830
(458,367)	(312,756)	(875,636)	(192,972)
172,881	176,224	691,686	831,080
(165,541)	(115,000)	(475,574)	(424,680)
7,340	61,224	216,112	406,400
(451,027)	(251,532)	(659,524)	213,428
2,025,230	2,276,762	7,745,669	7,532,241
\$ 1,574,203	\$ 2,025,230	\$ 7,086,145	\$ 7,745,669

City of Solana Beach
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2010

	Special Revenue				
	Gas Tax	Municipal Improvement Districts	SEEG	Lighting District	TransNet
ASSETS					
Cash and investments	\$ 391,995	\$ 325,262	\$ 693	\$ 1,318,357	\$ 1,217,246
Cash and investments with fiscal agents	-	-	-	-	-
Receivables:					
Accounts	34,517	-	-	1,626	-
Taxes	-	2,804	-	2,854	-
Interest	447	184	-	-	1,515
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	-	-
Total assets	\$ 426,959	\$ 328,250	\$ 693	\$ 1,322,837	\$ 1,218,761
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 8,419	\$ 20,966	\$ -	\$ 9,864	\$ -
Accrued liabilities	-	500	-	3,027	-
Due to other funds	-	-	-	-	-
Deposits payable	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	8,419	21,466	-	12,891	-
Fund Balances:					
Reserved:					
For encumbrances	-	-	-	-	-
For debt service	-	-	-	-	-
For housing	-	-	-	-	-
Unreserved:					
Special revenue funds	418,540	306,784	693	1,309,946	1,218,761
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total fund balances	418,540	306,784	693	1,309,946	1,218,761
Total liabilities and fund balances	\$ 426,959	\$ 328,250	\$ 693	\$ 1,322,837	\$ 1,218,761

Special Revenue															
Prop A		TEA 21/ TEA		COPS		Public Safety		Fire Mitigation		Transportation Development Act		CDBG		CALTRANS	
\$	-	\$	-	\$	95,840	\$	-	\$	53,591	\$	8,537	\$	-	\$	53,839
	-		-		-		-		-		-		-		-
	-		-		25,000		9,526		-		-		-		5,546
	-		-		-		-		-		-		-		-
	-		-		36		-		48		-		-		40
	-		-		-		-		-		-		-		-
	-		-		-		-		-		-		-		-
\$	-	\$	-	\$	120,876	\$	9,526	\$	53,639	\$	8,537	\$	-	\$	59,425
\$	-	\$	-	\$	6,302	\$	-	\$	-	\$	8,527	\$	480	\$	-
	-		-		-		-		-		-		-		-
	596		168,970		-		-		-		-		14,974		-
	-		-		-		-		-		-		-		-
	-		-		114,450		-		-		-		-		-
596	168,970		120,752		-		-		-		8,527		15,454		-
	-		-		-		-		-		-		-		-
	-		-		-		-		-		-		-		-
	-		-		-		-		-		-		-		-
	(596)		(168,970)		124		9,526		53,639		10		(15,454)		59,425
	-		-		-		-		-		-		-		-
	-		-		-		-		-		-		-		-
(596)	(168,970)		124		9,526		53,639		10		(15,454)		59,425		
\$	-	\$	-	\$	120,876	\$	9,526	\$	53,639	\$	8,537	\$	-	\$	59,425

(Continued)

City of Solana Beach
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2010

	Special Revenue				
	Coastal Area	Boating & Waterways	Miscellaneous Grants	RDA Low/Mod Housing	Housing
	Business/Visitor Assistance & Enhancement				
ASSETS					
Cash and investments	\$ 120,935	\$ 50,674	\$ 119,558	\$ 668,295	\$ 422,630
Cash and investments with fiscal agents	-	-	-	-	-
Receivables:					
Accounts	-	-	-	2,983	-
Taxes	-	-	-	-	-
Interest	56	-	149	461	572
Due from other governments	-	-	-	-	-
Due from other funds	-	-	-	-	-
Total assets	\$ 120,991	\$ 50,674	\$ 119,707	\$ 671,739	\$ 423,202
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 84	\$ -	\$ 23,156	\$ 712	\$ -
Accrued liabilities	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deposits payable	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	84	-	23,156	712	-
Fund Balances:					
Reserved	-	-	-	-	-
For debt service	-	-	-	-	-
For housing	-	-	-	671,027	-
Unreserved:					
Special revenue funds	120,907	50,674	96,551	-	423,202
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total fund balances	120,907	50,674	96,551	671,027	423,202
Total liabilities and fund balances	\$ 120,991	\$ 50,674	\$ 119,707	\$ 671,739	\$ 423,202

