CITY OF SOLEDAD

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2009

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Soledad, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Soledad, California, (the City) as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2009, and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 16, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the financial statements. The Budgetary Comparison Information on pages 31 through 35 is not a required part of the basic 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Soledad's basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. This information has 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.

December 16, 2009

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CITY OF SOLEDAD

STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 30,981,132	$ (4,358,337)	$ 26,622,795
Restricted cash and investments	1,567,536	198,133	1,765,669
Accounts receivable, net	450,042	917,365	1,367,407
Due from other governments	249,890	4,744,242	4,994,132
Interest receivable	61,322	4,648	65,970
Notes receivable	3,840,883	-	3,840,883
Internal balances	308,138	(308,138)	-
Land held for resale	180,000	-	180,000
Deferred charges - Bond issuance costs, net	756,197	5,636,991	6,393,188
Capital assets, net of allowance for depreciation	31,707,039	60,447,345	92,154,384
Total assets	70,102,179	67,282,249	137,384,428
LIABILITIES			
Accounts payable and accrued expense	798,140	2,743,744	3,541,884
Accrued interest payable	85,896	40,113	126,009
Deposits payable	81,803	64,356	146,159
Long-term liabilities			
Due within one year	419,192	188,278	607,470
Due in more than one year	19,478,920	37,877,143	57,356,063
Compensated absences	496,285	143,819	640,104
Total liabilities	21,360,236	41,057,453	62,417,689
NET ASSETS			
Invested in capital assets, net of related debt	11,808,927	22,381,924	34,190,851
Restricted for debt service	1,567,536	198,133	1,765,669
Restricted for specific projects and programs	15,307,022	-	15,307,022
Unreserved and unrestricted/(deficit)	20,058,458	3,644,739	23,703,197
Total net assets/(deficit)	$ 48,741,943	$ 26,224,796	$ 74,966,739

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009

Functions/Programs	Expense	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net Revenue/(Expense) and Changes in Net Assets: Governmental Activities	Net Revenue/(Expense) and Changes in Net Assets: Business-Type Activities	Net Revenue/(Expense) and Changes in Net Assets: Total
Primary Government							
Governmental activities							
General government	$ 1,805,044	$ 29,321	$ 98,442	$ -	$ (1,677,281)	$ -	$ (1,677,281)
Public works	2,152,993	-	430,009	-	(1,722,984)	-	(1,722,984)
Community development	2,777,502	636,976	1,709,885	1,183,404	752,763	-	752,763
Public safety	5,484,079	196,689	300,806	-	(4,986,584)	-	(4,986,584)
Community services	816,586	116,429	-	149,004	(551,153)	-	(551,153)
Debt Service							
Interest and fiscal charges	1,055,121	-	-	-	(1,055,121)	-	(1,055,121)
Total governmental activities	14,091,325	979,415	2,539,142	1,332,408	(9,240,360)	-	(9,240,360)
Business-type activities							
Water	2,067,480	1,397,583	-	38,113	-	(631,784)	(631,784)
Sewer	1,357,642	1,520,892	-	4,412,063	-	4,575,313	4,575,313
Garbage	1,180,589	872,466	-	-	-	(308,123)	(308,123)
JPA Garbage	746,665	711,055	-	-	-	(35,610)	(35,610)
Transit	104,099	15,268	-	214,729	-	125,898	125,898
Sanitation	295,622	285,920	-	-	-	(9,702)	(9,702)
Total business-type activities	5,752,097	4,803,184	-	4,664,905	-	3,715,992	3,715,992
Total primary government	$ 19,843,422	$ 5,782,599	$ 2,539,142	$ 5,997,313	(9,240,360)	3,715,992	(5,524,368)
General Revenue							
Property taxes and assessments					5,255,181	-	5,255,181
Sales taxes					547,706	-	547,706
Franchise and other taxes					471,430	-	471,430
Transient lodging tax					93,898	-	93,898
Utility tax					501,699	-	501,699
Business license tax					65,866	-	65,866
Interest income					645,999	171,965	817,964
Rents and other income					377,273	-	377,273
Loss on disposal of captial assets					(20,339)	-	(20,339)
Transfers					2,590,081	(2,590,081)	-
Total general revenue and transfers					10,528,794	(2,418,116)	8,110,678
Change in Net Assets					1,288,434	1,297,876	2,586,310
Net Assets							
Beginning of year					47,482,999	24,926,920	72,409,919
Prior period adjustments					(29,490)	-	(29,490)
End of year					$ 48,741,943	$ 26,224,796	$ 74,966,739

See accompanying notes.

CITY OF SOLEDAD

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Community Redevelopment	Low-Moderate Housing	Housing Assistance	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments	$ 4,835,507	$ 11,778,761	$ 4,173,269	$ 4,789	$ 6,978,955	$ 2,364,673	$ 30,135,954
Restricted cash and investments	-	1,567,536	-	-	-	-	1,567,536
Accounts receivable	447,776	-	-	-	2,266	-	450,042
Due from other governments	-	-	-	-	-	249,890	249,890
Interest receivable	9,988	22,166	7,808	211	13,849	5,607	59,629
Due from other funds	308,138	-	-	-	-	-	308,138
Notes receivable	-	-	1,043,759	1,600,000	-	1,197,124	3,840,883
Land held for resale	-	-	180,000	-	-	-	180,000
Total assets	$ 5,601,409	$ 13,368,463	$ 5,404,836	$ 1,605,000	$ 6,995,070	$ 3,817,294	$ 36,792,072
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable and accrued expense	$ 652,015	$ 56,690	$ 10,988	$ 5,000	$ 12,167	$ 50,312	$ 787,172
Deposits and other liabilities	81,803	-	-	-	-	-	81,803
Deferred revenue	-	-	1,043,759	1,600,000	-	1,197,124	3,840,883
Total liabilities	733,818	56,690	1,054,747	1,605,000	12,167	1,247,436	4,709,858
Fund Balance							
Reserved for land held for resale	-	-	180,000	-	-	-	180,000
Reserved for debt service	-	1,567,536	-	-	-	-	1,567,536
Unreserved:							
Desingated for specific projects and programs	-	1,584,172	4,170,089	-	6,982,903	2,569,858	15,307,022
Undesignated	4,867,591	10,160,065	-	-	-	-	15,027,656
Total fund balance	4,867,591	13,311,773	4,350,089	-	6,982,903	2,569,858	32,082,214
Total liabilities and fund balance	$ 5,601,409	$ 13,368,463	$ 5,404,836	$ 1,605,000	$ 6,995,070	$ 3,817,294	$ 36,792,072

See accompanying notes.

