

SAN ELIJO JOINT POWERS AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

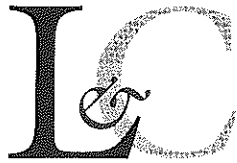


Leaf & Cole, LLP
Certified Public Accountants

**SAN ELIJO JOINT POWERS AUTHORITY
FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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Independent Auditor's Report

To the Board of Directors
San Elijo Joint Powers Authority
2695 Manchester Avenue
Cardiff By the Sea, California 92007

We have audited the accompanying balance sheets of San Elijo Joint Powers Authority as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the San Elijo Joint Powers Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Elijo Joint Powers Authority as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
San Elijo Joint Powers Authority

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Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the San Elijo Joint Powers Authority's basic financial statements. The supplementary comparative schedules of net assets and the comparative schedules of revenues, expenses, and changes in net assets on pages 31 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These 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.

Leaf & Cole LLP

San Diego, California
September 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the San Elijo Joint Powers Authority's (SEJPA) financial performance provides an overview of the SEJPA's financial activities for the years ended June 30, 2008. Please read it in conjunction with the SEJPA's financial statements which begin on page 8.

Financial Statements

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

- . Balance Sheet
- . Statement of Revenues, Expenses and Changes in Net Assets
- . Statement of Cash Flows
- . Notes to the Financial Statements.

The balance sheet includes all of the SEJPA's assets and liabilities, with the difference between the two reported as net assets. Net assets are displayed in three categories:

- . Invested in Capital Assets, Net of Related Debt
- . Restricted Net Assets
- . Unrestricted Net Assets

The balance sheet provides the basis for evaluating the capital structure of the SEJPA and assessing its liquidity and financial flexibility.

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

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

- . Operating
- . Investing
- . Capital financing
- . Noncapital financing

This statement differs from the statement of revenues, expenses and changes in net assets by only accounting for transactions that result in cash receipts or cash disbursements.

Financial Statements (Continued)

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

Financial Highlights

During the year ended June 30, 2008, the SEJPA's net assets decreased by \$316,837 (to \$34,785,267). The SEJPA's operating revenues increased \$170,719 (to \$4,900,680) while operating expenses increased \$254,621 (to \$5,505,544). For the year ended June 30, 2008 operating expenses exceeded operating revenues by \$604,864, nonoperating expenses of \$1,126,169 exceeded nonoperating revenues of \$929,068 by \$197,101 while capital grants decreased from \$30,158 to \$5,747. Member agency assessment's increased from \$322,648 in the prior year to \$479,381 in the current year.

Financial Analysis of the SEJPA

Net Assets - The SEJPA's net assets decreased between fiscal years ending 2008 and 2007 from \$35,102,104 to \$34,785,267. Net assets invested in capital assets, net of related debt decreased \$658,881 primarily as a result of depreciation expense exceeding current year capital asset additions and principal payments on the state loan payable. In addition, the District expensed in the current year expenditures related to the Water Reclamation Optimization study and the 2007 Master Plan as part of the early implementation of GASB 51 Accounting and Financial Reporting for Intangible Assets. Restricted net assets increased \$63,000 as a result of funding the State loan reserve requirement. The following is a summary of the SEJPA's balance sheet.

San Elijo Joint Powers Authority (In Thousands of Dollars)

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Current assets	\$ 6,510	\$ 6,402	\$ 108
Other noncurrent assets	15,769	16,669	(900)
Capital assets	<u>38,824</u>	<u>40,010</u>	<u>(1,186)</u>
Total Assets	<u>61,103</u>	<u>63,081</u>	<u>(1,978)</u>
Current liabilities	2,587	2,728	(141)
Noncurrent liabilities	<u>23,731</u>	<u>25,251</u>	<u>(1,520)</u>
Total Liabilities	<u>26,318</u>	<u>27,979</u>	<u>(1,661)</u>
Net Assets:			
Invested in capital assets, net of related debt	29,349	30,008	(659)
Restricted	630	567	63
Unrestricted	<u>4,806</u>	<u>4,527</u>	<u>279</u>
Total Net Assets	<u>\$34,785</u>	<u>\$35,102</u>	<u>\$ (317)</u>

Financial Analysis of the SEJPA (Continued)

Change in Net Assets - SEJPA's operating revenues decreased as a result of decreased expenditures. Approximately 55% of the SEJPA's operating revenues come from its member agencies and are billed according to actual expenditures incurred.

The SEJPA's actual operating expenses increased \$254,621 to \$5,505,544. Salaries and wages increased \$61,439 principally due to additional employees and annual wage and benefit increases. Additional increases include repairs to the Primary Sediment Tank, and Sodium Hypochlorite and the Dissolved Air Filtration Tanks.

The SEJPA's investment income decreased \$57,696 due to lower returns offered by LAIF and the lower balance on loans receivable. The following is a summary of the SEJPA's "Statement of Revenues, Expenses, and Changes in Net Assets"

San Elijo Joint Powers Authority (In Thousands of Dollars)

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Revenues:			
Operating contributions from members	\$2,682	\$2,583	\$ 99
Charges to nonmember agencies	<u>2,219</u>	<u>2,147</u>	<u>72</u>
Total Operating Revenues	4,901	4,730	171
Investment income	904	962	(58)
Member agency assessments	479	323	156
Capital grants	6	30	(24)
Other nonoperating revenue	<u>25</u>	<u>12</u>	<u>13</u>
Total Revenues	<u>6,315</u>	<u>6,057</u>	<u>258</u>
Expenses:			
Operating expenses	5,506	5,251	255
Interest expense	877	947	(70)
Other nonoperating expense	<u>249</u>	<u>-0-</u>	<u>249</u>
Total Expenses	<u>6,632</u>	<u>6,198</u>	<u>434</u>
Increase (Decrease) in Net Assets	\$ <u>(317)</u>	\$ <u>(141)</u>	\$ <u>(176)</u>

Capital Assets

Capital assets include land, plant equipment, lab equipment, office equipment, vehicles and construction-in-progress. At June 30, 2008, the SEJPA had invested \$57,716,825 in capital assets net of \$18,893,136 of accumulated depreciation. This amount represents a net decrease (including additions and deductions) of \$1,186,006, or 3% from the prior year. Significant additions include the Performance Optimization of the Activated Sludge System Project. Depreciation expense for the year ended June 30, 2008 totalled \$1,442,625.