	Debt Service		Capital Projects			Total Other	Total Other
	City Debt Service	RDA Debt Service	Assessment Districts CIP	RDA CIP	Sand Replenish/Retention and Coastal Access CIP	Governmental Funds June 30, 2010	Governmental Funds June 30, 2010
	\$ 4,528	\$ 62,116	\$ 836,453	\$ 289,300	\$ -	\$ 303,758	\$ 6,343,607
	189,626	235,837	-	-	943,239	-	1,368,702
	-	11,931	-	-	-	-	91,129
	-	-	-	-	-	-	5,658
	-	-	1,319	366	-	243	5,436
	-	799	-	-	-	-	799
	-	669,707	-	-	-	-	669,707
	\$ 194,154	\$ 980,390	\$ 837,772	\$ 289,666	\$ 943,239	\$ 304,001	\$ 8,485,038
							\$ 9,188,713
	\$ -	\$ 217,391	\$ 7,144	\$ 16,644	\$ 34,963	\$ -	\$ 354,652
	-	-	-	-	2,791	-	6,318
	-	-	-	-	669,707	-	854,247
	-	-	-	69,226	-	-	69,226
	-	-	-	-	-	-	114,450
	-	217,391	7,144	85,870	707,461	-	1,398,893
							1,443,044
	-	-	-	-	-	-	1,079,943
	189,626	235,837	-	-	943,239	-	1,265,468
	-	-	-	-	-	-	671,027
	-	-	-	-	-	-	3,883,762
	4,528	527,162	-	-	-	-	630,964
	-	-	830,628	203,796	(707,461)	304,001	1,662,537
	194,154	762,999	830,628	203,796	235,778	304,001	7,086,145
	\$ 194,154	\$ 980,390	\$ 837,772	\$ 289,666	\$ 943,239	\$ 304,001	\$ 8,485,038
							\$ 9,188,713

(Concluded)

City of Solana Beach

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds

For the year ended June 30, 2010

	Special Revenue				
	Gas Tax	Municipal Improvement Districts	SEEG	Lighting District	TransNet
REVENUES:					
Taxes and assessments	\$ 226,405	\$ 511,181	\$ -	\$ 414,042	\$ -
Use of money and property	2,441	1,475	-	8,403	7,960
Intergovernmental	123,098	3,527	-	5,215	-
Charges for services	-	-	-	-	-
Contributions from property owners	-	-	-	-	-
Other revenues	-	-	-	-	-
Total revenues	351,944	516,183	-	427,660	7,960
EXPENDITURES:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	502,802	-	258,513	-
Community services	-	-	-	-	-
Community development	-	-	-	-	-
Capital outlay	363,342	-	-	32,483	6,986
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Pass-through payments	-	-	-	-	-
Total expenditures	363,342	502,802	-	290,996	6,986
REVENUES OVER (UNDER) EXPENDITURES	(11,398)	13,381	-	136,664	974
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net changes in fund balances	(11,398)	13,381	-	136,664	974
FUND BALANCES:					
Beginning of year	429,938	293,403	693	1,173,282	1,217,787
End of year	\$ 418,540	\$ 306,784	\$ 693	\$ 1,309,946	\$ 1,218,761

	Special Revenue							
	Prop A	TEA 21/ TEA	COPS	Public Safety	Fire Mitigation	Transportation Development Act	CDBG	CALTRANS
\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	-	-	467	-	333	-	-	278
	-	-	111,588	9,526	-	-	-	-
	-	-	-	-	2,714	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	112,055	9,526	3,047	-	-	278
	-	-	-	-	-	-	-	-
	-	-	112,055	-	16,156	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	4,996	8,527	479	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	112,055	-	21,152	8,527	479	-
	-	-	-	9,526	(18,105)	(8,527)	(479)	278
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	9,526	(18,105)	(8,527)	(479)	278
	(596)	(168,970)	124	-	71,744	8,537	(14,975)	59,147
\$	\$ (596)	\$ (168,970)	\$ 124	\$ 9,526	\$ 53,639	\$ 10	\$ (15,454)	\$ 59,425

(Continued)

City of Solana Beach

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds, Continued

For the year ended June 30, 2010

	Special Revenue				
	Coastal Area Business/Visitor Assistance & Enhancement	Boating & Waterways	Miscellaneous Grants	RDA Low/Mod Housing	Housing
REVENUES:					
Taxes and assessments	\$ 71,526	\$ -	\$ -	\$ -	\$ -
Use of money and property	402	44	1,294	1,700	2,811
Intergovernmental	-	71,250	-	-	-
Charges for services	-	-	-	-	-
Contributions from property owners	-	-	-	-	-
Other revenues	-	-	-	-	-
Total revenues	71,928	71,294	1,294	1,700	2,811
EXPENDITURES:					
Current:					
General government	-	-	-	-	-
Public safety	-	35,601	-	-	-
Public works	-	-	-	-	-
Community services	-	-	-	-	-
Community development	41,866	-	-	22,099	-
Capital outlay	-	-	231,210	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Pass-through payments	-	-	-	-	-
Total expenditures	41,866	35,601	231,210	22,099	-
REVENUES OVER (UNDER) EXPENDITURES	30,062	35,693	(229,916)	(20,399)	2,811
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	159,253	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	159,253	-
Net changes in fund balances	30,062	35,693	(229,916)	138,854	2,811
FUND BALANCES:					
Beginning of year	90,845	14,981	326,467	532,173	420,391
End of year	\$ 120,907	\$ 50,674	\$ 96,551	\$ 671,027	\$ 423,202