CITY OF SOLEDAD

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Total governmental fund balance	$ 32,082,214
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	31,707,039
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(19,898,112)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(496,285)
Interest on long-term debt is reported as an expenditure of the Governmental Funds when paid because it requires the use of current financial resources. However, accrued interest must be recorded when incurred	(85,896)
Internal service funds are used by management to charge the costs of fleet maintenance and computer services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	835,903
Certain revenues in Governmental Funds are deferred because they are not collected within the prescribed time period after fiscal year end. Those revenues are recognized on the accrual basis in Governmental Activities	3,840,883
Governmental funds report debt costs such as issuance costs and original issue discounts as an expenditure when those costs are incurred because they require the use of current financial resources. However, debt issuance costs must be included as a deferred charge in the Government-Wide Financial Statements	756,197
Net assets of governmental activities	$ 48,741,943

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	General	Community Redevelopment	Low-Moderate Housing	Housing Assistance	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
Revenue							
Taxes and assessments	$ 4,324,128	$ 1,805,841	$ 451,460	$ -	$ -	$ 354,351	$ 6,935,780
Licenses, permits and impact fees	163,090	-	-	-	19,544	-	182,634
Intergovernmental	448,252	-	-	1,700,000	136,659	1,567,095	3,852,006
Charges for services	780,346	-	-	-	-	-	780,346
Fines and forfeitures	35,979	-	-	-	-	-	35,979
Interest	69,515	302,745	94,392	-	137,119	42,228	645,999
Rents	92,846	-	-	-	-	-	92,846
Other	230,374	12,469	33,709	-	-	7,875	284,427
Total revenue	6,144,530	2,121,055	579,561	1,700,000	293,322	1,971,549	12,810,017
Expenditures							
Current							
General government	1,533,072	-	-	-	5,147	-	1,538,219
Public works	237,999	-	-	-	11,936	1,842,094	2,092,029
Community development	1,220,659	845,610	289,534	1,605,000	33,308	903	3,995,014
Public safety	5,081,935	-	-	-	134,864	157,428	5,374,227
Community services	679,617	-	-	-	33,685	-	713,302
Capital outlay	69,279	-	-	-	41,411	-	110,690
Debt Service							
Principal	-	312,000	33,000	-	56,888	-	401,888
Interest and fiscal charges	-	901,674	136,651	-	18,225	-	1,056,550
Total expenditures	8,822,561	2,059,284	459,185	1,605,000	335,464	2,000,425	15,281,919
Revenue over/(under) expenditures	(2,678,031)	61,771	120,376	95,000	(42,142)	(28,876)	(2,471,902)
Other Financing Sources/(Uses)							
Transfers in/(out) - net	2,950,234	(184,628)	-	(95,000)	-	(80,525)	2,590,081
	2,950,234	(184,628)	-	(95,000)	-	(80,525)	2,590,081
Change in Fund Balance	272,203	(122,857)	120,376	-	(42,142)	(109,401)	118,179
Fund Balance							
Beginning of year	4,788,729	13,434,630	4,229,713	-	7,025,045	2,679,259	32,157,376
Prior period adjustment	(193,341)	-	-	-	-	-	(193,341)
End of year	$ 4,867,591	$ 13,311,773	$ 4,350,089	$ -	$ 6,982,903	$ 2,569,858	$ 32,082,214

See accompanying notes.

CITY OF SOLEDAD

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009

Net change in fund balance - total governmental funds	$	118,179
Amounts reported for governmental activities in the Statement of Activities are different because:		
Depreciation expense on capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not required as expenditures in Governmental Funds		(964,755)
Some expenses or revenues in the Statement of Activities that do not require or provide current financial resources are not reported in the funds. This is the net change in deferred revenue for the current period		1,620,001
Amortization of deferred debt costs in the Statement of Activities does not require the use of current financial resources and is not reported as an expenditure in Governmental Funds		(34,519)
Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities and Changes in Net Assets the cost of those assets are capitalized as an asset and depreciated over the period of service		110,690
Loss on disposal of capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, capital asset loss is not required as expenditures in Governmental Funds		(20,339)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		615,888
Internal service funds are used by management to charge the costs of fleet maintenance and computer services to individual funds. The net revenue (loss) of certain activities of internal service funds is reported with governmental activities		(64,688)
Compensated absence costs in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in Governmental Funds		(93,452)
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due		1,429
Change in net assets of governmental activities	$	1,288,434

See accompanying notes.

CITY of SOLEDAD

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
JUNE 30, 2009

	Business-Type Activities - Enterprise Funds							
	Water	Sewer	Garbage	JPA Garbage	Transit	Sanitation	Total Proprietary Funds	Governmental Activities Internal Service Fund
ASSETS								
Current assets								
Cash and investments	$ 2,322,140	$ (5,856,008)	$ (525,347)	$ (36,087)	$ (220,387)	$ (42,648)	$ (4,358,337)	$ 845,178
Restricted cash and investments	198,133	-	-	-	-	-	198,133	-
Accounts receivable	365,913	4,872,045	203,519	161,687	72	58,371	5,661,607	-
Interest receivable	4,648	-	-	-	-	-	4,648	1,693
Due from other funds	900,000	-	-	-	-	-	900,000	-
Total current assets	3,790,834	(983,963)	(321,828)	125,600	(220,315)	15,723	2,406,051	846,871
Non-current assets								
Deferred charges - Bond issuance costs, net	-	5,636,991	-	-	-	-	5,636,991	-
Property, plant and equipment, net of allowance for depreciation	10,845,889	49,426,810	3,329,074 -	-	174,646	-	60,447,345	410,778
Total assets	$ 14,636,723	$ 54,079,838	$ (321,828)	$ 125,600	$ (45,669)	$ 15,723	$ 68,490,387	$ 1,257,649
LIABILITIES								
Current liabilities								
Accounts payable and accrued expenses	$ 215,604	$ 2,428,077	$ 9,610	$ 81,059	$ 3,727	$ 5,667	$ 2,743,744	$ 10,968
Accrued interest	30,363	9,750	-	-	-	-	40,113	-
Due to other funds	-	-	1,208,138	-	-	-	1,208,138	-
Deposits	21,446	12,300	18,320	6,490	-	5,800	64,356	-
Current portion of long-term debt	134,457	53,821	-	-	-	-	188,278	-
Total current liabilities	401,870	2,503,948	1,236,068	87,549	3,727	11,467	4,244,629	10,968
Non-current liabilities								
Long-term debt	3,621,487	34,255,656	-	-	-	-	37,877,143	-
Compensated absences	41,285	49,699	9,255	25,529	7,438	10,613	143,819	19,260
Total noncurrent liabilities	3,662,772	34,305,355	9,255	25,529	7,438	10,613	38,020,962	19,260
Total liabilities	4,064,642	36,809,303	1,245,323	113,078	11,165	22,080	42,265,591	30,228
NET ASSETS								
Invested in capital assets, net of related debt	7,089,945	15,117,333	-	-	174,646	-	22,381,924	410,778
Restricted for debt service	198,133	-	-	-	-	-	198,133	-
Unrestricted/(deficit)	3,284,003	2,153,202	(1,567,151)	12,522	(231,480)	(6,357)	3,644,739	816,643
Total net assets/(deficit)	$ 10,572,081	$ 17,270,535	$ (1,567,151)	$ 12,522	$ (56,834)	$ (6,357)	$ 26,224,796	$ 1,227,421

