

CITY OF ENCINITAS
Notes to Financial Statements (Continued)
June 30, 2009

(7) LONG TERM LIABILITIES:

A summary of changes in long term liabilities for the year ended June 30, 2009 is as follows:

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009	Due Within One Year
Governmental Activities:					
Capital Leases:					
2004 Fire Apparatus Lease	\$ 163,849	\$ -	\$ (53,089)	\$ 110,760	\$ 54,602
2006 Fire Apparatus Lease	203,796	-	(47,742)	156,054	49,819
2007 Vac Con Cleaner Lease	202,695	-	(30,015)	172,680	31,340
2008 Lease Roof Replacement	2,100,000	-	(107,045)	1,992,955	111,031
Bonded Debt:					
1997 Refunding Certificates	4,385,000	-	(400,000)	3,985,000	420,000
2001 Lease Revenue Bonds	20,055,000	-	(500,000)	19,555,000	515,000
2002 ABAG Financing	3,805,000	-	(670,000)	3,135,000	510,000
2006 Lease Revenue Bonds	20,000,000	-	(390,000)	19,610,000	400,000
less: (deferred amounts):	(285,000)	-	5,000	(280,000)	-
Subtotal of governmental capital leases and bonded debt	50,630,340	-	(2,192,891)	48,437,449	2,091,792
Claims payable	1,118,781	584,957	(495,810)	1,207,928	1,207,928
Compensated absences	1,655,106	1,891,832	(1,655,106)	1,891,832	1,891,832
Total Governmental Activities	53,404,227	2,476,789	(4,343,807)	51,537,209	5,191,552
Business-type Activities:					
2003 CSD Note Payable to SEJPA	6,660,000	-	(440,000)	6,220,000	450,000
2004 SDWD Water Revenue Bonds	11,635,000	-	(540,000)	11,095,000	560,000
2007 SDWD Note Payable Badger	7,705,000	-	(360,000)	7,345,000	335,000
2004 EHA Housing Mortgage Note	1,723,832	-	(42,298)	1,681,534	43,888
Subtotal of business-type notes payable and bonded debt	27,723,832	-	(1,382,298)	26,341,534	1,388,888
Compensated absences	94,053	105,905	(94,053)	105,905	105,905
Total Business-type Activities	27,817,885	105,905	(1,476,351)	26,447,439	1,494,793
Long term liabilities total	\$ 81,222,112	\$ 2,582,694	\$ (5,820,158)	\$ 77,984,648	\$ 6,686,345

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Governmental Activities:

Capital Leases:

2004 Fire Apparatus Lease:

The City entered into a long term lease arrangement in fiscal year 2003-04 to finance the purchase of a replacement fire engine for \$362,264. The lease has a term of seven (7) years, an interest rate of 2.85%, and annual payments of \$57,759. The lease is accounted for as a capital lease, as the City will be purchasing the unit for \$1.00 at the maturity of the lease in fiscal year 2011.

2006 Fire Apparatus Lease:

The City entered into a long term lease arrangement in fiscal year 2005-06 to finance the purchase of a 2006 American LaFrance Eagle Pumper Fire Apparatus for \$358,544. The lease has a term of seven (7) years, an interest rate of 4.35%, and annual payments of \$56,607. The lease is accounted for as a capital lease, as the City will be purchasing the unit for \$1.00 at the maturity of the lease in fiscal year 2012.

2007 Vac-Con Cleaner Lease:

The City entered into a long term lease arrangement in fiscal year 2006-07 to finance the purchase of a new 2007 Vac-Con combination sewer and storm drain cleaner for \$231,358. The lease has a term of seven (7) years, an interest rate of 4.660%, and semi-annual payments of \$19,557. The City will be own the equipment at the end of the lease term in fiscal year 2014.

2008 Civic Center Roof Replacement and Energy Optimization Project-Lease Financing:

On February 27, 2008, the City entered into a long term lease arrangement with a financial institution to finance \$2,100,000 of the 2008 improvements to the Encinitas Civic Center. The lease has a term of fifteen (15) years, an interest rate of 3.69%, and semi-annual payments of \$91,778. The project was completed during fiscal year 2008-2009, and the final payment is due in fiscal year 2023.

Bonded Debt:

1997 Refunding Certificates of Participation (COP's)-Series A (Encinitas Civic Center):

In December 1991, the EPFA issued the 1991 Certificates of Participation-Series A totaling \$7,635,000, to purchase the site and existing improvements for the Encinitas Civic Center. In December 1997, the EPFA issued the 1997 Refunding Certificates of Participation-Series A totaling \$7,550,000, to refund all of the 1991 Certificates. The refunding qualified as an in-substance defeasance. Principal is due and payable annually in amounts ranging from \$275,000 to \$590,000. Interest is payable semi-annually with rates ranging from 3.70% to 5.05%. The certificates are not subject to optional redemption prior to maturity.