Debt Service		Capital Projects				Total Other Governmental Funds	Total Other Governmental Funds
City Debt Service	RDA Debt Service	Assessment Districts CIP	RDA CIP	Sand Replenish/ Retention and Coastal Access CIP		June 30, 2010	June 30, 2009
\$ -	\$ 796,263	\$ -	\$ -	\$ -	\$ 143,052	\$ 2,162,469	\$ 1,923,005
8,291	3,392	6,837	1,863	93	1,349	49,433	142,758
-	-	-	-	-	-	324,204	740,167
-	-	-	-	-	-	2,714	8,097
-	-	-	-	-	-	-	732,846
-	-	25,500	-	-	-	25,500	212,985
8,291	799,655	32,337	1,863	93	144,401	2,564,320	3,759,858
1,676	4,050	-	4,903	145,303	-	155,932	187,744
-	-	-	-	-	-	163,812	199,682
-	-	-	-	-	-	761,315	794,948
-	-	-	-	-	-	-	-
-	-	-	-	-	-	63,965	55,206
-	-	273,230	4,515	142,428	66,682	1,134,878	1,751,802
359,079	65,000	-	-	-	-	424,079	415,000
116,002	166,723	-	-	-	-	282,725	292,415
-	453,250	-	-	-	-	453,250	256,033
476,757	689,023	273,230	9,418	287,731	66,682	3,439,956	3,952,830
(468,466)	110,632	(240,893)	(7,555)	(287,638)	77,719	(875,636)	(192,972)
359,552	-	22,100	-	150,781	-	691,686	831,080
-	(310,033)	(165,541)	-	-	-	(475,574)	(424,680)
359,552	(310,033)	(143,441)	-	150,781	-	216,112	406,400
(108,914)	(199,401)	(384,334)	(7,555)	(136,857)	77,719	(659,524)	213,428
303,068	962,400	1,214,962	211,351	372,635	226,282	7,745,669	7,532,241
\$ 194,154	\$ 762,999	\$ 830,628	\$ 203,796	\$ 235,778	\$ 304,001	\$ 7,086,145	\$ 7,745,669

(Concluded)

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Gas Tax Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes and assessments	\$ 244,000	\$ 244,000	\$ 226,405	\$ (17,595)
Use of money and property	2,500	2,500	2,441	(59)
Intergovernmental	127,700	127,700	123,098	(4,602)
Total revenues	374,200	374,200	351,944	(22,256)
EXPENDITURES:				
Capital outlay	250,000	415,582	363,342	52,240
Total expenditures	250,000	415,582	363,342	52,240
REVENUES OVER (UNDER) EXPENDITURES	124,200	(41,382)	(11,398)	29,984
Net changes in fund balance	\$ 124,200	\$ (41,382)	(11,398)	\$ 29,984
FUND BALANCE:				
Beginning of year			429,938	
End of year			<u>\$ 418,540</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Municipal Improvements District Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes and assessments	\$ 523,200	\$ 523,200	\$ 511,181	\$ (12,019)
Use of money and property	2,300	2,300	1,475	(825)
Intergovernmental	2,400	2,400	3,527	1,127
Total revenues	527,900	527,900	516,183	(11,717)
EXPENDITURES:				
Current:				
Public works	510,400	520,765	502,802	17,963
Total expenditures	510,400	520,765	502,802	17,963
REVENUES OVER (UNDER) EXPENDITURES	17,500	7,135	13,381	6,246
Net changes in fund balance	\$ 17,500	\$ 7,135	13,381	\$ 6,246
FUND BALANCE:				
Beginning of year			293,403	
End of year			<u>\$ 306,784</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

SEEG Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
Pass-through payments	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
FUND BALANCE:				
Beginning of year			693	
End of year			<u>\$ 693</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Lighting District Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes and assessments	\$ 420,500	\$ 420,500	\$ 414,042	\$ (6,458)
Use of money and property	17,000	17,000	8,403	(8,597)
Intergovernmental	2,800	2,800	5,215	2,415
Total revenues	<u>440,300</u>	<u>440,300</u>	<u>427,660</u>	<u>(12,640)</u>
EXPENDITURES:				
Current:				
Public works	269,200	-	258,513	(258,513)
Capital outlay	276,800	-	32,483	(32,483)
Total expenditures	<u>546,000</u>	<u>-</u>	<u>290,996</u>	<u>(290,996)</u>
Net changes in fund balance	<u>\$ (105,700)</u>	<u>\$ 440,300</u>	<u>136,664</u>	<u>\$ (303,636)</u>
FUND BALANCE:				
Beginning of year			1,173,282	
End of year			<u>\$ 1,309,946</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

TransNet Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ 10,600	\$ 10,600	\$ 7,960	\$ (2,640)
Total revenues	<u>10,600</u>	<u>10,600</u>	<u>7,960</u>	<u>(2,640)</u>
EXPENDITURES:				
Current:				
Capital outlay	1,709,900	1,709,900	6,986	1,702,914
Total expenditures	<u>1,709,900</u>	<u>1,709,900</u>	<u>6,986</u>	<u>1,702,914</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,699,300)</u>	<u>(1,699,300)</u>	<u>974</u>	<u>1,700,274</u>
 Net changes in fund balance	 <u>\$ (1,699,300)</u>	 <u>\$ (1,699,300)</u>	 <u>974</u>	 <u>\$ 1,700,274</u>
 FUND BALANCE:				
Beginning of year			1,217,787	
End of year			<u>\$ 1,218,761</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Proposition A Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Other revenues	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
Current:				
Public works	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Net changes in fund balance	 <u>\$ -</u>	 <u>\$ -</u>	 <u>-</u>	 <u>\$ -</u>
 FUND BALANCE:				
Beginning of year			(596)	
End of year			<u>\$ (596)</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