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	Business-Type Activities - Enterprise Funds							
	Water	Sewer	Garbage	JPA Garbage	Transit	Sanitation	Total Proprietary Funds	Governmental Activities Internal Service Fund
Operating Revenue								
Charges for services	$ 1,396,269	$ 1,520,542	$ 872,466	$ 711,055	$ 15,268	$ 285,920	$ 4,801,520	$ 297,775
Connection fees	1,314	350	-	-	-	-	1,664	-
Total operating income	1,397,583	1,520,892	872,466	711,055	15,268	285,920	4,803,184	297,775
Operating Expense								
Contractual services and utilities	819,717	499,519	1,067,431	488,861	6,254	125,344	3,007,126	52,039
Personnel	662,339	544,763	108,348	254,374	79,607	160,556	1,809,987	133,203
Supplies and materials	52,847	84,810	4,810	3,430	4,804	9,722	160,423	196,520
Depreciation	367,459	211,857	-	-	13,434	-	592,750	79,377
Total operating expense	1,902,362	1,340,949	1,180,589	746,665	104,099	295,622	5,570,286	461,139
Operating income/(loss)	(504,779)	179,943	(308,123)	(35,610)	(88,831)	(9,702)	(767,102)	(163,364)
Nonoperating Revenue/(Expense)								
Intergovernmental	4,159	4,401,811	-	-	214,729	-	4,620,699	-
Development impact fees	33,954	10,252	-	-	-	-	44,206	-
Interest income	71,499	84,668	-	15,148	-	650	171,965	17,456
Interest expense	(165,118)	(16,693)	-	-	-	-	(181,811)	-
Total nonoperating revenue/(expense)	(55,506)	4,480,038	-	15,148	214,729	650	4,655,059	17,456
Net income/(loss) before transfers	(560,285)	4,659,981	(308,123)	(20,462)	125,898	(9,052)	3,887,957	(145,908)
Operating Transfers In/(Out)	(150,443)	(139,909)	(1,270,253)	(973,849)	-	(55,627)	(2,590,081)	-
Change in Net Assets	(710,728)	4,520,072	(1,578,376)	(994,311)	125,898	(64,679)	1,297,876	(145,908)
Net Assets								
Beginning of year	11,282,809	12,750,463	11,225	1,006,833	(182,732)	58,322	24,926,920	1,373,329
End of year	$ 10,572,081	$ 17,270,535	$ (1,567,151)	$ 12,522	$ (56,834)	$ (6,357)	$ 26,224,796	$ 1,227,421

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009

	Business-Type Activities - Enterprise Funds						
	Water	Sewer	Garbage	JPA Garbage	Transit	SanitationF	Total Business-Type unds
Operating Activities							
Receipts from customers and users	$ 1,352,247	$ 1,178,470	$ 787,823	$ 642,183	$ 15,268	$ 259,932	$ 4,235,923
Payments for contractual services and utilities	(680,747)	(597,804)	(1,143,715)	(446,013)	(6,206)	(136,928)	(3,011,413)
Payments to employees	(673,310)	(532,479)	(107,710)	(250,491)	(75,573)	(160,107)	(1,799,670)
Payment to suppliers	(52,847)	(84,810)	(4,810)	(3,430)	(4,804)	(9,722)	(160,423)
Net cash provided by (used in) operating activities	(54,657)	(36,623)	(468,412)	(57,751)	(71,315)	(46,825)	(735,583)
Non-capital Financial Activities							
Payments from other governments	4,159	-	-	-	313,397	-	317,556
Payments from developers	33,954	10,252	-	-	-	-	44,206
Transfers (to)/from other funds	(150,443)	74,091	(1,270,253)	(973,849)	-	(55,627)	(2,376,081)
Net cash provided by (used in) noncapital financing activities	(112,330)	84,343	(1,270,253)	(973,849)	313,397	(55,627)	(2,014,319)
Capital and Related Financing Activities							
Purchase of property, plant and equipment	(1,272,976)	(35,635,129)	-	-	(188,080)	-	(37,096,185)
Principal received (paid) on long-term debt, net	292,944	33,894,477	1,208,138	-	-	-	35,395,559
Payments for deferred issuance costs	-	(5,636,991)	-	-	-	-	(5,636,991)
Interest paid on long-term debt	(161,503)	(27,693)	-	-	-	-	(189,196)
Net cash provided by (used in) capital and related financing activities	(1,141,535)	(7,405,336)	1,208,138	-	(188,080)	-	(7,526,813)
Investing Activities							
Interest received	96,964	125,373	-	15,148	-	650	238,135
Net cash provided by investing activities	96,964	125,373	-	15,148	-	650	238,135
Net Increase (Decrease) in Cash	(1,211,558)	(7,232,243)	(530,527)	(1,016,452)	54,002	(101,802)	(10,038,580)
Cash							
Beginning of year	3,731,831	1,376,235	5,180	980,365	(274,389)	59,154	5,878,376
End of year	$ 2,520,273	$ (5,856,008)	$ (525,347)	$ (36,087)	$ (220,387)	$ (42,648)	$ (4,160,204)
Cash Flows from Operating Activities							
Operating income (loss)	$ (504,779)	$ 179,943	$ (308,123)	$ (35,610)	$ (75,397)	$ (9,702)	$ (753,668)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	367,459	211,857	-	-	-	-	579,316
(Increase) Decrease in Accounts Receivable	(46,696)	(343,739)	(86,443)	(70,951)	-	(26,296)	(574,125)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	129,359	(84,684)	(73,846)	48,810	4,082	(10,827)	12,894
Net Cash Provided (Used) by Operating Activities	$ (54,657)	$ (36,623)	$ (468,412)	$ (57,751)	$ (71,315)	$ (46,825)	$ (735,583)

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS
JUNE 30, 2009

	The Vineyards Assessment District	Diamond Ridge Assessment District	Total
ASSETS			
Cash and investments	$ 343,949	$ 425,317	$ 769,266
Cash and investments with fiscal agent	-	379,679	379,679
Interest receivable	722	894	1,616
Special assessment receivable	3,440,329	3,124,110	6,564,439
Total assets	3,785,000	3,930,000	7,715,000
LIABILITIES			
Due to bondholders	3,785,000	3,930,000	7,715,000
Total liabilities	$ 3,785,000	$ 3,930,000	$ 7,715,000

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Soledad (the City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

These financial statements present the government and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and data from these units are combined with data of the primary government. Each blended component unit has a June 30 fiscal year end. There are no discretely presented component units included in these financial statements. The following sections further describe the significant accounting policies of the City.

Reporting Entity

The City of Soledad is a municipal incorporation, operating as a general law city, and governed by a city council of five members, under the general laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: general government, public safety, public works, facilities/transportation, culture and leisure, and public utilities.

Included in this report is the Soledad Redevelopment Agency (the Agency). The Agency was established to administer the City's redevelopment activities and projects. Members of the City Council automatically sit as the Agency's Board, the City Manager is appointed as Executive Director with the City staff providing all support services. Currently the Agency/City legislative meetings are held concurrently. The annual financial statements for the Agency for the fiscal year ended June 30, 2009 can be obtained through the City's Finance Department.

Also included in this report is the Soledad Public Financing Authority (SPFA). The SPFA is governed by the City officers. Although it is legally separate from the City, the SPFA is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public facilities.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information of all of the nonfiduciary activities of the primary government and its component units. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

Note 1 – Summary of Significant Accounting Policies (Continued)

The Statement of Activities and Changes in Net Assets presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds, including fiduciary funds and the blended component unit. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as non-major funds.

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

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

Community Redevelopment Fund – The Community Redevelopment Fund was established to account for the funding source used for the planning, administration and operations of the Redevelopment Agency of the City of Soledad.

Low-Moderate Housing – The Redevelopment Agency Low-Moderate Housing Fund was established to account for property tax allocations set aside for the purpose of increasing or improving the City's supply of low and moderate housing.

Housing Assistance – This fund accounts for the HOME Investment Partnership Program grant funds.