San Elijo Joint Powers Authority's Capital Assets
(In Thousands of Dollars)

	<u>2008</u>	<u>2007</u>	<u>Change</u>
Plant equipment	\$56,333	\$56,193	\$140
Lab equipment	139	128	11
Office equipment	103	89	14
Vehicles	266	257	9
Construction-in-progress	<u>877</u>	<u>816</u>	<u>61</u>
Total	<u>\$57,718</u>	<u>\$57,483</u>	<u>\$235</u>

Long-Term Debt

At June 30, 2008 the SEJPA had \$23,437,392 in long-term debt, a decrease of 6% from the prior year. The SEJPA has commitments for \$1.2 million in new debt during the 2008/09 fiscal year. More detailed information about the SEJPA's long-term debt is presented in the notes to the financial statements.

Economic Factors

The SEJPA's fiscal year 2008/09 sanitary fund operations and maintenance budget is \$4.02 million, up 6.1% from a year ago. The water reclamation budget is \$1.72 million, up 3.6% from a year ago. Sales of reclaimed water are budgeted to be approximately 1,225 acre feet in the upcoming year, a 2.1% increase from a year ago. However, water rates have increased and combined, will result in a 15.8% increase in revenues, or approximately \$0.2 million.

Contingency funding for each program area has been reviewed and budgeted on the basis of the potential for unforeseen events within each activity area. For all programs, the amount in contingency funding is \$0.2 million and remains unchanged from last year's budget levels.

The capital project program will have a budget of \$0.97 million during the upcoming year.

Costs of sanitary services are allocated on the basis of percentage of use, as indicated by measured flows, or level of effort, as appropriate. On the basis of connected equivalent dwelling units (EDU's) in December 2007, the services provided to the Member Agencies by the SEJPA for wastewater treatment is budgeted to cost approximately \$158 per EDU per year. Water reclamation fees are based on 85% of the local potable water rate charged for the district, and are supplemented by subsidies from the Metropolitan Water District and the San Diego County Water Authority.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the SEJPA's finances and to demonstrate the SEJPA's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the San Elijo Joint Powers Authority, 2695 Manchester Avenue, Cardiff By the Sea, California, 92007, or call (760) 753-6203.

**SAN ELIJO JOINT POWERS AUTHORITY
BALANCE SHEETS
JUNE 30, 2008 AND 2007**

ASSETS	<u>2008</u>	<u>2007</u>
<u>Current Assets:</u> (Notes 1, 2 and 3)		
Cash and cash equivalents	\$ 4,921,402	\$ 5,006,300
Due from other government agencies	386,681	188,580
Accrued interest receivable	262,502	297,106
Current portion of loans receivable	<u>940,000</u>	<u>910,000</u>
Total Current Assets	<u>6,510,585</u>	<u>6,401,986</u>
 <u>Noncurrent Assets:</u> (Notes 1, 2, 4, 5, 6, and 7)		
Restricted Assets:		
Cash and cash equivalents	648,506	568,565
Investments	<u>1,597,630</u>	<u>1,615,154</u>
Total Restricted Assets	<u>2,246,136</u>	<u>2,183,719</u>
Loans Receivable	14,270,000	15,180,000
Less: Current portion above	<u>(940,000)</u>	<u>(910,000)</u>
Total Loans Receivable	<u>13,330,000</u>	<u>14,270,000</u>
Other Noncurrent Assets:		
Retrofit loans	192,687	215,539
Capital assets	<u>38,823,689</u>	<u>40,009,695</u>
Total Noncurrent Assets	<u>54,592,512</u>	<u>56,678,953</u>
 TOTAL ASSETS	 <u>\$61,103,097</u>	 <u>\$63,080,939</u>

The accompanying notes are an integral part of the financial statements.

**SAN ELIJO JOINT POWERS AUTHORITY
BALANCE SHEETS
JUNE 30, 2008 AND 2007**

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
<u>Current Liabilities:</u> (Notes 1 and 3)		
Accounts payable	\$ 416,434	\$ 376,216
Accrued liabilities	68,388	59,672
Accrued interest payable	419,970	472,504
Due to other government agencies	33,049	60,924
Due to member agencies	77,846	258,094
Retentions payable	25,903	-0-
Current portion of refunding revenue bonds	940,000	910,000
Current portion of state loan payable	<u>605,490</u>	<u>590,722</u>
Total Current Liabilities	<u>2,587,080</u>	<u>2,728,132</u>
 <u>Noncurrent Liabilities:</u> (Notes 1, 4, 8, 9, and 10)		
Payable From Restricted Assets:		
Due to member agencies payable from restricted assets	<u>1,616,136</u>	<u>1,616,719</u>
 Long-Term Debt:		
Refunding revenue bonds, net of current portion	13,330,000	14,270,000
State loan payable, net of current portion	<u>8,561,902</u>	<u>9,167,392</u>
Total Long-Term Debt	<u>21,891,902</u>	<u>23,437,392</u>
 Other Noncurrent Liabilities:		
Accrued vacation and sick leave	<u>222,712</u>	<u>196,592</u>
Total Other Noncurrent Liabilities	<u>222,712</u>	<u>196,592</u>
 Total Noncurrent Liabilities	<u>23,730,750</u>	<u>25,250,703</u>
 Total Liabilities	<u>26,317,830</u>	<u>27,978,835</u>
 <u>Commitments and Contingencies</u> (Notes 10, 12 and 13)		
 <u>Net Assets:</u>		
Net assets invested in capital assets, net of related debt	29,348,746	30,007,627
Restricted net assets	630,000	567,000
Unrestricted net assets	<u>4,806,521</u>	<u>4,527,477</u>
Total Net Assets	<u>34,785,267</u>	<u>35,102,104</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$61,103,097</u>	<u>\$63,080,939</u>

The accompanying notes are an integral part of the financial statements.