TEA 21/TEA Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ -	\$ -
Developer fees	-	-	-	-
Total revenues	-	-	-	-
EXPENDITURES:				
Current:				
Public works	-	-	-	-
Total expenditures	-	-	-	-
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE:				
Beginning of year			(168,970)	
End of year			<u>\$ (168,970)</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

COPS Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ 1,200	\$ 1,200	\$ 467	\$ (733)
Intergovernmental	-	-	111,588	111,588
Total revenues	1,200	1,200	112,055	110,855
EXPENDITURES:				
Current:				
Public safety	100,000	112,112	112,055	57
Total expenditures	100,000	112,112	112,055	57
REVENUES OVER (UNDER) EXPENDITURES				
	(98,800)	(110,912)	-	110,912
Net changes in fund balance	\$ (98,800)	\$ (110,912)	-	\$ 110,912
FUND BALANCE:				
Beginning of year			124	
End of year			\$ 124	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Public Safety

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 9,526	\$ 9,526
Total revenues	<u>-</u>	<u>-</u>	<u>9,526</u>	<u>9,526</u>
EXPENDITURES:				
Current:				
Public safety	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>9,526</u>	<u>9,526</u>
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>9,526</u>	<u>\$ 9,526</u>
FUND BALANCE:				
Beginning of year			-	
End of year			<u>\$ 9,526</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Fire Mitigation

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ 900	\$ 900	\$ 333	\$ (567)
Charges for services	<u>5,000</u>	<u>5,000</u>	<u>2,714</u>	<u>(2,286)</u>
Total revenues	<u>5,900</u>	<u>5,900</u>	<u>3,047</u>	<u>(2,853)</u>
EXPENDITURES:				
Current:				
Public safety	15,000	20,638	16,156	4,482
Capital outlay	<u>-</u>	<u>5,000</u>	<u>4,996</u>	<u>4</u>
Total expenditures	<u>15,000</u>	<u>25,638</u>	<u>21,152</u>	<u>4,486</u>
Net changes in fund balance	<u>\$ (9,100)</u>	<u>\$ (19,738)</u>	<u>(18,105)</u>	<u>\$ 1,633</u>
FUND BALANCE:				
Beginning of year			71,744	
End of year			<u>\$ 53,639</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

TDA Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES:				
Capital outlay	-	8,600	8,527	73
Total expenditures	-	8,600	8,527	73
Net changes in fund balance	\$ -	\$ (8,600)	(8,527)	\$ 73
FUND BALANCE:				
Beginning of year			8,537	
End of year			<u>\$ 10</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

CDBG Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES:				
Capital outlay	-	500	479	21
Total expenditures	-	500	479	21
REVENUES OVER (UNDER) EXPENDITURES	-	(500)	(479)	21
Net changes in fund balance	\$ -	\$ (500)	(479)	\$ 21
FUND BALANCE:				
Beginning of year			(14,975)	
End of year			<u>\$ (15,454)</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Caltrans Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes and assessments	\$ -	\$ -	\$ -	\$ -
Use of money and property	-	-	278	278
Total revenues	-	-	278	278
EXPENDITURES:				
Current:				
Public works	-	-	-	-
Total expenditures	-	-	-	-
Net changes in fund balance	<u>\$ -</u>	<u>\$ -</u>	278	<u>\$ 278</u>
FUND BALANCE:				
Beginning of year			59,147	
End of year			<u>\$ 59,425</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Coastal Area Business/Visitor Assistance and Enhancement Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes and assessments	\$ 93,600	\$ 93,600	\$ 71,526	\$ (22,074)
Use of money and property	-	-	402	402
Other revenues	25	-	-	-
Total revenues	93,625	93,600	71,928	(21,672)
EXPENDITURES:				
Current:				
Community development	33,500	41,950	41,866	84
Total expenditures	33,500	41,950	41,866	84
REVENUES OVER (UNDER) EXPENDITURES	60,125	51,650	30,062	(21,588)
Net changes in fund balance	<u>\$ 60,125</u>	<u>\$ 51,650</u>	30,062	<u>\$ (21,588)</u>
FUND BALANCE:				
Beginning of year			90,845	
End of year			<u>\$ 120,907</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Boating and Waterways Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 44	\$ 44
Intergovernmental	224,800	224,800	71,250	(153,550)
Total revenues	<u>224,800</u>	<u>224,800</u>	<u>71,294</u>	<u>(153,506)</u>
EXPENDITURES:				
Current:				
Public safety	255,000	290,602	35,601	255,001
Total expenditures	<u>255,000</u>	<u>290,602</u>	<u>35,601</u>	<u>255,001</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(30,200)</u>	<u>(65,802)</u>	<u>35,693</u>	<u>101,495</u>
 Net changes in fund balance	 <u>\$ (30,200)</u>	 <u>\$ (65,802)</u>	 <u>35,693</u>	 <u>\$ 101,495</u>
FUND BALANCE:				
Beginning of year			14,981	
End of year			<u>\$ 50,674</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Miscellaneous Grants Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 1,294	\$ 1,294
Total revenues	<u>-</u>	<u>-</u>	<u>1,294</u>	<u>1,294</u>
EXPENDITURES:				
Capital outlay	52,800	254,520	231,210	23,310
Total expenditures	<u>52,800</u>	<u>254,520</u>	<u>231,210</u>	<u>23,310</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(52,800)</u>	<u>(254,520)</u>	<u>(229,916)</u>	<u>24,604</u>
 Net changes in fund balance	 <u>\$ (52,800)</u>	 <u>\$ (254,520)</u>	 <u>(229,916)</u>	 <u>\$ 24,604</u>
FUND BALANCE:				
Beginning of year			326,467	
End of year			<u>\$ 96,551</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Low and Moderate Housing Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ 1,000	\$ 1,000	\$ 1,700	\$ 700
Total revenues	<u>1,000</u>	<u>1,000</u>	<u>1,700</u>	<u>700</u>
EXPENDITURES:				
Current:				
Community development	25,000	24,492	22,099	2,393
Total expenditures	<u>25,000</u>	<u>24,492</u>	<u>22,099</u>	<u>2,393</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(24,000)</u>	<u>(23,492)</u>	<u>(20,399)</u>	<u>3,093</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	195,000	195,000	159,253	(35,747)
Total other financing sources (uses)	<u>195,000</u>	<u>195,000</u>	<u>159,253</u>	<u>(35,747)</u>
Net changes in fund balance	<u>\$ 171,000</u>	<u>\$ 171,508</u>	<u>138,854</u>	<u>\$ (32,654)</u>
FUND BALANCE:				
Beginning of year			532,173	
End of year			<u>\$ 671,027</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Housing Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ 6,000	\$ -	\$ 2,811	\$ 2,811
Total revenues	<u>6,000</u>	<u>-</u>	<u>2,811</u>	<u>2,811</u>
EXPENDITURES:				
Current:				
Community development	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>6,000</u>	<u>-</u>	<u>2,811</u>	<u>2,811</u>
Net changes in fund balance	<u>\$ 6,000</u>	<u>\$ -</u>	<u>2,811</u>	<u>\$ 2,811</u>
FUND BALANCE:				
Beginning of year			420,391	
End of year			<u>\$ 423,202</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