Development Impact Fees – This fund accounts for mitigation fees received from new construction which are to be used according to the City's approved Master Facilities Plan.

Note 1 – Summary of Significant Accounting Policies (Continued)

The City reports the following additional fund types:

Internal Service Fund – The Internal Service Fund accounts for fleet management provided to other departments or agencies of the government, on a cost reimbursement basis.

Agency Funds - The Agency Funds account for assets held by the City as an agent for various local governments or other entities. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Accounting

The Government-Wide and Proprietary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

For its government-wide activities and Enterprise Funds, the City has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating.

Note 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents represent the City's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month end cash balances in each fund.

Investments of the pool include only those investments authorized by the California Government Code such as, United States Treasury securities, agencies guaranteed by the United States Government, registered state warrants, and other investments. Investments primarily consist of deposits in the State of California Local Agency Investment Fund and certificates of deposit. Investments are stated at fair value.

Accounts Receivable – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through the end of the fiscal year which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectibles.

Monterey County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIIIA of the State of California Constitution (known as Proposition 13) to levy a maximum tax of $1.00 per $100 of full cash value.

Interfund Receivables/Payables - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Advances To/From Other Funds - This classification represents non-current portions of any long-term lending/borrowing transactions between funds. This amount will be equally offset by a reserve of fund balance which indicates that it does not represent available financial resources and therefore, is not available for appropriation. The current portion of any interfund long-term loan (advance) is included as an interfund receivable/payable.

Note 1 – Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial individual cost of more than $10,000 for roadways and $5,000 for all other assets, and an estimated useful life of at least three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	Years
Buildings	40
Improvements	10 - 40
Equipment	5 - 10
Streets	30
Parks	40
Curbs and Gutters	40
Storm Drains	75
Signs and Streetlights	4 - 30

Compensated Absences – Vacation time may be accumulated up to two years entitlement. Cash compensation for accrued vacation is generally not payable until the employee terminates employment with the city.

In fiscal year 1986, the City adopted a policy whereby classified employees with accumulated vacation pay in excess of thirty days may elect to receive one cash payment for up to ten days in excess of the thirty days maximum accrual. Staff with less than thirty days accrued are not eligible to participate in the vacation buy back program.

Note 1 – Summary of Significant Accounting Policies (Continued)

Sick leave may be accumulated to a maximum of ninety days. Cash compensation for unused sick leave is payable to employees only upon termination of employment with the City and is limited to a maximum of 15 days payable upon resignation or dismissal, or for management, 30 days payable upon retirement. The calculation is done in accordance with Governmental Accounting Standards Board Statement No. 16.

Long-Term Obligations - In the Government-Wide Financial Statements and in the Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type Statement of Net Assets. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Non-Current Governmental Assets/Liabilities - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Assets.

Net Assets/Fund Equity - The government-wide and business-type activities financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- Restricted Net Assets - This category presents external restrictions on net assets imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Assets - This category represents net assets of the City not restricted for any project or other purpose.

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

Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the Soledad Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during May of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	$ 26,622,795
Restricted Cash and Investments	1,765,669
Fiduciary Funds:	
Cash and Investments	769,266
Cash and Investments with Fiscal Agent	379,679
Total Cash and Investments	$ 29,537,409

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2009 consist of the following:

Cash on hand	$ 600
Deposits with Financial Institutions	7,468,212
Local Agency Investment Fund	17,984,822
Held by Fiscal Agent:	
Money Market Mutual Funds	4,083,775
Total Cash and Investments	$ 29,537,409

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

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	20%	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	2 years	20%	None
County Pooled Investment Funds	1 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

Note 3 – Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Certificates of Deposits	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Municipal Bonds	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment in the investment pools are available for withdraw in one business day and have an overall maturity of less than one year.

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. The City's investments in the investment pools are unrated.

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total City investments.

Note 3 – 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, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

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

Note 4 – Notes Receivables

Notes receivable and deferred loans consisted of the following at June 30, 2009:

Orchard Gabilan Associates, L.P. - The HOME Investment Partnership Grant program approved $1,6000,000 of grant funds to be made available for local development of an affordable housing project. The City entered into an agreement with Orchard Gabilan Associates, L.P. to loan such funds for the construction of Gabilan Family Apartments. Payments of principal and interest on the HOME loan are to be deferred until the earlier of repayment in full of the Deferred Development Fee or January 1 of the year in which the 14th anniversary of the date of issuance of the final Certificate of Occupancy. If not sooner paid, the unpaid principal balance of this note, plus any unpaid interest thereon shall be due and payable in full fifty-five years from the date of the note. The note bears 4.46% interest and the face amount of the note at June 30, 2009 was $1,600,000.

Soledad Local Development Corporation #2 – The Community Development Block Grant (CDBG) program approved $180,000 of grant funds to be made available for local development in the City. The City entered into an agreement with the SLDC to loan such funds on a reimbursement basis for loans made to local developers by SLDC with the approval of the City. The note bears 0% interest and the face amount of the note at June 30, 2009 was $180,000.

Revolving Loan Program – Long-term loans receivable of $1,940,883 represent monies loaned to homebuyers and small business owners in connection with a home ownership and business assistance programs. The loans are secured by real property with repayment due upon the sale of real property. According to the homeowner assistance plan, the property can only be sold to qualified applicants. At the time of sale, the seller pays the loan balance in full plus interest, ranging from 0% to 4%.

Note 5 – Interfund Transfers and Advances

In general, the City uses interfund transfers to (1) move revenues from the funds that collect them to the funds' that statute or budget requires to expend them, (2) use unrestricted revenues collected in the General Fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to debt service funds from the funds responsible for payment as debt service payments become due. In general, the effect of the interfund activity has been eliminated from the government-wide financial statements.

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	$ 2,950,234	$ -
Community Redvelopment Fund	-	(184,628)
Housing Assistance Fund	-	(95,000)
Proprietary Funds:		
Water Fund	-	(150,443)
Sewer Fund	-	(139,909)
Garbage Fund	-	(1,270,253)
JPA Garbage Fund	-	(973,849)
Sanitation Fund	-	(55,627)
Nonmajor Governmental Funds:		
Maintenance Districts Fund	-	(4,771)
Gas Tax Fund	-	(75,754)
	$ 2,950,234	$ (2,950,234)

Long-Term Interfund Advance – In 1989, the Redevelopment Agency of the City of Soledad borrowed $100,000 from the Sewer Fund. The loan criteria carries a 6% annual simple interest rate. At June 30, 2009, the Community Redevelopment Fund owed the Sewer Fund $214,000 consisting of $100,000 in original principal plus $114,000 in matured interest payable. The Agency repaid the loan during the fiscal year ended June 30, 2009.