SAN ELIJO JOINT POWERS AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>Operating Revenues:</u>		
Charges of services to other government agencies	\$ 2,218,625	\$ 2,146,632
Contributions from City of Encinitas	1,451,524	1,424,191
Contributions from City of Solana Beach	<u>1,230,531</u>	<u>1,159,138</u>
Total Operating Revenue	<u>4,900,680</u>	<u>4,729,961</u>
<u>Operating Expenses:</u>		
Salaries and wages	2,112,000	2,050,561
Depreciation	1,442,625	1,447,337
Utilities	697,750	719,548
Contracted services	464,352	431,919
Miscellaneous	408,050	244,432
Supplies	223,907	230,302
Insurance	85,245	84,148
Disposal/permit fees	<u>71,615</u>	<u>42,676</u>
Total Operating Expenses	<u>5,505,544</u>	<u>5,250,923</u>
Operating Income (Loss)	<u>(604,864)</u>	<u>(520,962)</u>
<u>Nonoperating Revenue (Expenses):</u>		
Investment income	904,127	961,823
Rental income	20,400	-0-
Gain (loss) on disposal of capital assets	1,332	6,643
Other	3,209	5,608
Feasibility studies	(249,150)	-0-
Interest expense	<u>(877,019)</u>	<u>(947,321)</u>
Total Nonoperating Revenues (Expenses)	<u>(197,101)</u>	<u>26,753</u>
Income (Loss) Before Contributions	<u>(801,965)</u>	<u>(494,209)</u>
<u>Capital Contributions:</u>		
Member agency assessments	479,381	322,648
Capital grants	<u>5,747</u>	<u>30,158</u>
Total Capital Contributions	<u>485,128</u>	<u>352,806</u>
Net Income (Loss)	(316,837)	(141,403)
Net Assets at Beginning of Year	<u>35,102,104</u>	<u>35,243,507</u>
NET ASSETS AT END OF YEAR	<u>\$34,785,267</u>	<u>\$35,102,104</u>

The accompanying notes are an integral part of the financial statements.

**SAN ELIJO JOINT POWERS AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers	\$4,494,456	\$4,931,922
Payments to suppliers	(1,991,812)	(1,744,934)
Payments to employees	(2,077,164)	(1,775,205)
Cash Flows Provided by Operating Activities	<u>425,480</u>	<u>1,411,783</u>
<u>Cash Flows From Noncapital Financing Activities:</u>		
Payments for master plans	(249,150)	-0-
Rental and other nonoperating income	<u>23,609</u>	<u>-0-</u>
Net Cash Used by Noncapital Financing Activities	<u>(225,541)</u>	<u>-0-</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(149,605)	(557,258)
Proceeds from sale of capital assets	1,332	6,643
Principal paid on long-term debt	(1,500,722)	(1,461,315)
Interest paid on long-term debt	(929,553)	(969,086)
Principal paid on due to San Diego County Water Authority	-0-	(9,597)
Member agency assessments	479,381	322,648
Proceeds from capital grants	5,747	35,766
Payments to NSDCRA	<u>-0-</u>	<u>(95,926)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,093,420)</u>	<u>(2,728,125)</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of investments	(4,776,629)	(3,259,698)
Proceeds from maturity of investments	4,794,153	3,242,000
Investment income received	938,731	953,505
Proceeds from loans receivable	910,000	885,000
Proceeds of retrofit loans	22,852	17,663
Increase in due to member agencies payable from restricted assets	<u>(583)</u>	<u>589</u>
Net Cash Provided by Investing Activities	<u>1,888,524</u>	<u>1,839,059</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(4,957)	522,717
Cash and Cash Equivalents at Beginning of Year	<u>5,574,865</u>	<u>5,052,148</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$5,569,908</u>	<u>\$5,574,865</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

**SAN ELIJO JOINT POWERS AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<u>Financial Statement Classification:</u>		
Cash and cash equivalents	\$4,921,403	\$5,006,300
Cash and cash equivalents - Restricted	<u>648,505</u>	<u>568,565</u>
	<u>\$5,569,908</u>	<u>\$5,574,865</u>
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>		
Operating income (loss)	\$ (604,864)	\$ (520,962)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,442,625	1,447,337
Changes in assets and liabilities:		
Due from other government agencies	(198,101)	5,981
Accounts payable	(40,893)	250,346
Accrued liabilities	8,716	(4,560)
Due to other government agencies	(27,875)	28,574
Due to member agencies	(180,248)	167,405
Accrued vacation and sickleave	<u>26,120</u>	<u>37,662</u>
Net Cash Provided by Operating Activities	<u>\$ 425,480</u>	<u>\$1,411,783</u>

The accompanying notes are an integral part of the financial statements.

SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Note 1 - Summary of Significant Accounting Policies:

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

Under the agreement establishing the SEJPA, Cardiff retained its right to 56% of the available treatment capacity of the plant, and Solana Beach retained its right to the remaining 44%. In May 1989 through an agreement between the SEJPA and the member agencies to upgrade and expand the WRF; Solana Beach paid Cardiff \$750,680 to increase its ownership percentage and capacity rights to 50%.

To finance the upgrade of the WRF from primary to secondary treatment, the SEJPA issued the San Elijo Joint Powers Authority 1990 Revenue Bonds. These bonds were refinanced in 1993 and again in 2003 through issuance of the San Elijo Joint Powers Authority 2003 Refunding Revenue Bonds in the amount of \$18,640,000. The portion of these bonds attributable to each member agency differs from the 50% ownership share due to the refunding of prior indebtedness as well as different equity contributions at the time of the issuance of the prior bonds.

In 1998 the SEJPA began construction of tertiary treatment, reclamation storage facilities, and a reclaimed water distribution system. This project was supported by \$12,633,522 from the State Revolving Fund loan program and \$4,214,788 in Bureau of Reclamation grant funding.

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

The criteria used in determining the scope of the reporting entity are based on the provisions of the Governmental Accounting Standards Board (GASB) Statement 14. The SEJPA is the primary governmental unit. Component units are those entities which are financially accountable to the primary government, either because the SEJPA appoints a voting majority of the component units board, or because the component unit will provide a financial benefit or imposed a financial burden on the SEJPA. The SEJPA has no component units.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 1 - Summary of Significant Accounting Policies: (Continued)

Basis of Accounting

The SEJPA utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly the balance sheet and the statement of revenues, expenses, and changes in net assets have been prepared using the economic resources measurement focus and the accrual basis of accounting.