City Debt Service Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES:				
Use of money and property	\$ 6,500	\$ -	\$ 8,291	\$ 8,291
Total revenues	<u>6,500</u>	<u>-</u>	<u>8,291</u>	<u>8,291</u>
EXPENDITURES:				
Current:				
General government	-	1,800	1,676	124
Debt service:				
Principal	359,100	359,100	359,079	21
Interest and fiscal charges	116,000	116,000	116,002	(2)
Total expenditures	<u>475,100</u>	<u>476,900</u>	<u>476,757</u>	<u>143</u>
REVENUES OVER				
(UNDER) EXPENDITURES	<u>(468,600)</u>	<u>(476,900)</u>	<u>(468,466)</u>	<u>8,434</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	475,400	359,552	359,552	-
Total other financing sources (uses)	<u>475,400</u>	<u>359,552</u>	<u>359,552</u>	<u>-</u>
Net changes in fund balance	<u>\$ 6,800</u>	<u>\$ (117,348)</u>	<u>(108,914)</u>	<u>\$ 8,434</u>
FUND BALANCE:				
Beginning of year			303,068	
End of year			<u>\$ 194,154</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Redevelopment Agency Debt Service Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES:				
Taxes and assessments	\$ 975,000	\$ 975,000	\$ 796,263	\$ (178,737)
Use of money and property	10,000	10,000	3,392	(6,608)
Total revenues	985,000	985,000	799,655	(185,345)
EXPENDITURES:				
Current:				
General government	9,500	9,500	4,050	5,450
Debt service:				
Principal	65,000	65,000	65,000	-
Interest and fiscal charges	166,800	166,800	166,723	77
Pass-through payments	217,000	447,800	453,250	(5,450)
Total expenditures	458,300	689,100	689,023	77
REVENUES OVER				
(UNDER) EXPENDITURES	526,700	295,900	110,632	(185,268)
OTHER FINANCING SOURCES (USES):				
Transfers out	(360,000)	(360,000)	(310,033)	49,967
Total other financing sources (uses)	(360,000)	(360,000)	(310,033)	49,967
Net changes in fund balance	\$ 166,700	\$ (64,100)	(199,401)	\$ (135,301)
FUND BALANCE:				
Beginning of year			962,400	
End of year			\$ 762,999	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

