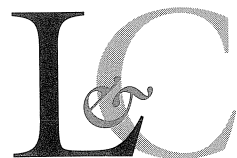


SAN ELIJO JOINT POWERS AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

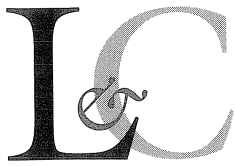


Leaf & Cole, LLP
Certified Public Accountants

**SAN ELIJO JOINT POWERS AUTHORITY
FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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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, 2009 and 2008, 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, 2009 and 2008, 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 6 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

Page 2

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 27 through 32 and the operating budget comparison schedules on pages 33 and 34 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 29, 2009

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, 2009. 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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

During the year ended June 30, 2009, the SEJPA's net assets increased by \$384,646 to \$35,169,913. The SEJPA's operating revenues increased \$639,464 to \$5,540,144 while operating expenses increased \$226,828 to \$5,732,372. For the year ended June 30, 2009, operating expenses exceeded operating revenues by \$192,228, nonoperating expenses of \$892,832 exceeded nonoperating revenues of \$800,564 by \$92,268 while capital grants decreased from \$5,747 to \$-0-. Member agency assessment's increased from \$479,381 in the prior year to \$669,142 in the current year.

Financial Analysis of the SEJPA

Net Assets - The SEJPA's net assets increased between fiscal years ending 2009 and 2008 from \$34,785,267 to \$35,169,913. Net assets invested in capital assets, net of related debt decreased \$470,884. While the SEJPA incurred capital costs related to the Energy Optimization Project, the Weigand Neglia Pipeline and the Channel Lining Project, these costs were more than off-set by current year depreciation expense and almost \$1.2 million in new debt with the California Energy Resources Conservation and Development Commission (California Energy Commission). The following is a summary of the SEJPA's balance sheet.

San Elijo Joint Powers Authority (In Thousands of Dollars)

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Current assets	\$ 7,483	\$ 6,510	\$ 973
Other noncurrent assets	14,805	15,769	(964)
Capital assets	38,871	38,824	47
Total Assets	<u>61,159</u>	<u>61,103</u>	<u>56</u>
Current liabilities	2,695	2,587	108
Noncurrent liabilities	23,295	23,731	(436)
Total Liabilities	<u>25,990</u>	<u>26,318</u>	<u>(328)</u>
Net Assets:			
Invested in capital assets, net of related debt	28,878	29,349	(471)
Restricted	630	630	-
Unrestricted	5,662	4,806	856
Total Net Assets	<u>\$ 35,170</u>	<u>\$ 34,785</u>	<u>\$ 385</u>

Change in Net Assets - SEJPA's operating revenues increased as a result of increased operating revenues and a decrease in nonoperating expenditures. Approximately 51% 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 \$226,828 to \$5,732,372. Salaries and wages increased \$229,655 principally due to staffing level changes and annual wage and benefit increases. Additional increases include depreciation expense and utilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the SEJPA (Continued)

The SEJPA's investment income decreased \$126,975 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>2009</u>	<u>2008</u>	<u>Change</u>
Revenues:			
Operating contributions from members	\$ 2,821	\$ 2,682	\$ 139
Charges to nonmember agencies	2,719	2,219	500
Total Operating Revenues	5,540	4,901	639
Investment income	777	904	(127)
Member agency assessments	669	479	190
Capital grants	-	6	(6)
Other nonoperating revenue	24	25	(1)
Total Revenues	7,010	6,315	695
Expenses:			
Operating expenses	5,732	5,506	226
Interest expense	893	877	16
Other nonoperating expense	-	249	(249)
Total Expenses	6,625	6,632	(7)
Increase (Decrease) in Net Assets	\$ 385	(317)	\$ 702

Capital Assets

Capital assets include plant equipment, lab equipment, office equipment, vehicles and construction-in-progress. At June 30, 2009, the SEJPA had invested \$59,217,232 in capital assets net of \$20,345,965 of accumulated depreciation. This amount represents a net increase (including additions and deductions) of \$47,578 from the prior year. Significant additions include the Performance Optimization Project. Depreciation expense for the year ended June 30, 2009 totaled \$1,478,488.

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

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Plant equipment	\$ 58,234	\$ 56,333	\$ 1,901
Lab equipment	139	139	-
Office equipment	104	103	1
Vehicles	274	266	8
Construction-in-progress	466	877	(411)
Total	\$ 59,217	\$ 57,718	\$ 1,499

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-Term Debt

At June 30, 2009 the SEJPA had \$23,085,402 in long-term debt, a decrease of 2% from the prior year. The SEJPA has received \$1.2 million in new debt from the California Energy Commission during the 2008/09 fiscal year. The SEJPA anticipates a new program to improve the quality of recycled water. The cost of this program is estimated at \$3.5 to \$4 million. \$1 million for this program has been approved by the board. Additional long-term debt is anticipated for the remaining costs in fiscal year 2010/11. More detailed information about the SEJPA's long-term debt is presented in the notes to the financial statements.