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2001 Lease Revenue Bonds (proposed Regional Parksite):

On April 1, 2001 the EPFA issued 2001 Lease Revenue Bonds-Series A in the amount of \$22,645,000 to provide funds for the acquisition of and improvements to a 43-acre proposed Parksite. The bonds consist of \$12,995,000 of serial bonds maturing from 2003 to 2023 in annual installments of \$952,758 to \$1,513,000, \$2,055,000 of term bonds maturing in 2025 and \$7,595,000 term bonds maturing in 2031. Interest is payable semi-annually with rates ranging from 4.00% to 5.25%.

The Bonds are subject to optional redemption beginning in 2008 at the following respective redemption prices (expressed as percentages of the principal amount of the Bonds to be redeemed), together with accrued interest thereon to the date fixed for redemption.

Redemption Period	Redemption Price
April 1, 2008 through March 31, 2009	102%
April 1, 2009 through March 31, 2010	101%
April 1, 2010 and thereafter	100%

2002 Association of Bay Area Governments (ABAG) Lease Revenue Bonds:

In July 2002, the City issued \$6,590,000 of Lease Revenue Bonds, Series 2002-1 through ABAG, a California Joint Powers Authority. The proceeds were utilized to retire the 1992 Certificates of Participation-Series B (Encinitas Civic Center) and four existing debt obligations (including one of the Encinitas Sanitary Division) and to provide funding for improvements to the Civic Center and the SDWD Water Utility meter exchange and automation program. The Bonds mature serially on July 1 from 2004 through 2018 in amounts ranging from \$240,000 to \$670,000. The Term Bonds due July 1, 2022 and 2032 are subject to mandatory sinking fund requirements. Interest is due and payable semi-annually at rates ranging from 3.00% to 4.65%.

The City advanced funds to the Encinitas Sanitary Division and the San Dieguito Water District, which are being repaid to the City according to the underlying terms of the bond issue. The remaining balances owed to the City are summarized in Note 8.

The Bonds are subject to optional redemption beginning in 2013 at the following respective redemption prices (expressed as percentages of the principal amount of the Bonds to be redeemed), together with accrued interest thereon.

Redemption Period	Redemption Price
July 1, 2012 through June 30, 2013	101%
July 1, 2013 through June 30, 2014	100.5%
July 1, 2014 and thereafter	100%

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2006 Lease Revenue Bonds:

On October 1, 2006 the EPFA issued 2006 Lease Revenue Bonds-Series A (Library Construction Project) in the amount of \$20,000,000 to provide funds for the construction of a new 26,000 square foot library located on 2.1 acres immediately above the Encinitas Civic Center. The bonds consist of \$10,405,000 of serial bonds and \$9,595,000 in term bonds. The serial bonds mature from 2008 to 2026 in annual installments ranging from \$390,000 to \$755,000. The term bonds mature from 2027 to 2036 and are subject to mandatory sinking fund requirements. Annual principal installments range from \$785,000 to \$1,155,000. Interest is due and payable semi-annually at rates ranging from 3.6% to 4.375%.

The bonds were issued at a discount of \$300,000, and the City paid \$381,360 in bond issuance costs. The bond discount and issuance costs were capitalized and are being amortized over the 30 year period of the bonds. On the Government Wide Statement of Net Assets, the issuance costs, net of amortization is shown as an Other Noncurrent Asset, while the unamortized discount reduces the balance of the long term debt.

The Bonds maturing on or after October 1, 2015 are subject to optional redemption beginning on or after October 1, 2014 at the following respective redemption prices:

Redemption Period	Redemption Price
October 1, 2014 through September 30, 2015	102%
October 1, 2015 through September 30, 2016	101%
October 1, 2016 and thereafter	100%

The debt service requirements to maturity of the capital leases and the bonded debt, excluding claims payable and compensated absences, are as follows:

Year Ending June 30, 2009	Principal	Interest	Total
2010	\$ 2,091,792	\$ 2,186,440	\$ 4,278,232
2011	2,126,224	2,100,647	4,226,871
2012	2,148,166	2,011,031	4,159,197
2013	2,004,991	1,922,153	3,927,144
2014	1,991,307	1,835,894	3,827,201
2015-2019	9,618,045	7,820,755	17,438,800
2020-2024	8,316,924	5,920,082	14,237,006
2025-2029	9,635,000	3,844,691	13,479,691
2030-2034	7,465,000	1,475,583	8,940,583
2035-2037	3,320,000	222,031	3,542,031
Totals	\$ 48,717,449	\$ 29,339,307	\$ 78,056,756

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Business-type Activities:

2003 CSD Note Payable to San Elijo Joint Powers Authority(SEJPA):

In April 2003, the SEJPA issued Refunding Revenue Bonds in the amount of \$18,640,000 for the purpose of refunding its 1993 Revenue Bonds. The proceeds of the original issue were loaned to its two member agencies (CSD and the City of Solana Beach) to finance and upgrade the jointly-owned wastewater treatment plant. CSD's portion of the 2003 Refunding Revenue Bonds, in the form of an amended loan agreement, totaled \$8,735,000. Principal is due and payable annually in amounts ranging from \$395,000 to \$705,000. Interest is payable semi-annually with rates ranging from 2.00% to 5.00%. CSD accounts for its share of the Bonds as a Note Payable to SEJPA.