City CIP Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES:				
Use of money and property	\$ 5,000	\$ 5,000	\$ 6,837	\$ 1,837
Other revenues	-	-	25,500	25,500
Total revenues	5,000	5,000	32,337	27,337
EXPENDITURES:				
Current:				
Capital outlay	792,200	879,712	273,230	606,482
Total expenditures	792,200	879,712	273,230	606,482
REVENUES OVER (UNDER) EXPENDITURES				
	(787,200)	(874,712)	(240,893)	633,819
OTHER FINANCING SOURCES (USES):				
Transfers in	-	22,100	22,100	-
Transfers out	-	(165,541)	(165,541)	-
Total other financing sources (uses)	-	(143,441)	(143,441)	-
Net changes in fund balance	\$ (787,200)	\$ (1,018,153)	(384,334)	\$ 633,819
FUND BALANCE:				
Beginning of year			1,214,962	
End of year			\$ 830,628	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Assessment District CIP Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 1,863	\$ 1,863
Total revenues	-	-	1,863	1,863
EXPENDITURES:				
Current:				
General government	-	9,515	4,903	4,612
Capital outlay	-	-	4,515	(4,515)
Total expenditures	-	9,515	9,418	97
REVENUES OVER (UNDER) EXPENDITURES				
	-	(9,515)	(7,555)	1,960
Net changes in fund balance	\$ -	\$ (9,515)	(7,555)	\$ 1,960
FUND BALANCE:				
Beginning of year			211,351	
End of year			\$ 203,796	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Redevelopment Agency CIP Fund For the year ended June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES:				
Use of money and property	\$ 2,500	\$ 2,500	\$ 93	\$ (2,407)
Total revenues	<u>2,500</u>	<u>2,500</u>	<u>93</u>	<u>(2,407)</u>
EXPENDITURES:				
Current:				
General government	166,100	168,142	145,303	22,839
Capital outlay	<u>225,200</u>	<u>220,739</u>	<u>142,428</u>	<u>78,311</u>
Total expenditures	<u>391,300</u>	<u>388,881</u>	<u>287,731</u>	<u>101,150</u>
REVENUES OVER				
(UNDER) EXPENDITURES	<u>(388,800)</u>	<u>(386,381)</u>	<u>(287,638)</u>	<u>98,743</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>165,000</u>	<u>165,000</u>	<u>150,781</u>	<u>(14,219)</u>
Total other financing sources (uses)	<u>165,000</u>	<u>165,000</u>	<u>150,781</u>	<u>(14,219)</u>
Net changes in fund balance	<u>\$ (223,800)</u>	<u>\$ (221,381)</u>	<u>(136,857)</u>	<u>\$ 84,524</u>
FUND BALANCE:				
Beginning of year			<u>372,635</u>	
End of year			<u>\$ 235,778</u>	

City of Solana Beach

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Sand Replenishment/Retention and Coastal Access CIP Fund For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes and assessments	\$ 187,200	\$ 187,200	\$ 143,052	\$ (44,148)
Use of money and property	-	-	1,349	1,349
Total revenues	<u>187,200</u>	<u>187,200</u>	<u>144,401</u>	<u>(42,799)</u>
EXPENDITURES:				
Capital outlay	50,000	68,691	66,682	2,009
Total expenditures	<u>50,000</u>	<u>68,691</u>	<u>66,682</u>	<u>2,009</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>137,200</u>	<u>118,509</u>	<u>77,719</u>	<u>(40,790)</u>
Net changes in fund balance	<u>\$ 137,200</u>	<u>\$ 118,509</u>	<u>77,719</u>	<u>\$ (40,790)</u>
FUND BALANCE:				
Beginning of year			<u>226,282</u>	
End of year			<u>\$ 304,001</u>	

FIDUCIARY FUNDS

Cedros Avenue Assessment District Fund - accounts for payments from property owners as well as debt service on bonds which were issued to pay for the improvements within the assessment district. This is accounted for as an agency fund because the City has no responsibility for the debt service on the bonds.

Undergrounding District Funds - the Barbara/Granados Avenue, Pacific Avenue/East and West Circle Drive, and Marsalan Avenue Utility Underground Assessment Districts are utility districts created to finance the undergrounding of utility lines. These funds account for payments from property owners as well as debt service on bonds that were issued to pay for the undergrounding improvements within the assessment districts. This is accounted for as an agency fund because the City has no responsibility for the debt service on the bonds.

South Solana Sewer District Fund - this fund was formed to finance the construction of sewer improvements to connect the 51 properties of the assessment district to the City's sewer system. These funds account for payments from property owners as well as debt service on bonds that were issued to pay for the sewer improvements. This is accounted for as an agency fund because the City has no responsibility for the debt service on the bonds.

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City of Solana Beach
Combining Statement of Fiduciary Net Assets
All Agency Funds
June 30, 2010

	Cedros Avenue Assessment District	Undergrounding District	South Solana Sewer District	Total Agency Funds
ASSETS				
Cash and investments	\$ 13,199	\$ 332,445	\$ 69,961	\$ 415,605
Accounts receivable	-	405	-	405
Total assets	\$ 13,199	\$ 332,850	\$ 69,961	\$ 416,010
LIABILITIES				
Due to bondholders	\$ 13,199	\$ 332,850	\$ 69,961	\$ 416,010
Total liabilities	\$ 13,199	\$ 332,850	\$ 69,961	\$ 416,010