Economic Factors

Consistent with the prior year, SEJPA's fiscal year 2009/10 sanitary fund operations and maintenance budget is \$4.02 million. The water reclamation budget is \$1.82 million, up 5.8% from a year ago. Sales of reclaimed water are budgeted to be approximately 1,250 acre feet in the upcoming year, a 2.0% increase from a year ago. However, water rates have increased and combined, will result in a 6.0% increase in revenues, or approximately \$0.1 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 \$8.7 million during the upcoming year. Of that, \$7.9 million is for improvements to the water reclamation program which will only go forward if outside funding can be obtained.

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 2008, the services provided to the Member Agencies by the SEJPA for wastewater treatment is budgeted to cost approximately \$160 per EDU per year. Water reclamation fees are based on 85% of the local potable water rate charged for the SEJPA, and are supplemented by incentives 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, 2009 AND 2008**

	ASSETS	<u>2009</u>	<u>2008</u>
<u>Current Assets:</u> (Notes 1, 2, 3 and 4)			
Cash and cash equivalents		\$ 6,117,646	\$ 4,921,402
Due from other government agencies		169,188	386,681
Accrued interest receivable		231,623	262,502
Current portion of loans receivable		965,000	940,000
Total Current Assets		<u>7,483,457</u>	<u>6,510,585</u>
 <u>Noncurrent Assets:</u> (Notes 1, 2, 3, 5, 6, 7 and 8)			
Restricted Assets:			
Cash and cash equivalents		646,042	648,506
Investments		1,611,678	1,597,630
Total Restricted Assets		<u>2,257,720</u>	<u>2,246,136</u>
Loans Receivable		13,330,000	14,270,000
Less: Current portion above		(965,000)	(940,000)
Total Loans Receivable		<u>12,365,000</u>	<u>13,330,000</u>
Other Noncurrent Assets:			
Retrofit loans		182,576	192,687
Capital assets		38,871,267	38,823,689
Total Noncurrent Assets		<u>53,676,563</u>	<u>54,592,512</u>
 TOTAL ASSETS		 <u>\$ 61,160,020</u>	 <u>\$ 61,103,097</u>