Note 6 – Capital Assets – Capital asset activities for the year ended June 30, 2009 were as follows:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
Governmental Activities				
Capital assets, not being depreciated				
Land	$ 2,125,288	$ -	$ -	$ 2,125,288
Total capital assets, not being depreciated	2,125,288	-	-	2,125,288
Capital assets, being depreciated				
Buildings and improvements	6,421,570	242,205	-	6,663,775
Infrastructure	30,686,154	-	-	30,686,154
Machinery and equipment	3,270,557	638,491	(137,537)	3,771,511
Total capital assets, being depreciated	40,378,281	880,696	(137,537)	41,121,440
Less accumulated depreciation for				
Buildings and improvements	(1,808,622)	(161,327)	-	(1,969,949)
Infrastructure	(6,133,284)	(616,489)	-	(6,749,773)
Machinery and equipment	(2,750,226)	(186,939)	117,198	(2,819,967)
Total accumulated depreciation	(10,692,132)	(964,755)	117,198	(11,539,689)
Total capital assets, being depreciated, net	29,686,149	(84,059)	(20,339)	29,581,751
Governmental activities capital assets, net	$ 31,811,437	$ (84,059)	$ (20,339)	$ 31,707,039
Business-Type Activities				
Capital assets, not being depreciated				
Land	$ 2,485,154	$ 24,842	$ -	$ 2,509,996
Construction in progress	3,232,376	37,865,348	-	41,097,724
Total capital assets, not being depreciated	5,717,530	37,890,190	-	43,607,720
Capital assets, being depreciated				
Buildings and improvements	3,938,807	1,248,134	-	5,186,941
Infrastructure	16,725,175	-	-	16,725,175
Machinery and equipment	1,397,716	346,041	-	1,743,757
Total capital assets, being depreciated	22,061,698	1,594,175	-	23,655,873
Less: accumulated depreciation	(6,223,498)	(592,750)	-	(6,816,248)
Total capital assets, being depreciated, net	15,838,200	1,001,425	-	16,839,625
Business-type activities capital assets, net	$ 21,555,730	$ 38,891,615	$ -	$ 60,447,345

Note 6 – Capital Assets (Continued)

Depreciation expense was charged to the following functions in the Statement of Activities:

Governmental Functions:	
General Government	$ 74,166
Public Works	60,964
Community Development	616,489
Public Safety	109,852
Community Services	103,284
	$ 964,755
Business-Type Functions:	
Water	$ 367,459
Sewer	211,857
Transit	13,434
	$ 592,750

Note 7 – Long-Term Debt

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009	Current Portion
Governmental Activity Long Term Debt					
Bonds Payable					
1998 Tax Allocation Bonds	$ 6,700,000	$ -	$ (180,000)	$ 6,520,000	$ 185,000
2007 Series A & B Tax Allocation Bonds	13,150,000	-	(165,000)	12,985,000	175,000
Lease Payable					
Fire Truck Capital Lease	-	450,000	(56,888)	393,112	59,192
Total Governmental Activity Debt	$ 19,850,000	$ 450,000	$ (401,888)	$ 19,898,112	$ 419,192
Business-Type Activity Long Term Debt					
Bonds Payable					
1980 Sewer Revenue Bond	$ 415,000	$ -	$ (51,000)	$ 364,000	$ 25,000
1981 Water Revenue Bond	430,000	-	(25,000)	405,000	25,000
Loans Payable					
Water System Improvement Loan	2,133,000	-	(45,000)	2,088,000	47,000
Sewer Plant Loan	-	33,821,272	-	33,821,272	-
Leases Payable					
Energy Retrofit Capital Lease	-	1,278,139	(15,195)	1,262,944	62,457
Hydrojetter Capital Lease	-	151,657	(27,452)	124,205	28,821
Total Business-Type Activity Debt	$ 2,978,000	$ 35,251,068	$ (163,647)	$ 38,065,421	$ 188,278
Compensated Absences					
Government Activities	$ 402,833	$ 93,452	$ -	$ 496,285	
Business-Type Activities	$ 134,271	$ 9,548	$ -	$ 143,819	

Note 7 – Long-Term Debt (Continued)

1998 Tax Allocation Refunding Bond – In 1998 the Agency issued $8,000,000 of Tax Allocation Refunding Bonds secured by Agency tax revenue. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year, with interest rates ranging from 3.8% to 5.35% with annual principal payments on December 1 of each year through 2029. The outstanding principal balance as of June 30, 2009 is $6,520,000.

2007 Series A & B Tax Allocation Bonds – In 2007 the Agency issued $13,440,000 of Tax Allocation Bonds secured by Agency tax revenue. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year, with interest rates ranging from 4.9% to 5.5% with annual principal payments on December 1 of each year through 2032. The bond proceeds will be used to fund various Agency projects. The outstanding principal balance as of June 30, 2009 is $12,985,000.

Fire Truck Capital Lease – On February 5, 2008, the City entered into a Lease with Option to Purchase agreement for a fire truck. The lease bears an interest rate of 4.05% and terminates on February 5, 2015. The outstanding balance of the lease as of June 30, 2009 was $393,112.

1980 Sewer Revenue Bond – The 1980 Sewer Revenue Bonds were issued to provide funds for improvement of the municipal sewer system comprising a new wastewater treatment plant and outfall sewer line. The City issued $750,000 of bonds at an interest rate of 5%. The bonds mature in amounts from $5,000 to $40,000 annually, payable on July 1 of each year through 2020, with interest payable semi-annually. The bonds are secured by and payable solely from the net revenues from sewer service charges and are not otherwise secured by the taxing power, property, or credit of the City.

1981 Water Revenue Bond – The 1981 Water Revenue Bonds were issued to provide funds for the improvement of the municipal water system, comprised of new water mains, transmission lines, a pump station, and a storage tank. The city issued $800,000 of bonds at an interest rate of 5%. The bonds mature in amounts from $5,000 to $45,000 annually, payable December 1, of each year through 2021, with interest payable semi-annually. The bonds are secured by and payable solely from the net revenues from water service charges and are not otherwise secured by the taxing power, property, or credit of the City. Unused proceeds of the sale of the bonds are restricted for payment of costs of the improvements specified above.

Note Payable – On May 1, 1994, the City borrowed $2,593,000 for the purpose of paying for water system improvements. Principal amounts from $25,000 to $135,000 are due on May 1 of each year through 2034. The notes carry an interest rate of 4.5% with interest payable semi-annually.

Sewer Plant Loan – In connection with the City's construction of a new sewer plant, a loan for up to $52,123,561 was obtained from the State of California. Although, the loan is non interest bearing, it does require a 16.667% loan fee resulting in an effective interest rate of 1.8%. At year end, $33,821,272 had been borrowed along with the payment of $5,636,991 in loan charges. The City anticipates project completion in February 2010 with a final loan balance between $40,000,000 and $45,000,000. The first of twenty equal annual principal payments will be due one year from completion.

Note 7 – Long-Term Debt (Continued)

Energy Retrofit Capital Lease – On August 13, 2008, the City entered into a Lease with Option to Purchase agreement for an energy retrofit upgrade at the water plant. The lease bears an interest rate of 6.786% and terminates on February 29, 2024. The outstanding balance of the lease as of June 30, 2009 was $1,262,944.

Hydrojetter Capital Lease – On March 25, 2008, the City entered into a Lease with Option to Purchase agreement for a hydrojetter. The lease bears an interest rate of 4.99% and terminates on March 25, 2013. The outstanding balance of the lease as of June 30, 2009 was $124,205.