City of Solana Beach
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Cedros Avenue Assessment District				
Assets:				
Cash and investments	\$ 13,199	\$ -	\$ -	\$ 13,199
Total assets	\$ 13,199	\$ -	\$ -	\$ 13,199
Liabilities:				
Due to bondholders	\$ 13,199	\$ -	\$ -	\$ 13,199
Total liabilities	\$ 13,199	\$ -	\$ -	\$ 13,199
Undergrounding Districts				
Assets:				
Cash and investments	\$ 333,797	\$ -	\$ (1,352)	\$ 332,445
Accounts receivable	1,743	-	(1,338)	405
Total assets	\$ 335,540	\$ -	\$ (2,690)	\$ 332,850
Liabilities:				
Due to bondholders	\$ 335,540	\$ -	\$ (2,690)	\$ 332,850
Total liabilities	\$ 335,540	\$ -	\$ (2,690)	\$ 332,850
South Solana Sewer District				
Assets:				
Cash and investments	\$ 52,343	\$ 17,618	\$ -	\$ 69,961
Accounts receivable	2,359	-	(2,359)	-
Total assets	\$ 54,702	\$ 17,618	\$ (2,359)	\$ 69,961
Liabilities:				
Due to bondholders	\$ 54,702	\$ 15,259	\$ -	\$ 69,961
Total liabilities	\$ 54,702	\$ 15,259	\$ -	\$ 69,961
Total - All Agency Funds				
Assets:				
Cash and investments	\$ 399,339	\$ 17,618	\$ (1,352)	\$ 415,605
Accounts receivable	4,102	-	(3,697)	405
Total assets	\$ 403,441	\$ 17,618	\$ (5,049)	\$ 416,010
Liabilities:				
Due to bondholders	\$ 403,441	\$ 15,259	\$ (2,690)	\$ 416,010
Total liabilities	\$ 403,441	\$ 15,259	\$ (2,690)	\$ 416,010

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APPENDIX D

FORM OF BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

APPENDIX E

FORM OF BOND COUNSEL OPINION

[Closing Date]

San Elijo Joint Powers Authority
2695 Manchester Avenue
Cardiff by the Sea, California 92007

City of Encinitas
505 South Vulcan Avenue
Encinitas, California 92024

City of Solana Beach
380 Stevens Avenue, Suite 305
Solana Beach, California 92075

OPINION: \$9,235,000 San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility)

Members of the Authority and the Members:

We have acted as bond counsel to the San Elijo Joint Powers Authority (the “Authority”) in connection with the issuance by the Authority of \$9,235,000 aggregate principal amount of San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility) (the “Bonds”), pursuant to the provisions of Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, and pursuant to the Indenture of Trust, dated as of December 1, 2011, by and between the Authority and State Street Bank and Trust Company of California, N.A., as trustee (the “Indenture”). The Bonds have been issued by the Authority to refund bonds issued by the Authority in 2003 in the original aggregate principal amount of \$18,640,000 and a loan made by the California Energy Resources and Development Commission in 2007 in the original principal amount of \$1,193,500. The Bonds are secured by loans (the “Loans”) which have been made by the Authority to the City of Encinitas and the City of Solana Beach (together, the “Cities”) pursuant to Third Amended and Restated Loan Agreements, each dated as of December 1, 2011 (the “Loan Agreements”), by and among the respective Cities, the Authority and the Trustee. 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 Authority contained in the Indenture and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The Authority 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 Indenture and the Loan Agreements, to perform the agreements on its part contained therein and to issue the Bonds.
2. The City of Encinitas and the City of Solana Beach are both general law cities, both duly organized and validly existing under the laws of the State of California, with the full power to enter into the Loan Agreements and to perform the agreements on their part contained therein.
3. The Indenture and the Loan Agreements have been duly approved by the Authority and constitute valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms. The Indenture creates a valid first and exclusive lien on and

pledge of the Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture.

4. The Loan Agreements have been duly approved by the Cities and constitute valid and binding obligations of the Cities enforceable against the respective Cities in accordance with their respective terms. Each of the respective Loan Agreements creates a valid first lien on and pledge of the Net Revenues (as such term is defined in each of the respective Loan Agreements) and other funds pledged thereby for the security of the respective Loans, in accordance with the terms of each of the respective Loan Agreements.

5. The Bonds have been duly authorized, executed and delivered by the Authority, and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

6. Interest on the 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 such corporations (as defined for federal income tax purposes), such interest is required to be taken into account in determining certain income and earnings. The Bonds are “qualified tax-exempt obligations” within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the “Code”), and, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction is allowed for 80 percent of that portion of such financial institutions’ interest expense allocable to interest payable on the Bonds. The opinions set forth in the preceding sentences are subject to the condition that the Authority comply with all requirements of the Code which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Authority has covenanted in the Indenture and in other instruments relating to the Bonds to comply with each of such requirements, and the Authority has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

7. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreements may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) 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”) (collectively, the “Cities”), in connection with the issuance and delivery by the Issuer of its 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility) (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2011 (the “Indenture”). The Issuer and the Cities covenant as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer and the Cities, for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule. The Dissemination Agent has entered into this Disclosure Certificate at the express direction of the Issuer evidenced by the Issuer's signature to this Disclosure Certificate. No party hereto or to the transaction regarding the issuance of the Bonds shall have any right to rely on the Dissemination Agent for any purpose other than the performance of its duties under this Disclosure Certificate.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer and the Cities pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Bonds” means the Bonds.

“Disclosure Representative” shall mean the General Manager of the San Elijo Joint Powers Authority, the Finance Director of the City of Encinitas, and the Finance Manager of the City of Solana Beach or his or her designee, or such other officer or employee as the Issuer and Cities shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean, initially, Union Bank, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the then current Dissemination Agent a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at www.emma.msrb.org, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission in the future.