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

**SAN ELIJO JOINT POWERS AUTHORITY
BALANCE SHEETS (CONTINUED)
JUNE 30, 2009 AND 2008**

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
<u>Current Liabilities:</u> (Notes 1 and 4)		
Accounts payable	\$ 373,490	\$ 416,434
Accrued liabilities	81,251	68,388
Accrued interest payable	425,417	419,970
Due to other government agencies	29,520	33,049
Due to member agencies	124,712	77,846
Retentions payable	21,054	25,903
Current portion of refunding revenue bonds	965,000	940,000
Current portion of state loan payable	620,628	605,490
Current portion of California Energy Commission note payable	54,000	-
Total Current Liabilities	<u>2,695,072</u>	<u>2,587,080</u>
<u>Noncurrent Liabilities:</u> (Notes 1, 5, 9, 10 and 11)		
Payable From Restricted Assets:		
Due to member agencies payable from restricted assets	<u>1,627,720</u>	<u>1,616,136</u>
Long-Term Debt:		
Refunding revenue bonds, net of current portion	12,365,000	13,330,000
State loan payable, net of current portion	7,941,274	8,561,902
California Energy Commission note payable	1,139,500	
Total Long-Term Debt	<u>21,445,774</u>	<u>21,891,902</u>
Other Noncurrent Liabilities:		
Accrued vacation and sick leave	<u>221,541</u>	<u>222,712</u>
Total Other Noncurrent Liabilities	<u>221,541</u>	<u>222,712</u>
Total Noncurrent Liabilities	<u>23,295,035</u>	<u>23,730,750</u>
Total Liabilities	<u>25,990,107</u>	<u>26,317,830</u>
<u>Commitments and Contingencies</u> (Notes 12 and 13)		
<u>Net Assets:</u>		
Net assets invested in capital assets, net of related debt	28,877,862	29,348,746
Restricted net assets	630,000	630,000
Unrestricted net assets	5,662,051	4,806,521
Total Net Assets	<u>35,169,913</u>	<u>34,785,267</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 61,160,020</u>	<u>\$ 61,103,097</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>Operating Revenues:</u>		
Charges of services or other government agencies	\$ 2,719,445	\$ 2,218,625
Contributions from City of Encinitas	1,548,525	1,451,524
Contributions from City of Solana Beach	1,272,174	1,230,531
Total Operating Revenue	<u>5,540,144</u>	<u>4,900,680</u>
<u>Operating Expenses:</u>		
Salaries and wages	2,341,655	2,112,000
Depreciation	1,478,488	1,442,625
Utilities	731,524	697,750
Contracted services	539,576	464,352
Miscellaneous	114,424	252,204
Supplies	263,366	223,907
Repair parts expense	147,517	151,959
Insurance	83,230	85,245
Disposal/permit fees	32,592	75,502
Total Operating Expenses	<u>5,732,372</u>	<u>5,505,544</u>
Operating (Loss)	<u>(192,228)</u>	<u>(604,864)</u>
<u>Nonoperating Revenue (Expense):</u>		
Investment income	777,152	904,127
Rental income	21,012	20,400
Gain on disposal of capital assets	1,820	1,332
Other	580	3,209
Feasibility studies	-	(249,150)
Interest expense	(892,832)	(877,019)
Total Nonoperating Revenues (Expenses)	<u>(92,268)</u>	<u>(197,101)</u>
(Loss) Before Contributions	<u>(284,496)</u>	<u>(801,965)</u>
<u>Capital Contributions:</u>		
Member agency assessments	669,142	479,381
Capital grants	-	5,747
Total Capital Contributions	<u>669,142</u>	<u>485,128</u>
Net Income (Loss)	384,646	(316,837)
Net Assets at Beginning of Year	<u>34,785,267</u>	<u>35,102,104</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 35,169,913</u></u>	<u><u>\$ 34,785,267</u></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, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers	\$ 5,800,974	\$ 4,494,456
Payments to suppliers	(1,955,173)	(1,991,812)
Payments to employees	(2,329,963)	(2,077,164)
Cash Flows Provided by Operating Activities	<u>1,515,838</u>	<u>425,480</u>
<u>Cash Flows From Noncapital Financing Activities:</u>		
Payments for master plans	-	(249,150)
Rental and other nonoperating income	21,592	23,609
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>21,592</u>	<u>(225,541)</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(1,530,915)	(149,605)
Proceeds from sale of capital assets	1,820	1,332
Proceeds from long-term debt	1,193,500	-
Principal paid on long-term debt	(1,545,490)	(1,500,722)
Interest paid on long-term debt	(887,385)	(929,553)
Member agency assessments	669,142	479,381
Proceeds from capital grants	-	5,747
Net Cash Used in Capital and Related Financing Activities	<u>(2,099,328)</u>	<u>(2,093,420)</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of investments	(4,837,413)	(4,776,629)
Proceeds from maturity of investments	4,823,365	4,794,153
Investment income received	808,031	938,731
Proceeds from loans receivable	940,000	910,000
Proceeds of retrofit loans	20,111	22,852
Funding of retrofit loans receivable	(10,000)	-
Increase in due to member agencies payable from restricted assets	11,584	(583)
Net Cash Provided by Investing Activities	<u>1,755,678</u>	<u>1,888,524</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,193,780	(4,957)
Cash and Cash Equivalents at Beginning of Year	<u>5,569,908</u>	<u>5,574,865</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>\$ 6,763,688</u>	<u>\$ 5,569,908</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, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<u>Financial Statement Classification:</u>		
Cash and cash equivalents	\$ 6,117,646	\$ 4,921,403
Cash and cash equivalents - Restricted	646,042	648,505
	<u>\$ 6,763,688</u>	<u>\$ 5,569,908</u>
 <u>Reconciliation of Operating Income (Loss) to</u>		
<u>Net Cash Provided by Operating Activities:</u>		
Operating income (loss)	\$ (192,228)	\$ (604,864)
Adjustments to reconcile operating income (loss) to		
net cash provided by operating activities:		
Depreciation	1,478,488	1,442,625
Change in assets and liabilities:		
Due from other government agencies	217,493	(198,101)
Accounts payable	(42,944)	(40,893)
Accrued liabilities	12,863	8,716
Due to other government agencies	(3,529)	(27,875)
Due to member agencies	46,866	(180,248)
Accrued vacation and sick leave	(1,171)	26,120
Net Cash Provided by Operating Activities	<u>\$ 1,515,838</u>	<u>\$ 425,480</u>

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

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 1 - Organization and Significant Accounting Policies:

Organization

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.

Significant Accounting Policies

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.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 1 - Organization and Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

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.

Risks and Uncertainties

The SEJPA invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of net assets.

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.

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

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 1 - Organization and Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capital Assets (Continued)

Depreciation expense totaled \$1,478,488 and \$1,442,625 for the years ended June 30, 2009 and 2008, respectively.