Compensated Absences – City employees accumulate earned by unused vacation and sick pay benefits which can be converted to cash at termination of employment. Since no means exist to reasonably estimate the amounts that might be liquidated with expendable currently available financial resources, if any, they are reported as long-term debt on the Statement of Net Assets. No expenditure is reported for these amounts in the governmental funds statements. However, in the Statement of Activities the expense is allocated to each function based on usage. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, at June 30, 2009, totaled $496,285 for governmental activities and $143,819 for business-type activities.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2009 were as follows:

	Governmental Activities		Business-Type Activities	
Years ending June 30,	Principal	Interest	Principal	Interest
2010	$ 419,192	$ 1,038,853	$ 188,278	$ 192,361
2011	446,589	1,017,290	1,885,553	183,536
2012	574,084	994,395	1,896,957	174,301
2013	596,679	966,185	1,908,566	164,522
2014	624,379	936,854	1,881,368	154,316
2015-2019	3,332,189	4,197,233	9,549,326	629,792
2020-2024	4,220,000	3,248,908	9,494,993	369,289
2025-2029	5,510,000	1,994,671	8,951,318	207,900
2030-2034	4,175,000	583,812	2,309,062	85,905
	$19,898,112	$14,978,201	$38,065,421	$ 2,161,922

Assessment District Debt - During fiscal year 2004, the City acted as an agent for a bond offering within an assessment district in the City. The City is not obligated in the event of default. Accordingly, the debt is not reflected in the City's financial information. The amount of debt outstanding as of June 30, 2009 not reflected in these statements is $3,785,000 for The Vinyards and $3,930,000 for Diamond Ridge.

Note 8 – Risk Management

The City provided from workers' compensation and liability coverage through a self-funded joint powers agency (JPA), the Monterey Bay Area Insurance Authority. JPA accounts are not separately maintained for each participant.

The Authority covers losses in excess of $10,000 for members of the liability group and carries and carries excess insurance for losses between $300,000 and $9,500,000. Members of the workers' compensation group pay termporary disability claims directly, while the Authority pays for permanent disability cliams, medical costs, rehabilitation and legal costs.

The City also purchases various property coverage programs. Deductibles and limits per property type can be obtained from the City Manager or directly from the Authority.

Contingent Liabilities

The City participates in a number of Federal and State assisted grant programs which are subject to financial and compliance audits. Audits for these programs and the respective findings are to be determined at a future date, and the City expects the amount, if any, of the expenditures which may be disallowed by the granting agency to be immaterial.

Note 9 – City Employees' Retirement Plan (Defined Benefit Pension Plan)

Plan Description - The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.

Funding Policy – The City pays 7% of annual covered salary for active plan members in the City's defined pension plan. The City 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 7.599% for the miscellaneous plan and 16.468% for the safety plan. The contribution requirements of plan members is established by State statute and the employer contribution is established and may be amended by PERS.

Annual Pension Cost - For the year ended June 30, 2009, the City's annual pension cost of $1,255,254 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.25 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 16 years.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	$ 494,482	100%	-
June 30, 2008	$ 845,787	100%	-
June 30, 2009	$ 1,255,254	100%	-

A new State law authorized the creation of risk pools by PERS and required mandatory participation of employers to help reduce large fluctuations in their contribution rates. The City of Soledad is now required to participate in the risk pool. Under this pooling method, assets and liabilities of the participant employers are aggregated. As such, individual employer's retirment data is no longer available.

Note 10 – Deficit Net Assets Balance

Net Asset Deficits – The Garbage, Transit and Sanitation Funds have deficit net asset balances as of June 30, 2009 of $1,567,151, $56,834 and $6,357, respectively. These deficits are expected to be relieved from future rate increases or transfers from the General Fund.

Note 11 – Prior Period Adjustments

The following adjustments were made to restate prior year fund balances:

General Fund	
To record reduction in funds owed to another municipality relating to prior year pass-through agreements	$ 63,468
Record funds owed to County for prior period dispatch services	(256,809)
Total Governmental Funds	(193,341)
Statement of Activities and Changes in Net Assets	
To record increase in captital assets related to prior year park development expenditures	163,851
Total Statement of Activities and Changes in Net Assets	$ (29,490)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Taxes	$ 4,351,301	$ 4,526,644	$ 4,324,128	$ (202,516)
Licenses and permits	210,855	62,690	163,090	100,400
Intergovernmental	463,975	303,903	448,252	144,349
Charges for services	904,360	260,967	780,346	519,379
Fines and forfeitures	50,000	33,069	35,979	2,910
Interest	455,000	69,686	69,515	(171)
Rents	87,882	66,789	92,846	26,057
Other	565,795	141,558	230,374	88,816
Total revenue	7,089,168	5,465,306	6,144,530	679,224
Expenditures				
Current				
General government	1,324,920	1,469,985	1,533,072	(63,087)
Public works	305,493	241,132	237,999	3,133
Community development	1,046,617	735,702	1,220,659	(484,957)
Public safety	5,656,039	5,314,615	5,081,935	232,680
Community services	633,600	606,630	679,617	(72,987)
Capital outlay	-	-	69,279	(69,279)
Total expenditures	8,966,669	8,368,064	8,822,561	(454,497)
Revenue over (under)expenditures	(1,877,501)	(2,902,758)	(2,678,031)	224,727
Other Financing Sources				
Transfers in (out) - net	897,624	2,995,983	2,950,234	(45,749)
Net Change in Fund Balance	$ (979,877)	$ 93,225	272,203	$ 178,978
Fund Balance				
Beginning of year			4,788,729	
Prior period adjustment			(193,341)	
End of year			$ 4,867,591	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
COMMUNITY REDEVELOPMENT FUND
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Property taxes	$ 1,823,598	$ 1,823,598	$ 1,805,841	$ (17,757)
Interest	180,000	180,000	302,745	122,745
Other	-	-	12,469	12,469
Total revenue	2,003,598	2,003,598	2,121,055	117,457
Expenditures				
Current				
Community development	873,270	873,270	845,610	27,660
Debt Service				
Principal	282,000	282,000	312,000	(30,000)
Interest and fiscal charges	832,255	832,255	901,674	(69,419)
Total expenditures	1,987,525	1,987,525	2,059,284	(71,759)
Revenue over/(under) expenditures	16,073	16,073	61,771	45,698
Other Financing Sources				
Proceeds from debt issuance	195,473	195,473	-	(195,473)
Tranfers in/(out)	(184,628)	(184,628)	(184,628)	-
Total other financing sources	10,845	10,845	(184,628)	(195,473)
Change in Fund Balance	$ 26,918	$ 26,918	(122,857)	$ (149,775)
Fund Balance				
Beginning of year			13,434,630	
End of year			$ 13,311,773	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
LOW-MODERATE HOUSING FUND
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Property tax	$ 461,270	$ 461,270	$ 451,460	$ (9,810)
Interest	150,000	150,000	94,392	(55,608)
Other	-	-	33,709	33,709
Total revenue	611,270	611,270	579,561	(31,709)
Expenditures				
Current				
Community development	332,607	332,607	289,534	43,073
Debt Service				
Principal	69,000	69,000	33,000	36,000
Interest and fiscal charges	208,064	208,064	136,651	71,413
Total expenditures	609,671	609,671	459,185	150,486
Revenue over/(under) expenditures	1,599	1,599	120,376	118,777
Other Financing Sources				
Tranfers in/(out)	-	-	-	-
Change in Fund Balance	$ 1,599	$ 1,599	120,376	$ 118,777
Fund Balance				
Beginning of year			4,229,713	
End of year			$ 4,350,089	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
HOUSING ASSISTANCE FUND
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Intergovernmental revenues	$ -	$ -	$ 1,700,000	$ 1,700,000
Total revenue	-	-	1,700,000	1,700,000
Expenditures				
Current				
Community development	-	-	1,605,000	(1,605,000)
Capital outlay	-	-	-	-
Total expenditures	-	-	1,605,000	(1,605,000)
Revenue over (under) expenditures	-	-	95,000	95,000
Other Financing Sources/(Uses)				
Transfers in/(out) - net	-	-	(95,000)	(95,000)
Change in Fund Balance	$ -	$ -	-	$ -
Fund Balance				
Beginning of year			-	
End of year			$ -	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES FUND
YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Impact fees	$ 2,654,932	$ 2,654,932	$ 19,544	$ (2,635,388)
Intergovernmental	-	-	136,659	(136,659)
Interest	-	-	137,119	137,119
Total revenue	2,654,932	2,654,932	293,322	(2,634,928)
Expenditures				
Current				
General government	15,000	15,000	5,147	9,853
Public works	405,936	405,936	11,936	394,000
Community development	2,221,313	2,221,313	33,308	2,188,005
Public safety	584,000	584,000	134,864	449,136
Parks	54,000	54,000	33,685	20,315
Capital outlay	70,000	70,000	41,411	28,589
Debt Service				
Principal	60,000	60,000	56,888	3,112
Interest and fiscal charges	39,200	39,200	18,225	20,975
Total expenditures	3,449,449	3,449,449	335,464	3,113,985
Revenue over (under)expenditures	(794,517)	(794,517)	(42,142)	479,057
Other Financing Sources				
Transfers in (out) - net	-	-	-	-
Net Change in Fund Balance	$ (794,517)	$ (794,517)	(42,142)	$ 479,057
Fund Balance				
Beginning of year			7,025,045	
End of year			$ 6,982,903	