“Indenture” shall mean the Indenture of Trust, dated as of December 1, 2011 by and between the Issuer and Union Bank, N.A. as Trustee.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“Participating Underwriter” shall mean Brandis Tallman LLC, whose address is 22 Battery Street, Suite 500, San Francisco, California 94111.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Tax-exempt” shall mean that interest on the 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 and the Cities shall, or shall cause the Dissemination Agent upon written direction to, not later than six (6) months after the end of the Issuer's fiscal year, commencing with the report for the fiscal year ending June 30, 2012, provide to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. 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 Certificate; provided that the audited financial statements of the Issuer and the Cities 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 twelve (12) calendar months. The Issuer's and the Cities' fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer and the Cities will promptly notify EMMA and the Dissemination Agent of a change in the fiscal year dates. The Issuer 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 hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and the Cities and shall have no duty or obligation to review such Annual Report.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to EMMA, the Issuer and the Cities shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer and the Cities to determine if the Issuer and the Cities is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to EMMA by the date required in subsection (a), the Dissemination Agent shall send a notice to EMMA, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall promptly after receipt of the Annual Report, file a report with the Issuer and the Cities certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to EMMA. The Dissemination Agent's duties under this subsection (d) shall exist only if the Issuer and the Cities provide the Annual Report to the Dissemination Agent for filing.

(e) The Issuer and the Cities shall, or if received by the Dissemination Agent, the Dissemination Agent shall, deliver a copy of each Annual Report to the Participating Underwriter at the time that the Annual Report is provided to EMMA in accordance with this Section.

SECTION 4. Content of Annual Reports. The Issuer's and Cities' Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Issuer and Cities for the most recent fiscal year of the Issuer and Cities then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer or Cities in a format similar to the 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 and Cities shall be audited by such auditor as shall then be required or permitted by State law or the 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; provided, however, that

the Issuer and Cities may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer and Cities shall modify the basis upon which its financial statements are prepared, the Issuer and Cities shall provide a notice of such modification to EMMA, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Encinitas' portion 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 tables 4, 7, 8 and 9 in the Official Statement.

(c) Solana Beach's portion 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 tables 10, 13, 14 and 15 in the Official Statement.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from EMMA. The Issuer 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 events with respect to the Bonds, not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or 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 Bonds;
6. defeasances;
7. tender offers;
8. bankruptcy, insolvency, receivership or similar proceedings; and
9. ratings changes.

(b) 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 events with respect to the Bonds, if material:

1. mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination;
2. appointment of a successor or additional trustee or the change of the name of a trustee;
3. non payment related defaults;

4. modifications to the rights of Bondholders;
5. notices of prepayment; and
6. release, substitution or sale of property securing repayment of the Bonds.

(c) 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.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Subsection (b) 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 Listed Events. The Dissemination Agent may conclusively rely on the Issuer's determination of materiality pursuant to Section 5(c).

(e) 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, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(f) 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) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected bonds pursuant to the Indenture. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (e) prior to the occurrence of such Listed Event.

(g) The Issuer agrees that the undertaking set forth in this Disclosure Certificate 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, the Trustee and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the 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 Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the Issuer and the Trustee. 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 report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment. (a) This Disclosure Certificate may be amended, by written agreement of the parties, without the consent of the Owners of the Bonds, if all of the following conditions are satisfied: (1) 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, the Cities or the type of business conducted thereby, (2) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect

as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or 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 Bonds, and (5) the Issuer shall have delivered copies of such opinion and amendment to EMMA.

(b) This Disclosure Certificate may be amended, by written agreement of the parties, upon obtaining consent of Owners at least 25% of the outstanding Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that neither the Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the effect 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 Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate 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 Certificate. 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 Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate 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 Certificate, 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, harmless against any loss, expense and liabilities (whether or not litigated) which either may incur arising out of or in the exercise or performance of the powers and duties provided hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or preparation, review, form or content of any Annual Report or any notice of a Listed Event. The Dissemination Agent shall not be deemed to be the agent of or fiduciary to the Issuer. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal

fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Owners of the Bonds, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Trustee or the Dissemination Agent hereunder, seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative:	General Manager San Elijo Joint Powers Authority 2695 Manchester Avenue Cardiff by the Sea, CA 92007-1007
Dissemination Agent:	Union Bank, N.A. 120 South San Pedro Street, Suite 400 Los Angeles, CA 90012
Trustee:	Union Bank, N.A. 120 South San Pedro Street, Suite 400 Los Angeles, CA 90012

SECTION 14. Counterparts. This Disclosure Certificate 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 OF 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 Certificate

UNION BANK OF CALIFORNIA, N.A.

By: _____
Authorized Signatory

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: San Elijo Joint Powers Authority

Name of Bond Issues: San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds

Dates of Issuance: _____, 2011

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 Certificate, dated as of _____, 2011, executed by the Issuer and the Cities. [The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

UNION BANK, N.A., as Dissemination Agent

APPENDIX G

THE BOOK ENTRY SYSTEM

The following description of the procedures and record-keeping of The Depository Trust Company (“DTC”) with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The 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 each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has been rated by Standard & Poor's as 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 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 the Bonds; DTC's records reflect only the identity of the Direct Participants to whose

accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Authority or the Trustee, on the payment 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 Participants and not of DTC nor its nominee, the Trustee, or the 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 nominee as may be requested by an authorized representative of DTC) is the responsibility of 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 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Fiscal Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Fiscal Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the respective Authority or the Trustee. Under such circumstances, in the event that a successor depository is not appointed, physical Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but take no responsibility for the accuracy of such information.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO A "BOND OWNER" OR "OWNER OF BONDS" MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

The Authority cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority is not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as appropriate.

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