Accrued Vacation and Sick Leave

Accumulated and unpaid vacation and sick-time totaling \$221,541 and \$222,712 is accrued when incurred and included in noncurrent liabilities at June 30, 2009 and 2008, respectively.

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, 2009, the SEJPA participated in the programs of SANDPIPA as follows:

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 \$47 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 member 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 \$25,000 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 \$750,000 with no deductible.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 1 - Organization and Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Economic Dependence

The SEJPA received approximately 51% and 55% respectively, of its operating revenues from its member agencies for the years ended June 30, 2009 and 2008.

Reclassification

The SEJPA has reclassified 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.

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
LAIIF	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 FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 3 - Cash and Investments:

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

	Maturity in Years		2008 Total
	1 Year or Less	2009 Total	
Cash on hand	\$ 200	\$ 200	\$ 200
Cash in the California Local Agency Investment Fund (LAIF)	6,532,884	6,532,884	5,525,331
Open ended money market mutual funds	16,042	16,042	18,505
Deposits with financial institutions	214,562	214,562	25,872
Investments:			
U.S. Agency Securities	1,611,678	1,611,678	1,597,630
Total Cash and Investments	\$ 8,375,366	\$ 8,375,366	7,167,538

Financial Statement Classification:

Current:

Cash and cash equivalents	\$ 6,117,646	\$ 4,921,402
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Restricted:

Cash and cash equivalents	646,042	648,506
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Investments	1,611,678	1,597,630
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Total Cash and Investments	\$ 8,375,366	\$ 7,167,538
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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, 2009.

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>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

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 3 - Cash and Investments: (Continued)

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>2009</u>	<u>2008</u>
Federal Home Loan Mortgage Corporation	U.S. Agency Security	\$ 1,611,678	\$ -
Federal National Mortgage Association	U.S. Agency Security	-	1,597,630
		<u>\$ 1,611,678</u>	<u>\$ 1,597,630</u>

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, 2009, 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, 2009, 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 FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 4 - 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>2009</u>	<u>2008</u>
Santa Fe Irrigation District	\$ 66,647	\$ 75,579
San Diego County Water Authority	63,180	132,911
Due from Others	39,361	25,264
San Dieguito Water District	-	152,927
County of San Diego	(5,439)	(12,412)
Due to Others	(7,440)	(13,803)
City of Escondido	(16,641)	(6,834)
Total	<u>\$ 139,668</u>	<u>\$ 353,632</u>
 <u>Financial Statement Classification:</u>		
Due from other government agencies	\$ 169,188	\$ 386,681
Due to other government agencies	(29,520)	(33,049)
Total	<u>\$ 139,668</u>	<u>\$ 353,632</u>

Note 5 - Restricted Assets:

The SEJPA is holding funds to be used for debt service on the 2003 refunding revenue bonds (See Note 9) in the amount of \$2 and a reserve fund for the same issuance in the amount of \$1,627,718. 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 \$1,627,720 and \$1,616,136 at June 30, 2009 and 2008, 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>2009</u>	<u>2008</u>
Debt proceeds, and interest earned	Debt service - Encinitas	\$ 1	\$ 208
Debt proceeds, and interest earned	Debt service - Solana Beach	1	1,609
Debt proceeds, and interest earned	Debt reserves	1,627,718	1,614,319
Receipts from customers	State loan reserve requirement	630,000	630,000
		<u>\$ 2,257,720</u>	<u>\$ 2,246,136</u>

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

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 6 - Capital Assets:

Capital assets consist of the following:

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>
Capital Assets Not Being Depreciated:				
Construction in progress	\$ 876,597	\$ 1,451,177	\$ (1,861,843)	\$ 465,931
Capital Assets Being Depreciated:				
Plant equipment	56,333,036	1,901,843		58,234,879
Lab equipment	138,678			138,678
Office equipment	102,593	12,784	(11,396)	103,981
Vehicles	265,921	22,105	(14,263)	273,763
	<u>56,840,228</u>	<u>1,936,732</u>	<u>(25,659)</u>	<u>58,751,301</u>
Less: Accumulated depreciation	(18,893,136)	(1,478,488)	25,659	(20,345,965)
Net Capital Assets Being Depreciated	<u>37,947,092</u>	<u>458,244</u>	<u>-</u>	<u>38,405,336</u>
Net Capital Assets	<u>\$ 38,823,689</u>	<u>\$ 1,909,421</u>	<u>\$ (1,861,843)</u>	<u>\$ 38,871,267</u>

Note 7 - 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 9). At June 30, 2009 and 2008, the following amounts were due from the member agencies:

<u>Loans Receivable</u>	<u>2009</u>	<u>2008</u>
City of Solano Beach	\$ 7,110,000	\$ 7,610,000
City of Encinitas	6,220,000	6,660,000
Total	<u>\$ 13,330,000</u>	<u>\$ 14,270,000</u>

Note 8 - 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, 2009 and 2008, the following amounts were outstanding:

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 8 - Retrofit Loans: (Continued)

	<u>2009</u>	<u>2008</u>
22 nd District Agricultural Association	\$ 134,331	\$ 138,522
Cardiff Cove Homeowners Association	24,668	27,502
National Golf Operating Partnership L.P.	13,757	26,663
Oak Crest Park	9,820	-
Total	\$ 182,576	\$ 192,687

Note 9- 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, 2009 and 2008, the 2003 Refunding Revenue Bonds outstanding total \$13,330,000 and \$14,270,000, 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, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>	<u>Current Portion</u>
2003 Refunding Revenue Bonds	\$ 14,270,000	\$ -	\$ (940,000)	\$ 13,330,000	\$ 965,000

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

	<u>Principal</u>	<u>Interest</u>
2010	\$ 965,000	\$ 625,400
2011	1,005,000	586,800
2012	1,050,000	546,600
2013	1,090,000	504,600
2014	1,135,000	461,000
2015-2019	6,570,000	1,396,500
2020	1,515,000	75,750
	\$ 13,330,000	\$ 4,196,650

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 10 - 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, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>	<u>Current Portion</u>
State loan payable	\$ 9,167,392	\$ -	\$ (605,490)	\$ 8,561,902	\$ 620,628

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, 2009 and 2008 the reserve fund balance was \$630,000 and \$630,000, respectively.

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

	<u>Principal</u>	<u>Interest</u>
2010	\$ 620,628	\$ 214,047
2011	636,143	198,532
2012	652,047	182,628
2013	668,348	166,327
2014	685,057	149,618
2015-2019	3,690,906	482,469
2020-2021	1,608,773	60,577
	<u>\$ 8,561,902</u>	<u>\$ 1,454,198</u>

Note 11 - California Energy Commission Note Payable:

In December 2007, the SEPJA entered into a promissory note with the California Energy Resources Conservation and Development Commission (California Energy Commission) in the maximum amount of \$1,193,500. 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, 2009, all loan proceeds have been disbursed. The following is a detail:

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>	<u>Current Portion</u>
California Energy Commission Note payable	\$ -	\$ 1,193,500	\$ -	\$ 1,193,500	\$ 54,000

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 11 - Due to California Energy Commission: (Continued)

Future maturities of the California Energy Commission note payable are as follows:

	<u>Principal</u>	<u>Interest</u>
2010	\$ 54,000	\$ 46,700
2011	84,000	44,500
2012	88,000	41,150
2013	91,000	37,600
2014	95,000	33,950
2015-2019	536,000	109,250
2020-2021	245,500	12,350
	<u>\$ 1,193,500</u>	<u>\$ 325,500</u>

Note 12 - 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.

Funding Policy

Active plan members in the Plan are required to contribute 8% of annual covered salary. SEJPA pays 5.5% 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, 2009 was 11.271%. 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, 2009, the SEJPA's annual pension cost and actual contribution was \$270,616. The required contribution for the fiscal year ended June 30, 2009 was determined as part of the June 30, 2006 actuarial valuation.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 12 - Defined Benefit Pension Plan: (Continued)

Annual Pension Costs (Continued)

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

Valuation Date	June 30, 2006
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%

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, 2006 had a valuation of \$(258,062) which is being amortized over a 13-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, 2007	\$ 239,446	100%	\$ -
June 30, 2008	247,799	100%	-
June 30, 2009	270,616	100%	-

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 12 - Defined Benefit Pension Plan: (Continued)

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Status (A/B)	Annual Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
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%
June 30, 2007	1,149,247,298	1,315,454,361	166,207,063	87.4%	289,090,187	57.5%

Note 13 - Operating Leases:

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

In January 2007 the SEJPA entered into a Communications Site License Agreement as lessor with Omnipoint Communications, Inc. 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 \$21,012 and \$20,400 for the years ended June 30, 2009 and 2008, respectively. Future lease payments to be received are as follows:

Years Ended June 30,	
2010	\$ 21,642
2011	22,292
2012	22,960
	<u>\$ 66,894</u>

Note 14 - 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”. This pronouncement is effective for the first fiscal year beginning after December 15, 2008 for Phase 3 governments, like the SEJPA, as defined in GASB Statement No. 34 Basic Financial Statements-and Discussion and Analysis-for State and Local Governments. This pronouncement requires significant changes to the accounting and disclosures associated with postemployment benefits (OPEB). The District has not determined the effect on the financial statements in the year of adoption.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 14 - New 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. This pronouncement did not have a material effect on the financial statements of the SEJPA for the year ended June 30, 2009.