Use of Estimates

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly include amounts that are based on management's best estimates and judgment. Actual results could differ from those estimates.

Revenue Recognition

The SEJPA recognizes revenue from charges to its members and other government agencies as it is earned. Operating activities generally result from providing services and producing and delivering goods. As such, the SEJPA considers amounts received from reclaimed water sales and wastewater treatment to be operating revenues.

Investments

Investments are stated at their fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based upon the stated fair value represented by the external pool. Changes in the fair value of investments are recognized as investment income in the statement of revenues, expenses, and changes in net assets.

Capital Assets

The SEJPA records at cost the acquisition of capital assets and additions, improvements, and other capital outlays that significantly extend the life of an asset. Contributed assets are recorded at their fair value at the date of donation except for those donated by the member agencies, which are stated at the original cost to the member agency. Self constructed assets are recorded in the amount of direct labor, material, certain overhead, and capitalized interest where appropriate. Capital assets with a cost of less than \$2,000 are expensed in the year of acquisition.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 1 - Summary of Significant Accounting Policies: (Continued)

Capital Assets (Continued)

Depreciation is charged to expense for all capital assets (including assets contributed to the SEJPA) and is computed using the straight-line method over the following estimated useful lives:

Plant equipment	7 - 50 years
Lab equipment	5 - 40 years
Office equipment	5 - 20 years
Vehicles	5 years

For the years ended June 30, 2008 and 2007 depreciation expense totalled \$1,442,625 and \$1,447,337, respectively.

Accrued Vacation and Sick Leave

Vested or accumulated vacation and sick leave is recorded as an expense as benefits accrue to employees along with a corresponding liability.

Interest

The SEJPA incurs interest charges on long-term debt. No interest was capitalized as a cost of construction for the years ended June 30, 2008 and 2007.

Pronouncements of the GASB and FASB

The SEJPA has not elected to apply the option allowed in paragraph 7 of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Activities" and will continue to apply GASB statements and interpretations.

Risk Management

The SEJPA has obtained insurance through the San Diego Pooled Insurance Program Authority (SANDPIPA), an intergovernmental agency, risk sharing, joint powers authority duly formed pursuant to California Government Code Sections 6500-6512 and other provisions of law. Each insured agency pays for its proportionate share of its individually contracted insurance coverage and consulting services. At June 30, 2008, the SEJPA participated in the programs of SANDPIPA as follows:

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 1 - Summary of Significant Accounting Policies: (Continued)

Risk Management (Continued)

Municipal Liability Including Personal Injury, Property Damage, Public Officials Errors and Omissions, Automobile Liability and Employment Practices Liability - The liability shared risk program provides up to \$15 million per occurrence and in aggregate. SANDPIPA is self-insured up to \$2 million and excess insurance coverage has been purchased with a \$100,000 self-insurance retention.

Property Damage - \$1,000,000,000 shared loss limit per occurrence with a \$25,000 deductible. Coverage includes: all risk property coverage, mobile equipment, auto physical damage and boiler and machinery. The SEJPA has elected a \$10,000 to \$350,000 deductible for boiler and machinery coverage depending on the size of the machinery.

Faithful Performance/Employee Dishonesty Bond - Insured up to \$10 million with a \$5,000 deductible. Coverage includes: employee dishonesty, faithful performance forgery or alteration, computer fraud, money and securities theft, disappearance and destruction.

The SEJPA participates in the worker's compensation program of the California Sanitation Risk Management Authority (CSRMA), a public entity risk pool, which provides coverage up to \$500,000 with no deductible.

Economic Dependence

For the years ended June 30, 2008 and 2007, the SEJPA received approximately 55% and 55% respectively, of its operating revenues from its member agencies.

Reclassification

The District has classified certain prior year information to conform with the current year presentation.

Cash and Cash Equivalents

For purposes of the statement of cash flows the SEJPA considers all investment instruments purchased with a maturity of three months or less to be cash.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 2 - Cash and Cash Equivalents:

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Open Ended Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
LAIF	N/A	None	None

The SEJPA's Investment Policy is more restrictive than the California Government Code in the following ways:

- . The SEJPA may invest in the California Local Agency Investment Fund and the San Diego County Pooled Money Investment account.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 2 - Cash and Investments: (Continued)

Cash and investments held by the SEJPA were comprised of the following at June 30:

	<u>Maturity in Years</u>		
	1 year or Less	2008 Total	2007
Cash on hand	\$ 200	\$ 200	\$ 200
Cash in the California Local Agency Investment Fund (LAIF)	5,525,331	5,525,331	5,295,775
Open ended money market mutual funds	18,505	18,505	1,566
Deposits with financial institutions	25,872	25,872	277,324
Investments:			
U.S. Agency Securities	<u>1,597,630</u>	<u>1,597,630</u>	<u>1,615,154</u>
Total Cash and Investments	<u>\$7,167,538</u>	<u>\$7,167,538</u>	<u>\$7,190,019</u>
Financial Statement Classification:			
Current:			
Cash and cash equivalents		\$4,921,402	\$5,006,300
Restricted:			
Cash and cash equivalents		648,506	568,565
Investments		<u>1,597,630</u>	<u>1,615,154</u>
Total Cash and Investments		<u>\$7,167,538</u>	<u>\$7,190,019</u>

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the SEJPA's investments (including investments held by the bond trustee) to market interest rate fluctuations is provided in the previous table that shows the distribution of the SEJPA's investments by maturity as of June 30, 2008.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 2 - Cash and Investments: (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year end for each investment type.

<u>Investment</u>	<u>Rating as of Year End Standard & Poor's</u>
Open Ended Money Market Mutual Funds	Not Rated
LAIF	Not Required
U.S. Agency Securities	AAA

Concentration of Credit Risk

Concentration of credit is the risk of loss attributed to the magnitude to the SEJPA's investment in a single issue.