SUPPLEMENTAL ONLY INFORMATION

CITY OF SOLEDAD

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2009

	Special Revenue Funds					
	Program Income	RSTP	Maintenance Districts	Public Safety	Local Transportation	Prop 1B
ASSETS						
Cash and investments	$ 221,535	$ (72,929)	$ 743,399	$ 42,301	$ 230	$ 435,388
Due from other governments	-	73,031	-	46,961	-	-
Interest receivable	580	348	1,540	76	120	794
Notes receivable	1,197,124	-	-	-	-	-
Total assets	$ 1,419,239	$ 450	$ 744,939	$ 89,338	$ 350	$ 436,182
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable and accrued expense	$ -	$ 450	$ 22,314	$ 1,938	$ 350	$ -
Deferred revenue	1,197,124	-	-	-	-	-
Total liabilities	1,197,124	450	22,314	1,938	350	-
Fund Balance						
Unreserved:						
Designated for specific projects and programs	222,115	-	722,625	87,400	-	436,182
Undesignated	-	-	-	-	-	-
Total fund balance	222,115	-	722,625	87,400	-	436,182
Total liabilities and fund balance	$ 1,419,239	$ 450	$ 744,939	$ 89,338	$ 350	$ 436,182

CITY OF SOLEDAD

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2009

	Special Revenue Funds				
	Gas Tax	Traffic Congestion Releif	Revolving Loan	Microenterprise Assistance Program	Total Non-major Governmental Funds
ASSETS					
Cash and investments	$ 855,083	$ 108,596	$ 66,070	$ (35,000)	$ 2,364,673
Due from other governments	38,241	56,657	-	35,000	249,890
Interest receivable	1,782	228	139	-	5,607
Notes receivable	-	-	-	-	1,197,124
Total assets	$ 895,106	$ 165,481	$ 66,209	$ -	$ 3,817,294
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable and accrued expense	$ 25,076	$ 184	$ -	$ -	$ 50,312
Deferred revenue	-	-	-	-	1,197,124
Total liabilities	25,076	184	-	-	1,247,436
Fund Balance					
Unreserved:					
Designated for specific projects and programs	870,030	165,297	66,209	-	2,569,858
Undesignated	-	-	-	-	-
Total fund balance	870,030	165,297	66,209	-	2,569,858
Total liabilities and fund balance	$ 895,106	$ 165,481	$ 66,209	$ -	$ 3,817,294

CITY OF SOLEDAD

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	Special Revenue Funds					
	Program Income	RSTP	Maintenance Districts	Public Safety	Local Transportation	Prop 1B
Revenue						
Taxes and assessments	$ -	$ -	$ 330,536	$ 23,815	$ -	$ -
Intergovernmental	9,885	250,199	-	100,000	118,976	421,624
Interest	5,590	-	16,097	1,073	297	5,478
Other	-	-	2,155	3,805	-	935
Total revenue	15,475	250,199	348,788	128,693	119,273	428,037
Expenditures						
Public works	-	250,199	511,452	-	119,273	448,022
Community development	903	-	-	-	-	-
Public Safety	-	-	-	157,428	-	-
Total expenditures	903	250,199	511,452	157,428	119,273	448,022
Revenue over (under) expenditures	14,572	-	(162,664)	(28,735)	-	(19,985)
Other financing sources/(uses)						
Operating transfers in/(out) - net	-	-	(4,771)	-	-	-
	-	-	(4,771)	-	-	-
Change in Fund Balance	14,572	-	(167,435)	(28,735)	-	(19,985)
Fund Balance						
Beginning of year	207,543	-	890,060	116,135	-	456,167
End of year	$ 222,115	$ -	$ 722,625	$ 87,400	$ -	$ 436,182

CITY OF SOLEDAD

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2009

	Special Revenue Funds				
	Gas Tax	Traffic Congestion Releif	Revolving Loan	Microenterprise Assistance Program	Total Non-major Governmental Funds
Revenue					
Taxes	$ -	$ -	$ -	$ -	$ 354,351
Intergovernmental	430,009	236,402	-	-	1,567,095
Interest	11,593	787	1,313	-	42,228
Other	799	181	-	-	7,875
Total revenue	442,401	237,370	1,313	-	1,971,549
Expenditures					
Public works	438,760	74,388	-	-	1,842,094
Community development	-	-	-	-	903
Public Safety	-	-	-	-	157,428
Total expenditures	438,760	74,388	-	-	2,000,425
Revenue over (under) expenditures	3,641	162,982	1,313	-	(28,876)
Other financing sources/(uses)					
Operating transfers in/(out) - net	(75,754)	-	-	-	(80,525)
	(75,754)	-	-	-	(80,525)
Change in Fund Balance	(72,113)	162,982	1,313	-	(109,401)
Fund Balance					
Beginning of year	942,143	2,315	64,896	-	2,679,259
End of year	$ 870,030	$ 165,297	$ 66,209	$ -	$ 2,569,858

BRYANT L. JOLLEY
CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan Jolley C.P.A.
Darryl Smith C.P.A.
Travis Evenson

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and City Council
City of Soledad, California

We have audited the financial statements of the City of Soledad, as of, and for the year ended June 30, 2009, and have issued our report thereon dated December 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Soledad's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination or significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

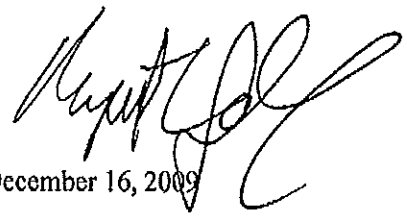
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Soledad's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Soledad in a separate letter dated December 16, 2009.