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, 2009 and 2008.

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, 2009 and 2008.

GASB No. 54

In March 2009, the Government Accounting Standards Board issued Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This pronouncement is effective for periods beginning after June 15, 2010 with early implementation encouraged. This pronouncement 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. The initial distinction that is made in reporting information in reporting fund balance information is identifying amounts that are considered non-spendable, such as fund balance associated with inventories. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific accounts can be spent. Fund balance reclassifications made to conform to the provisions of this statement should be applied retroactively by restating fund balance for all periods presented. The District has no governmental funds at June 30, 2009.

**SAN ELIJO JOINT POWERS AUTHORITY
NOTES TO FINANCOIAL STATEMENTS
JUNE 30, 2009 AND 2008**

Note 14 - New Governmental Accounting Standards: (Continued)

GASB No. 55

In March 2009, the Government Accounting Standards Board issued Statement No. 55 “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”. The requirements of this statement were effective upon its issuance. This pronouncement incorporated the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board’s (GASB) authoritative literature. The “GAAP hierarchy” consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. This pronouncement had no effect on the financial statements of the District for the year ended June 30, 2009.

GASB No. 56

In March 2009, the Government Accounting Standards Board issued Statement No. 56 “Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards”. The requirements of this statement were effective upon its issuance. This statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. This pronouncement addresses three issues not included in the authoritative literature that establishes accounting principles - related party transactions, going concern considerations, and subsequent events. This pronouncement had no effect on the financial statements of the District for the year ended June 30, 2009.

SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF NET ASSETS - WASTEWATER
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>	<u>Difference</u>
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 3,185,167	\$ 2,594,572	\$ 590,595
Due from other government agencies	4,977	3,886	1,091
Accrued interest receivable	220,296	238,647	(18,351)
Current portion of loan receivable	965,000	940,000	25,000
Total Current Assets	<u>4,375,440</u>	<u>3,777,105</u>	<u>598,335</u>
<u>Noncurrent Assets:</u>			
Restricted Assets:			
Cash and cash equivalents	16,042	18,506	(2,464)
Investments	1,611,678	1,597,630	14,048
Total Restricted Assets	<u>1,627,720</u>	<u>1,616,136</u>	<u>11,584</u>
Loans receivable	13,330,000	14,270,000	(940,000)
Less: Current portion above	(965,000)	(940,000)	(25,000)
	<u>12,365,000</u>	<u>13,330,000</u>	<u>(965,000)</u>
Capital assets	25,884,352	25,472,635	411,717
Total Noncurrent Assets	<u>39,877,072</u>	<u>40,418,771</u>	<u>(541,699)</u>
TOTAL ASSETS	<u>\$ 44,252,512</u>	<u>\$ 44,195,876</u>	<u>\$ 56,636</u>

SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF NET ASSETS - WASTEWATER (CONTINUED)
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>	<u>Difference</u>
<u>Current Liabilities:</u>			
Accounts payable	\$ 336,014	\$ 298,926	\$ 37,088
Accrued liabilities	66,933	55,985	10,948
Accrued interest payable	238,125	219,433	18,692
Due to other government agencies	29,520	33,049	(3,529)
Due to member agencies	124,712	77,846	46,866
Retentions payable	21,054	25,903	(4,849)
Current portion of refunding revenue bonds	965,000	940,000	25,000
Current portion of California Energy Commission note payable	54,000	-	54,000
Total Current Liabilities	<u>1,835,358</u>	<u>1,651,142</u>	<u>184,216</u>
<u>Noncurrent Liabilities:</u>			
Payable From Restricted Assets:			
Due to member agencies payable from restricted assets	<u>1,627,720</u>	<u>1,616,136</u>	<u>11,584</u>
Long-Term Debt:			
Refunding revenue bonds, net of current portion	12,365,000	13,330,000	(965,000)
California Energy Commission note payable	1,139,500	-	1,139,500
Total Long-Term Debt	<u>13,504,500</u>	<u>13,330,000</u>	<u>174,500</u>
Other Noncurrent Liabilities:			
Accrued vacation and sick leave	<u>191,775</u>	<u>192,792</u>	<u>(1,017)</u>
Total Noncurrent Liabilities	<u>15,323,995</u>	<u>15,138,928</u>	<u>184,667</u>
Total Liabilities	<u>17,159,353</u>	<u>16,790,070</u>	<u>369,283</u>
<u>Net Assets:</u>			
Net assets invested in capital assets, net of related debt	24,640,141	25,446,732	(806,591)
Unrestricted net assets	2,453,018	1,959,074	493,944
Total Net Assets	<u>27,093,159</u>	<u>27,405,806</u>	<u>(312,647)</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>44,252,512</u>	\$ <u>44,195,876</u>	\$ <u>56,636</u>

**SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - WASTEWATER
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>	<u>Difference</u>
<u>Operating Revenue:</u>			
Contributions from City of Encinitas	\$ 1,548,525	\$ 1,451,524	\$ 97,001
Contributions from City of Solana Beach	1,272,174	1,230,531	41,643
Charges of services or other government agencies	<u>734,689</u>	<u>549,140</u>	<u>185,549</u>
Total Operating Revenue	<u>3,555,388</u>	<u>3,231,195</u>	<u>324,193</u>
<u>Operating Expenses:</u>			
Salaries and Wages	1,975,810	1,815,798	160,012
Depreciation	1,052,695	1,019,411	33,284
Utilities	576,527	547,253	29,274
Contracted services	502,260	440,822	61,438
Miscellaneous	83,117	234,713	(151,596)
Supplies	183,484	169,149	14,335
Repair parts expense	122,749	113,421	9,328
Insurance	57,114	58,070	(956)
Disposal/permit fees	32,580	49,291	(16,711)
Total Operating Expenses	<u>4,586,336</u>	<u>4,447,928</u>	<u>138,408</u>
Operating (Loss)	<u>(1,030,948)</u>	<u>(1,216,733)</u>	<u>185,785</u>
<u>Nonoperating Revenue (Expense):</u>			
Investment income	704,459	758,644	(54,185)
Rental income	21,012	20,400	612
Other	580	2,209	(1,629)
Gain (loss) on disposal of capital assets	-	1,332	(1,332)
Feasibility study	-	(107,202)	107,202
Interest expense	<u>(676,892)</u>	<u>(676,482)</u>	<u>(410)</u>
Total Nonoperating Revenues (Expenses)	<u>49,159</u>	<u>(1,099)</u>	<u>50,258</u>
Income (Loss) Before Contributions	<u>(981,789)</u>	<u>(1,217,832)</u>	<u>236,043</u>
<u>Capital Contributions:</u>			
Member agency assessments	<u>669,142</u>	<u>479,381</u>	<u>189,761</u>
Total Capital Contributions	<u>669,142</u>	<u>479,381</u>	<u>189,761</u>
Net (Loss)	(312,647)	(738,451)	425,804
Net Assets at Beginning of Year, as Restated	<u>27,405,806</u>	<u>28,144,257</u>	<u>(738,451)</u>
NET ASSETS AT END OF YEAR	<u>\$ 27,093,159</u>	<u>\$ 27,405,806</u>	<u>\$ (312,647)</u>

**SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF NET ASSETS - RECLAMATION
JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>	<u>Difference</u>
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 2,932,479	\$ 2,326,830	\$ 605,649
Due from other government agencies	164,211	382,795	(218,584)
Accrued interest receivable	11,327	23,855	(12,528)
Total Current Assets	<u>3,108,017</u>	<u>2,733,480</u>	<u>374,537</u>
<u>Noncurrent Assets:</u>			
Restricted Assets:			
Cash and cash equivalents	<u>630,000</u>	<u>630,000</u>	<u>-</u>
Total Restricted Assets	<u>630,000</u>	<u>630,000</u>	<u>-</u>
Other Noncurrent Assets:			
Retrofit loans	182,576	192,687	(10,111)
Capital assets	<u>12,986,915</u>	<u>13,351,054</u>	<u>(364,139)</u>
Total Noncurrent Assets	<u>13,799,491</u>	<u>14,173,741</u>	<u>(374,250)</u>
TOTAL ASSETS	<u>\$ 16,907,508</u>	<u>\$ 16,907,221</u>	<u>\$ 287</u>

SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF NET ASSETS - RECLAMATION (CONTINUED)
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>	<u>Difference</u>
<u>Current Liabilities:</u>			
Accounts payable	\$ 37,476	\$ 117,508	\$ (80,032)
Accrued liabilities	14,318	12,403	1,915
Accrued interest payable	187,292	200,537	(13,245)
Current portion of state loan payable	620,628	605,490	15,138
Total Current Liabilities	<u>859,714</u>	<u>935,938</u>	<u>(76,224)</u>
<u>Noncurrent Liabilities:</u>			
Long-Term Debt:			
State loan payable, less current portion	<u>7,941,274</u>	<u>8,561,902</u>	<u>(620,628)</u>
Total Long-Term Debt	<u>7,941,274</u>	<u>8,561,902</u>	<u>(620,628)</u>
Other Noncurrent Liabilities			
Accrued vacation and sick leave	<u>29,766</u>	<u>29,920</u>	<u>(154)</u>
Total Other Noncurrent Liabilities	<u>29,766</u>	<u>29,920</u>	<u>(154)</u>
Total Noncurrent Liabilities	<u>7,971,040</u>	<u>8,591,822</u>	<u>(620,782)</u>
Total Liabilities	<u>8,830,754</u>	<u>9,527,760</u>	<u>(697,006)</u>
<u>Net Assets:</u>			
Net assets invested in capital assets, net of related debt	4,237,721	3,902,014	335,707
Restricted net assets	630,000	630,000	-
Unrestricted net assets	<u>3,209,033</u>	<u>2,847,447</u>	<u>361,586</u>
Total Net Assets	<u>8,076,754</u>	<u>7,379,461</u>	<u>697,293</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,907,508</u>	<u>\$ 16,907,221</u>	<u>\$ 287</u>

**SAN ELIJO JOINT POWERS AUTHORITY
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - RECLAMATION
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>	<u>Difference</u>
<u>Operating Revenue:</u>			
Charges of services or other government agencies	\$ 1,984,756	\$ 1,669,485	\$ 315,271
Total Operating Revenues	<u>1,984,756</u>	<u>1,669,485</u>	<u>315,271</u>
<u>Operating Expenses:</u>			
Salaries and wages	365,845	296,202	69,643
Depreciation	425,793	423,214	2,579
Utilities	154,997	150,497	4,500
Supplies	79,882	54,758	25,124
Repair parts expense	24,768	38,538	(13,770)
Miscellaneous	31,307	17,491	13,816
Contracted services	37,316	23,530	13,786
Insurance	26,116	27,175	(1,059)
Disposal/permit fees	12	26,211	(26,199)
Total Operating Expenses	<u>1,146,036</u>	<u>1,057,616</u>	<u>88,420</u>
		-	-
Operating Income	<u>838,720</u>	<u>611,869</u>	<u>226,851</u>
		-	-
<u>Nonoperating Revenue (Expense):</u>			
Investment income	72,693	145,483	(72,790)
Gain (loss) on disposal of capital assets	1,820	-	1,820
Other	-	1,000	(1,000)
Feasibility study	-	(141,948)	141,948
Interest expense	(215,940)	(200,537)	(15,403)
Total Nonoperating Revenues (Expenses)	<u>(141,427)</u>	<u>(196,002)</u>	<u>54,575</u>
Income Before Contributions	<u>697,293</u>	<u>415,867</u>	<u>281,426</u>
<u>Capital Contributions:</u>			
Capital grants	-	5,747	(5,747)
Total Capital Contributions	<u>-</u>	<u>5,747</u>	<u>(5,747)</u>
Net Income	697,293	421,614	275,679
Net Assets at Beginning of Year, as Restated	<u>7,379,461</u>	<u>6,957,847</u>	<u>421,614</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 8,076,754</u></u>	<u><u>\$ 7,379,461</u></u>	<u><u>\$ 697,293</u></u>

**SAN ELIJO JOINT POWERS AUTHORITY
OPERATING BUDGET COMPARISON SCHEDULE - WASTEWATER
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Operating Expenses:</u>			
Salaries and wages	\$ 1,994,465	\$ 1,975,810	\$ 18,655
Depreciation	-	1,052,695	(1,052,695)
Utilities	575,683	576,527	(844)
Contracted services	667,089	502,260	164,829
Miscellaneous	112,905	83,117	29,788
Supplies	243,853	183,484	60,369
Repair parts expense	156,500	122,749	33,751
Insurance	65,545	57,114	8,431
Disposal/permit fees	53,580	32,580	21,000
Contingency	154,060	-	154,060
Total Operating Expenses	<u>\$ 4,023,680</u>	<u>\$ 4,586,336</u>	<u>\$ (562,656)</u>

**SAN ELIJO JOINT POWERS AUTHORITY
OPERATING BUDGET COMPARISON SCHEDULE - RECLAMATION
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Operating Expenses:</u>			
Salaries and wages	356,640	365,845	(9,205)
Depreciation	-	425,793	(425,793)
Utilities	184,317	154,997	29,320
Contracted services	53,961	37,316	16,645
Miscellaneous	53,290	31,307	21,983
Supplies	62,897	79,882	(16,985)
Repairs parts expense	71,000	24,768	46,232
Insurance	30,255	26,116	4,139
Disposal/permit fees	28,500	12	28,488
Contingency	45,420	-	45,420
Total Operating Expenses	<u>\$ 886,280</u>	<u>\$ 1,146,036</u>	<u>\$ (259,756)</u>