The investment policy of the SEJPA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total SEJPA investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>2008</u>	<u>2007</u>
Federal Home Loan Mortgage Corporation	U.S. Agency Security	\$ -0-	\$1,615,154
Federal National Mortgage Association	U.S. Agency Security	<u>1,597,630</u>	<u>-0-</u>
		<u>\$1,597,630</u>	<u>\$1,615,154</u>

SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Note 2 - Cash and Investments: (Continued)

Custodial Credit Risk

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

As of June 30, 2008, none of the SEJPA's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2008, none of the SEJPA's investments were held by the same broker-dealer (counterparty) that was used by the SEJPA to buy the securities.

Investment in State Investment Pool

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

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 3 - Due From Other Government Agencies:

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

	<u>2008</u>	<u>2007</u>
San Dieguito Water District	\$152,927	\$ -0-
San Diego County Water Authority	132,911	117,075
Santa Fe Irrigation District	75,579	46,546
Due from Others	25,264	24,958
City of Escondido	(6,834)	(39,351)
County of San Diego	(12,412)	(15,248)
Due to Others	<u>(13,803)</u>	<u>(6,324)</u>
Total	<u>\$353,632</u>	<u>\$127,656</u>

Financial Statement Classification:

Due from other government agencies	\$386,681	\$188,580
Due to other government agencies	<u>(33,049)</u>	<u>(60,924)</u>
Total	<u>\$353,632</u>	<u>\$127,656</u>

Note 4 - Restricted Assets:

The SEJPA is holding funds to be used for debt service on the 2003 refunding revenue bonds (See Note 8) in the amount of \$1,817 and a reserve fund for the same issuance in the amount of \$1,614,319. These funds are being held for the benefit of the member agencies as they are committed to provide the SEJPA with sufficient funds to service the debt on the 2003 refunding revenue bonds. As such, the SEJPA has recorded a liability due to member agencies payable from restricted funds in the amount of \$1,616,136 and \$1,616,719 at June 30, 2008 and 2007, respectively. The following is a detail of the source and restricted use of restricted assets at June 30:

<u>Funding Source</u>	<u>Use</u>	<u>2008</u>	<u>2007</u>
Debt proceeds, and interest earned	Debt service - Encinitas	\$ 208	\$ 262
Debt proceeds, and interest earned	Debt service - Solana Beach	1,609	533
Debt proceeds, and interest earned	Debt reserves	1,614,319	1,615,924
Receipts from customers	State loan reserve requirement	<u>630,000</u>	<u>567,000</u>
		<u>\$2,246,136</u>	<u>\$2,183,719</u>

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 4 - Restricted Assets: (Continued)

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

Note 5 - Capital Assets:

Capital assets consist of the following:

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2008</u>
Capital Assets Not Being Depreciated:				
Construction in progress	\$ <u>815,910</u>	\$ <u>479,572</u>	\$(<u>418,885</u>)	\$ <u>876,597</u>
Capital Assets Being Depreciated:				
Plant equipment	56,193,115	139,921		56,333,036
Lab equipment	128,146	10,532		138,678
Office equipment	88,675	13,918		102,593
Vehicles	<u>256,546</u>	<u>31,561</u>	(<u>22,186</u>)	<u>265,921</u>
	56,666,482	195,932	(<u>22,186</u>)	56,840,228
Less: Accumulated depreciation	(<u>17,472,697</u>)	(<u>1,442,625</u>)	<u>22,186</u>	(<u>18,893,136</u>)
Net Capital Assets Being Depreciated	<u>39,193,785</u>	(<u>1,246,693</u>)	<u>-0-</u>	<u>37,947,092</u>
Net Capital Assets	<u>\$40,009,695</u>	<u>(767,121)</u>	\$(<u>418,885</u>)	<u>\$38,823,689</u>

Note 6 - Loans Receivable:

On April 1, 2003 the City of Encinitas and the City of Solana Beach entered into the second amendment and restated loan agreements with the SEJPA. The loan agreements amended and restated the loan agreements dated March 1, 1990 and restated March 15, 1993. The loans bear interest from 2% - 5%. Principal and interest are payable semi-annually four days prior to each September 1 and March 1 each year, along with interest earnings on the reserve funds in order to provide the SEJPA with sufficient funds to service the debt on the 2003 Refunding Revenue Bonds. (See Note 8). At June 30, 2008 and 2007 the following amounts were due from the member agencies:

<u>Loans Receivable</u>	<u>2008</u>	<u>2007</u>
City of Solana Beach	\$ 7,610,000	\$ 8,095,000
City of Encinitas	<u>6,660,000</u>	<u>7,085,000</u>
Total	<u>\$14,270,000</u>	<u>\$15,180,000</u>

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 7 - Retrofit Loans:

The SEJPA has entered into agreements with certain reclaimed water users whereby the SEJPA reimbursed the reclaimed water users for reasonable costs incurred for the retrofitting of the water user's facilities in order for them to accept and use reclaimed water for nonpotable purposes. The water users agreed to repay the SEJPA the aggregate amount of the retrofit work together with interest ranging from 3.5% to 6%. Reclaimed water is purchased at the potable water rate with the difference between the two rates being considered repayment of the reimbursed costs with the payment first applied to interest. At June 30, 2008 and 2007 the following amounts were outstanding:

	<u>2008</u>	<u>2007</u>
22nd District Agricultural Association	\$138,522	\$144,897
Cardiff Cove Homeowners Association	27,502	29,739
National Golf Operating Partnership L.P.	26,663	36,263
St. Francis Court Homeowners Association	<u>-0-</u>	<u>4,640</u>
Total	<u>\$192,687</u>	<u>\$215,539</u>

Note 8 - 2003 Refunding Revenue Bonds:

In April 2003, the SEJPA issued the 2003 Revenue Refunding Bonds in the amount of \$18,640,000 for the purpose of refunding its \$22,565,000 1993 Refunding Revenue Bonds, the proceeds of which had been loaned to its two member agencies to finance the upgrade and expansion of the water pollution control facility. (See Note 6).