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.



December 16, 2009

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and City Council
City of Soledad, California

We have audited the compliance of the City of Soledad (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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A control deficiency in an entity's internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

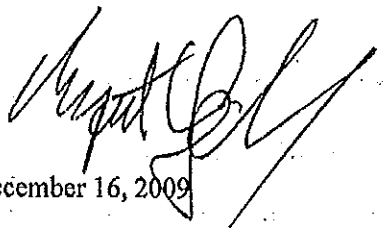
A material weakness is a significant deficiency, or combination or significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of June 30, 2009, and for the year then ended, and have issued our report thereon dated December 16, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



December 16, 2009

CITY OF SOLEDAD

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Pass-through from the State of California			
HOME Investment Partnership Program	14.239	06-HOME-2446	$ 1,700,000
U.S. Department of Homeland Security			
Domestic Preparedness Equipment Support Program	97.004	N/A	20,000
Total Federal Expenditures			$ 1,720,000

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal financial assistance is a summary of the cash activity of the City's federal award programs and does not present transactions that would be included in financial statements of the City presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.

CITY OF SOLEDAD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified			
Internal control over financial reporting:				
• Material weaknesses identified?	☐	Yes	☒	No
• Significant deficiencies identified that are not considered to be material weaknesses?	☐	Yes	☒	None reported
• Non-compliance material to financial statements noted?	☐	Yes	☒	No

Federal Awards

Internal control over major programs:				
• Material weaknesses identified?	☐	Yes	☒	No
• Significant deficiencies identified that are not considered to be material weaknesses?	☐	Yes	☒	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	☐	Yes	☒	No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
14.239	HOME Investment Partnership Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000			
Auditee qualified as low-risk auditee?	☐	Yes	☒	No

B. Findings – Financial Statements Audit

None noted.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None noted.

CITY OF SOLEDAD

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.

CITY OF SOLEDAD

MANAGEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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Travis Evenson

To the Honorable Mayor and City Council
City of Soledad, California

In planning and performing our audit of the basic financial statements of the City of Soledad, California (City) for the year ended June 30, 2009, in accordance with generally accepted auditing standards in the United States, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal controls.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

In addition, we noted other matters involving internal control and its operation that we have reported to management in a separate letter dated December 16, 2009.

This report is intended for the use of management, the City Council, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties. We thank the City's staff for its cooperation during our audit.

December 16, 2009

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To the Honorable Mayor and City Council
City of Soledad, California

We have audited the financial statements of the City of Soledad, California (City) for the year ended June 30, 2009, and have issued our report thereon dated December 16, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles of the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates affecting the financial statements.

Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define significant audit adjustments as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). The following material misstatements detected as a result of audit procedures were:

- Adjustments for the current year to properly reflect grant receivables and related activity, capital assets and depreciation, and to propose year end closing journal entries across all funds.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. Our professional standards require a consulting accountant to check with us if a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements. This is to ensure that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

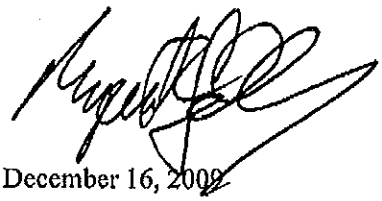
Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings and Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended for the use of management, the City Council, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties.



December 16, 2009

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To the Honorable Mayor and City Council
City of Soledad, California

In planning and performing our audit of the financial statements of the City of Soledad, California (City) for the year ended June 30, 2009, we considered the City's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated December 16, 2009 on the financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Accounting and Grant Discipline – In the process of performing our audit, we encountered instances where grant schedules and support provided by management did not reconcile with what was recorded in the general ledger. While grants are a valuable source of revenue within the community, they impose very specific and stringent reporting requirements that consume considerable staff time and related overhead expense to administer them. Each grant should be tracked in its own fund in the general ledger and have its own organized comprehensive file with all supporting documentation from start to finish. This will allow for proper tracking and accurate accounting be performed to ensure the goals and purposes of the grant have been achieved and accounted for properly.

Garbage and JPA Garbage Franchise Fee Transfers – During the current year the Garbage Fund and JPA Garbage Fund transferred $1,208,138 and $890,221, respectively, of prior years franchise fees to the General Fund to cover current year deficit spending in the General Fund. This left the Garbage Fund with a deficit fund balance of $1,567,151 and the JPA Garbage Fund with a positive fund balance of $12,522. These transfers give the impression that the General Fund operated in line with current year revenues when in fact these were one time only transfers. Furthermore the Garbage Fund deficit will have to covered by a General Fund transfer at some point or very large increases in garbage rates. We recommend the City take swift action to ensure revenues are sufficient to support current operational spending and address the deficit fund balance in the Garbage Fund.

Impact Fees – Impact fees need to be spent or earmarked within five years. The finance department should exert extra effort to ensure that all relevant expenditures are correctly charged to impact fees. In addition, the impact fees collected in the Water and Sewer Funds should be tracked in their own funds rather than included with the Water and Sewer Capital Outlay Funds.

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Developer Receivables – The City has been recording costs associated with various development projects as receivables with the hope that these funds will be recouped when the project is started. This allows the Planning Department to potentially understate current period expenses. Only amounts for which a legally enforceable obligation exists should be recorded as receivables.

Housing Loans – The City and the Redevelopment Agency have made numerous low income loans. However, staff was unable to provide timely loan activity or verify current balances. Although these loans are secured against the properties, the City should maintain current loan schedules on all properties in order to verify proper accounting.

Transit Fund – The Transit Fund is reported as an Enterprise Fund although the charges collected for transit services have not covered operational costs for many years. The nature of an Enterprise Fund is to collect appropriate charges to cover operational expenditures. As such we recommend the City consider including transit services as a department in the General Fund.

Enterprise Fund Deficits – Substantial operating deficits were incurred in all the enterprise funds during the current fiscal year. Enterprise operating costs are to be offset by user charges. We recommend the City evaluate its current user fees and increase charges or reduce expenditures as needed.

Authorize Write Off of Uncollectible Utility Accounts and Establish Allowance for Doubtful Accounts - We noted during our audit that many old accounts remain on the general ledger, many of which are either uncollectible accounts or will be collected at a discounted amount from that which is owed. Once truly uncollectible accounts are identified or a discounted amount is received from collection efforts, the Finance Director should write off these accounts. The City should create a formal policy for authorizing write offs of uncollectible utility accounts receivable. As part of the policy, it is recommended that the City Council or City Manager review and approve the write off of any uncollectible accounts. A list of proposed write offs could be presented to the City Council or City Manager at least quarterly. In addition, the City should establish an allowance for uncollectible accounts by conducting an overall evaluation of the past due accounts and review the success rate of collection efforts.

Utility Accounting Improvements – We noted the Utility Department has a policy of not printing the monthly billing and aging reports in order to save paper and space. We suggest these reports be printed or saved to an electronic media format monthly since these reports cannot be replicated by the accounting software once additional activity is posted to the general ledger. We also noted that several of the past due accounts in the utility aging reports relate to City established accounts for utility services. It is important that the City pays its own utility bills in a timely manner in order to ensure that activity is reported in its proper fund.

We believe that the implementation of these recommendations will provide the City with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This report is intended solely for the information and use of the City Council and management. However, this report is a matter of public record and its distribution is not limited.

December 16, 2009