CSD has pledged net revenues to pay the outstanding debt for the above mentioned outstanding debt. Net revenues are computed as gross revenues less operations and maintenance costs. CSD has covenanted to have net revenues to at least equal 110% of the annual debt service of the bonds, including the reserve. Total principal and interest outstanding as of June 30, 2009 is \$8,070,000. During the year, principal, interest and reserve was \$1,452,229 and net revenue was \$3,027,348.

2004 SDWD Water Revenue Refunding Bonds:

On January 22, 2004, SDWD issued \$13,845,000 of Water Revenue Refunding Bonds, Series 2004, to redeem all of the outstanding 1993 Water Revenue Refunding Bonds. The Bonds consist of \$10,170,000 of serial bonds maturing from 2004 through 2019 in annual installments of \$505,000 to \$820,000 and one term bond of \$3,675,000 maturing on October 1, 2023. The Term Bond is subject to sinking fund requirements. Interest is payable semi-annually at rates ranging from 2.5% to 5.0%. The Bonds maturing on or after October 1, 2015 are subject to optional redemption at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

2007 SDWD Note Payable to R.E. Badger Water Facilities Financing Authority (WFFA):

On November 20, 2007, the WFFA issued \$20,685,000 of 2007 Water Revenue Refunding Bonds while concurrently redeeming all of its outstanding 1999 Water Revenue Bonds, on behalf of its member agencies, the Santa Fe Irrigation District and the San Dieguito Water District. The transaction was a current refunding intended to save the member agencies future interest costs due to lower market interest rates, new Installment Purchase Agreements were executed. The overall Bond Issue consists of \$20,685,000 of serial bonds maturing from 2008 through 2024. The SDWD portion of the refinancing totaled \$7,705,000. Principal is due and payable annually in amounts ranging from \$360,000 to \$620,000. Interest is due and payable semi-annually at rates ranging from 3.5% to 4.5%. SDWD accounts for its share of the bonds as a Note Payable to R.E. Badger WFFA. The bonds maturing on or before October 1, 2017 are not subject to optional redemption prior to maturity. The bonds maturing on October 1, 2018 and thereafter are subject to redemption prior to their stated maturity at the option of the Authority, as a whole or in part on any date, by such maturities as are selected by the Authority from any available source of funds on or after October 1, 2017 at a redemption price equal to the principal amount of the bonds to be redeemed, together with accrued interest thereon to the date fixed fore redemption.

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SDWD has pledged net revenues to pay the outstanding debt for the above mentioned outstanding debts. Net revenues are computed as gross revenues less operations and maintenance costs. SDWD has covenanted to have net revenues to at least equal 115% of the annual debt service of the bonds. Total principal and interest outstanding as of June 30, 2009 is \$10,106,253. During the year, principal and interest was \$1,672,588 and net revenue was \$2,717,428.

2004 EHA Housing Mortgage Note Payable:

In conjunction with the purchase of 16 affordable housing units in 2004, the EHA executed a mortgage loan payable with a local commercial lender of \$1,905,338, secured by a first trust deed on the subject property. The note bears interest at 90% of the one year Treasury note, adjustable every six years, with a final maturity of April 5, 2034. Payments of principal and interest of \$8,775 are due and payable monthly. EHA is solely responsible for repayment on this note. The City of Encinitas is not obligated to repay this note under any circumstances.

The debt service requirements to maturity for the Business-type Activities, excluding compensated absences, were as follows:

Year Ending June 30, 2009	Principal	Interest	Total
2010	\$ 1,388,888	\$ 1,120,475	\$ 2,509,363
2011	1,439,599	1,068,235	2,507,834
2012	1,496,114	1,017,551	2,513,665
2013	1,548,009	958,337	2,506,346
2014	1,604,814	785,057	2,389,871
2015-2019	9,148,445	3,337,895	12,486,340
2020-2024	8,259,792	1,248,675	9,508,467
2025-2029	1,022,793	137,636	1,160,429
2030-2034	433,080	42,115	475,195
Totals	<u>\$ 26,341,534</u>	<u>\$ 9,715,976</u>	<u>\$ 36,057,510</u>

(8) OPERATING LEASES:

The City has various operating leases for office equipment with remaining terms of less than five (5) years and a value at inception of approximately \$600,000.

Future minimum lease payments are as follows:

Fiscal Year	Payments
2010	\$ 197,815
2011	64,648
2012	64,648