The 2003 Refunding Revenue Bonds are payable in annual principal installments ranging from \$845,000 to \$1,515,000 through March 1, 2020. Interest payments are due semiannually on September 1, and March 1. Interest rates on the bonds range from 2% to 5%. At June 30, 2008 and 2007, the 2003 Refunding Revenue Bonds outstanding total \$14,270,000 and \$15,180,000, respectively. The member agencies have covenanted to make payments of loan installments in each year from net revenues derived from the operation of each Agency's respective wastewater collection system. The following is a detail:

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2008</u>	<u>Current Portion</u>
2003 Refunding Revenue Bonds	<u>\$15,180,000</u>	<u>\$-0-</u>	<u>\$(910,000)</u>	<u>\$14,270,000</u>	<u>\$940,000</u>

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 8 - 2003 Refunding Revenue Bonds: (Continued)

Future debt service requirements of the 2003 Refunding Revenue Bonds are as follows:

	<u>Principal</u>	<u>Interest</u>
2009	\$ 940,000	\$ 658,300
2010	965,000	625,400
2011	1,005,000	586,800
2012	1,050,000	546,600
2013	1,090,000	504,600
2014 - 2018	6,260,000	1,709,500
2019 - 2020	<u>2,960,000</u>	<u>223,750</u>
	<u>\$14,270,000</u>	<u>\$4,854,950</u>

Note 9 - State Loan Payable:

In March 1988, the SEJPA entered into an agreement with the State Water Resources Control Board for funding of the San Elijo Water Reclamation System. The loan was funded through the State Revolving Fund loan program administered by the State of California in the amount of \$12,633,522. The State Revolving Fund loan program provides funding for water reclamation projects at a reduced interest rate of 2.5%. The San Elijo Water Reclamation Project represented the construction of tertiary treatment, operational storage facilities, effluent pump stations and a reclaimed water distribution system. Annual loan repayments are made by the SEJPA in the amount of \$834,675 and continue through August 2020. The following is a detail of the State Loan Payable:

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2008</u>	<u>Current Portion</u>
State loan payable	<u>\$9,758,114</u>	<u>\$-0-</u>	<u>\$(590,722)</u>	<u>\$9,167,392</u>	<u>\$605,490</u>

The terms of the state loan payable require the SEJPA to place \$63,000 into a reserve fund each year for ten (10) years, beginning with the issuance of the loan. As of June 30, 2008 and 2007 the reserve fund balance was \$630,000 and \$567,000, respectively.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 9 - State Loan Payable: (Continued)

Future debt service requirements of the State Loan Payable are as follows:

	<u>Principal</u>	<u>Interest</u>
2009	\$ 605,490	\$ 229,185
2010	620,628	214,047
2011	636,143	198,532
2012	652,047	182,628
2013	668,348	166,327
2014 - 2018	3,600,884	572,491
2019 - 2021	<u>2,383,852</u>	<u>120,173</u>
	<u>\$9,167,392</u>	<u>\$1,683,383</u>

Note 10 - Due to California Energy Commission:

In December 2007 the SEPJA entered into a promissory note with the California Energy Resources Conservation and Development Commission in the maximum amount of \$1,193,500. The loan proceeds are to be disbursed to the SEPJA as expenditures are submitted and approved. Interest accrues at 3.95% on the unpaid principal balance and is payable in 24 semi-annual payments of principal and interest beginning on or before December 22nd of the fiscal year following the year in which the Project is completed. For the year ended June 30, 2008 and 2007 no loan proceeds have been disbursed.

Note 11 - Defined Benefit Pension Plan:

Plan Description

The SEJPA's defined benefit pension plan, (the "Plan"), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer plan 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 are established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through SEJPA resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, California 95814.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 11 - Defined Benefit Pension Plan: (Continued)

Funding Policy

Active plan members in the Plan are required to contribute 8% of annual covered salary. SEJPA pays 6.2% on behalf of its employees. The SEJPA is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2008 was 11.250%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Costs

For the fiscal year ended June 30, 2008, the SEJPA's annual pension cost and actual contribution was \$247,799. The required contribution for the fiscal year ended June 30, 2008 was determined as part of the June 30, 2005 actuarial valuation.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2005
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	16 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 12 - Defined Benefit Pension Plan: (Continued)

Annual Pension Costs (Continued)

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. In addition, all gains or losses are tracked and amortized over a rolling 30-year period. Finally, if a pool's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

Risk pooling was implemented in June 2003. At the time of joining a risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the SEJPA's plan. The side fund is credited, on an annual basis, with the actuarial investment return assumption, currently 7.75%. A positive side fund will cause the required employer contribution rate to be reduced. A negative side fund will cause the required employer contribution rate to be increased by the amortization of the side fund. The SEJPA's side fund at June 30, 2005 had a valuation of \$(262,918) which is being amortized over a 14-year period.

Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$246,810	100%	\$-0-
June 30, 2007	239,446	100%	-0-
June 30, 2008	247,799	100%	-0-

Schedule of Funding Progress for PERS (\$ Amount in Thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Status (A/B)</u>	<u>Annual Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll [(B-A)/C]</u>
June 30, 2004	\$379,807,592	\$434,267,445	\$ 54,459,853	87.5%	\$97,227,479	56.0%
June 30, 2005	500,388,523	579,276,103	78,887,580	86.4%	129,379,492	61.0%
June 30, 2006	787,758,909	912,988,585	125,229,676	86.3%	200,320,145	62.5%

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 12 - Operating Leases:

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

In January 2007 the SEJPA entered into a Communications Site License Agreement as lessor with Omnipoint Communications, Inc. The initial term of the agreement, which calls for an annual payment of \$20,400 and increasing 3% annually, is for 5 years commencing the earlier of the date the licensees intend to commence construction or October 1, 2007. The SEJPA recognized rental income in the amount of \$20,400 and \$-0- for the years ended June 30, 2008 and 2007, respectively. Future lease payments to be received are as follows:

Years Ended <u>June 30,</u>	
2009	\$21,012
2010	21,642
2011	22,292
2012	<u>22,960</u>
	<u>\$87,906</u>

Note 13 - New Governmental Accounting Standards:

GASB No. 45

In June 2004, the Governmental Accounting Standards Board issued Statement No. 45 “Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension”. The requirements of this statement are effective for periods beginning after December 15, 2008. This pronouncement requires significant changes to the accounting and disclosures associated with postemployment benefits (OPEB). The SEJPA has not determined the effect on the financial statements in the year of adoption.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Note 13 - Governmental Accounting Standards: (Continued)

GASB No. 49

In November 2006, the Governmental Accounting Standards Board issued Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations." This pronouncement is effective for periods beginning after December 15, 2007. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The SEJPA has not determined the effect on the financial statements in the year of adoption.

GASB No. 51

In June 2007, the Governmental Accounting Standards Board issued Statement No. 51 "Accounting and Financial Reporting for Intangible Assets." This pronouncement is effective for periods beginning after June 15, 2009. Retroactive reporting of these intangible assets is encouraged but not required. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The SEJPA has elected to early implement this pronouncement. Due to early implementation the SEJPA has expensed \$249,150 for master plan studies in the year ended June 30, 2008. The effects on prior periods were not considered material.

GASB No. 52

In November 2007, the Governmental Accounting Standards Board issued Statement No. 52 "Land and Other Real Estate Held as Investments by Endowments". This pronouncement is effective for periods beginning after June 15, 2008, with earlier application encouraged. The Statement requires endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The SEJPA has no endowments at June 30, 2008 and 2007.

SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Note 13 - Governmental Accounting Standards: (Continued)

GASB No. 53

In June 2008, the Governmental Accounting Standards Board issued Statement No. 53 "Accounting and Financial Reporting for Derivative Investments". This pronouncement is effective for periods beginning after June 15, 2009 with earlier application encouraged. The Statement requires governments to measure most derivative instruments at fair value in their financial statements that are prepared on the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. The SEJPA held no derivative instruments at June 30, 2008 and 2007.

**SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF NET ASSETS - WASTEWATER
JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>	<u>Difference</u>
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 2,594,572	\$ 2,651,055	\$ (56,483)
Due from other government agencies	3,886	4,582	(696)
Accrued interest receivable	238,647	259,538	(20,891)
Current portion of loan receivable	<u>940,000</u>	<u>910,000</u>	<u>30,000</u>
Total Current Assets	<u>3,777,105</u>	<u>3,825,175</u>	<u>(48,070)</u>
<u>Noncurrent Assets:</u>			
Restricted Assets:			
Cash and cash equivalents	18,506	1,565	16,941
Investments	<u>1,597,630</u>	<u>1,615,154</u>	<u>(17,524)</u>
Total Restricted Assets	<u>1,616,136</u>	<u>1,616,719</u>	<u>(583)</u>
Loans receivable	14,270,000	15,180,000	(910,000)
Less: Current portion above	<u>(940,000)</u>	<u>(910,000)</u>	<u>(30,000)</u>
	<u>13,330,000</u>	<u>14,270,000</u>	<u>(940,000)</u>
Other Noncurrent Assets:			
Capital assets	<u>25,472,635</u>	<u>26,323,316</u>	<u>(850,681)</u>
Total Noncurrent Assets	<u>40,418,771</u>	<u>42,210,035</u>	<u>(1,791,264)</u>
TOTAL ASSETS	<u>\$44,195,876</u>	<u>\$46,035,210</u>	<u>\$(1,839,334)</u>

**SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF NET ASSETS - WASTEWATER (CONTINUED)
JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>	<u>Difference</u>
<u>Current Liabilities:</u>			
Accounts payable	\$ 298,926	\$ 338,361	\$ (39,435)
Accrued liabilities	55,985	47,771	8,214
Accrued interest payable	219,433	228,551	(9,118)
Due to other government agencies	33,049	60,924	(27,875)
Due to member agencies	77,846	258,094	(180,248)
Retentions payable	25,903		25,903
Current portion of refunding revenue bonds	<u>940,000</u>	<u>910,000</u>	<u>30,000</u>
Total Current Liabilities	<u>1,651,142</u>	<u>1,843,701</u>	<u>(192,559)</u>
<u>Noncurrent Liabilities:</u>			
Payable From Restricted Assets:			
Due to member agencies payable from restricted assets	<u>1,616,136</u>	<u>1,616,719</u>	<u>(583)</u>
Long-Term Debt:			
Refunding revenue bonds, net of current portion	<u>13,330,000</u>	<u>14,270,000</u>	<u>(940,000)</u>
Total Long-Term Debt	<u>13,330,000</u>	<u>14,270,000</u>	<u>(940,000)</u>
Other Noncurrent Liabilities:			
Accrued vacation and sick leave	<u>192,792</u>	<u>160,533</u>	<u>32,259</u>
Total Noncurrent Liabilities	<u>15,138,928</u>	<u>16,047,252</u>	<u>(908,324)</u>
Total Liabilities	<u>16,790,070</u>	<u>17,890,953</u>	<u>(1,100,883)</u>
<u>Net Assets:</u>			
Net assets invested in capital assets net of related debt	25,446,732	26,323,316	(876,584)
Unrestricted net assets	<u>1,959,074</u>	<u>1,820,941</u>	<u>138,133</u>
Total Net Assets	<u>27,405,806</u>	<u>28,144,257</u>	<u>(738,451)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$44,195,876</u>	<u>\$46,035,210</u>	<u>\$(1,839,334)</u>

**SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - WASTEWATER
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>	<u>Difference</u>
<u>Operating Revenues:</u>			
Contributions from City of Encinitas	\$ 1,451,524	\$ 1,424,191	\$ 27,333
Contributions from City of Solana Beach	1,230,531	1,159,138	71,393
Charges of services to other government agencies	<u>549,140</u>	<u>573,870</u>	<u>(24,730)</u>
Total Operating Revenues	<u>3,231,195</u>	<u>3,157,199</u>	<u>73,996</u>
<u>Operating Expenses:</u>			
Salaries and wages	1,815,798	1,758,236	57,562
Depreciation	1,019,411	1,023,000	(3,589)
Utilities	547,253	574,012	(26,759)
Contracted services	440,822	401,981	38,841
Miscellaneous	352,021	198,455	153,566
Supplies	169,149	199,805	(30,656)
Insurance	58,070	57,322	748
Disposal/permit fees	<u>45,404</u>	<u>41,576</u>	<u>3,828</u>
Total Operating Expenses	<u>4,447,928</u>	<u>4,254,387</u>	<u>193,541</u>
Operating Income (Loss)	<u>(1,216,733)</u>	<u>(1,097,188)</u>	<u>(119,545)</u>
<u>Nonoperating Revenues (Expenses):</u>			
Investment income	758,644	816,017	(57,373)
Rental income	20,400		20,400
Other	2,209	5,608	(3,399)
Gain (loss) on disposal of capital assets	1,332	6,643	(5,311)
Feasibility study	(107,202)		(107,202)
Interest expense	<u>(676,482)</u>	<u>(700,368)</u>	<u>23,886</u>
Total Nonoperating Revenues (Expenses)	<u>(1,099)</u>	<u>127,900</u>	<u>(128,999)</u>
Income (Loss) Before Contributions	<u>(1,217,832)</u>	<u>(969,288)</u>	<u>(248,544)</u>
<u>Capital Contributions:</u>			
Member agency assessments	<u>479,381</u>	<u>322,648</u>	<u>156,733</u>
Total Capital Contributions	<u>479,381</u>	<u>322,648</u>	<u>156,733</u>
Net Income (Loss)	(738,451)	(646,640)	(91,811)
Net Assets at Beginning of Year, as Restated	<u>28,144,257</u>	<u>28,790,897</u>	<u>(646,640)</u>
NET ASSETS AT END OF YEAR	<u>\$27,405,806</u>	<u>\$28,144,257</u>	<u>\$(738,451)</u>

**SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF NET ASSETS - RECLAMATION
JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>	<u>Difference</u>
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 2,326,830	\$ 2,355,245	\$(28,415)
Due from other government agencies	382,795	183,998	198,797
Accrued interest receivable	<u>23,855</u>	<u>37,568</u>	<u>(13,713)</u>
Total Current Assets	<u>2,733,480</u>	<u>2,576,811</u>	<u>156,669</u>
<u>Noncurrent Assets:</u>			
Restricted Assets:			
Cash and cash equivalents	<u>630,000</u>	<u>567,000</u>	<u>63,000</u>
Total Restricted Assets	<u>630,000</u>	<u>567,000</u>	<u>63,000</u>
Other Noncurrent Assets:			
Retrofit loans	192,687	215,539	(22,852)
Capital assets	<u>13,351,054</u>	<u>13,686,379</u>	<u>(335,325)</u>
Total Noncurrent Assets	<u>14,173,741</u>	<u>14,468,918</u>	<u>(295,177)</u>
TOTAL ASSETS	<u>\$16,907,221</u>	<u>\$17,045,729</u>	<u>\$(138,508)</u>

SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF NET ASSETS - RECLAMATION (CONTINUED)
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>	<u>Difference</u>
<u>Current Liabilities:</u>			
Accounts payable	\$ 117,508	\$ 37,855	\$ 79,653
Accrued liabilities	12,403	11,901	502
Accrued interest payable	200,537	243,953	(43,416)
Current portion of state loan payable	<u>605,490</u>	<u>590,722</u>	<u>14,768</u>
Total Current Liabilities	<u>935,938</u>	<u>884,431</u>	<u>51,507</u>
<u>Noncurrent Liabilities:</u>			
<u>Long-Term Debt:</u>			
State loan payable, less current portion	<u>8,561,902</u>	<u>9,167,392</u>	<u>(605,490)</u>
Total Long-Term Debt	<u>8,561,902</u>	<u>9,167,392</u>	<u>(605,490)</u>
<u>Other Noncurrent Liabilities:</u>			
Accrued vacation and sick leave	<u>29,920</u>	<u>36,059</u>	<u>(6,139)</u>
Total Other Noncurrent Liabilities	<u>29,920</u>	<u>36,059</u>	<u>(6,139)</u>
Total Noncurrent Liabilities	<u>8,591,822</u>	<u>9,203,451</u>	<u>(611,629)</u>
Total Liabilities	<u>9,527,760</u>	<u>10,087,882</u>	<u>(560,122)</u>
<u>Net Assets:</u>			
Net assets invested in capital assets net of related debt	3,902,014	4,569,311	(667,297)
Restricted net assets	630,000	567,000	63,000
Unrestricted net assets	<u>2,847,447</u>	<u>1,821,536</u>	<u>1,025,911</u>
Total Net Assets	<u>7,379,461</u>	<u>6,957,847</u>	<u>421,614</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$16,907,221</u>	<u>\$17,045,729</u>	<u>\$ (138,508)</u>

**SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - RECLAMATION
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>	<u>Difference</u>
<u>Operating Revenues:</u>			
Charges of services to other government agencies	\$1,669,485	\$1,572,762	\$ 96,723
Total Operating Revenues	<u>1,669,485</u>	<u>1,572,762</u>	<u>96,723</u>
<u>Operating Expenses:</u>			
Depreciation	423,214	424,337	(1,123)
Salaries and wages	296,202	292,325	3,877
Utilities	150,497	145,536	4,961
Contracted services	23,530	29,938	(6,408)
Miscellaneous	56,029	45,977	10,052
Supplies	54,758	30,497	24,261
Insurance	27,175	26,826	349
Disposal/permit fees	<u>26,211</u>	<u>1,100</u>	<u>25,111</u>
Total Operating Expenses	<u>1,057,616</u>	<u>996,536</u>	<u>61,080</u>
Operating Income	<u>611,869</u>	<u>576,226</u>	<u>35,643</u>
<u>Nonoperating Revenues (Expenses):</u>			
Investment income	145,483	145,806	(323)
Other	1,000	-0-	1,000
Feasibility study	(141,948)	-0-	(141,948)
Interest expense	<u>(200,537)</u>	<u>(246,953)</u>	<u>46,416</u>
Total Nonoperating Revenues (Expenses)	<u>(196,002)</u>	<u>(101,147)</u>	<u>(94,855)</u>
Income Before Contributions	<u>415,867</u>	<u>475,079</u>	<u>(59,212)</u>
<u>Capital Contributions:</u>			
Capital grants	<u>5,747</u>	<u>30,158</u>	<u>(24,411)</u>
Total Capital Contributions	<u>5,747</u>	<u>30,158</u>	<u>(24,411)</u>
Net Income	421,614	505,237	(83,623)
Net Assets at Beginning of Year, as Restated	<u>6,957,847</u>	<u>6,452,610</u>	<u>505,237</u>
NET ASSETS AT END OF YEAR	<u>\$7,379,461</u>	<u>\$6,957,847</u>	<u>\$421,614</u>