CITY OF SOLEDAD

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2010

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BRYANT L. JOLLEY
CERTIFIED PUBLIC ACCOUNTANTS

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Darryl L. Smith C.P.A.
Travis B. Evenson

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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, 2010, 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 January 6, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 32 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.

January 6, 2011

901 "N" STREET, SUITE 104 FIREBAUGH, CALIFORNIA 93622 PHONE 559.659.3045 FAX 559.659.0615

CITY OF SOLEDAD

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 20,537,642	$ 3,091,267	$ 23,628,909
Restricted cash and investments	1,567,299	198,457	1,765,756
Accounts receivable, net	388,404	1,503,447	1,891,851
Due from other governments	244,110	-	244,110
Interest receivable	41,641	5,900	47,541
Notes receivable	9,205,445	-	9,205,445
Internal balances	3,371,963	(3,371,963)	-
Land held for resale	180,000	-	180,000
Deferred charges - Bond issuance costs, net	721,678	7,742,003	8,463,681
Capital assets, net of allowance for depreciation	35,805,184	68,022,221	103,827,405
Total assets	72,063,366	77,191,332	149,254,698
LIABILITIES			
Accounts payable and accrued expense	738,819	362,300	1,101,119
Accrued interest payable	88,838	15,308	104,146
Deposits payable	61,267	70,706	131,973
Long-term liabilities			
Due within one year	446,589	2,517,279	2,963,868
Due in more than one year	19,032,331	47,984,347	67,016,678
Compensated absences	511,609	137,704	649,313
Total liabilities	20,879,453	51,087,644	71,967,097
NET ASSETS			
Invested in capital assets, net of related debt	16,326,264	17,373,191	33,699,455
Restricted for debt service	1,567,299	198,457	1,765,756
Restricted for specific projects and programs	15,115,180	-	15,115,180
Unreserved and unrestricted/(deficit)	18,175,170	8,532,040	26,707,210
Total net assets/(deficit)	$ 51,183,913	$ 26,103,688	$ 77,287,601

CITY OF SOLEDAD

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010

		Program Revenue			Net Revenue/(Expense) and Changes in Net Assets		
Functions/Programs	Expense	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	$ 1,731,120	$ 126,015	$ 101,721	$ -	$ (1,503,384)	$ -	$ (1,503,384)
Public works	1,038,206	-	859,458	-	(178,748)	-	(178,748)
Community development	2,568,016	79,745	-	544,891	(1,943,380)	-	(1,943,380)
Public safety	5,516,248	247,275	400,230	-	(4,868,743)	-	(4,868,743)
Community services	494,489	-	-	-	(494,489)	-	(494,489)
Tax pass-through	956,701	-	-	-	(956,701)	-	(956,701)
Debt Service							
Interest and fiscal charges	1,037,361	-	-	-	(1,037,361)	-	(1,037,361)
Total governmental activities	13,342,141	453,035	1,361,409	544,891	(10,982,806)	-	(10,982,806)
Business-type activities							
Water	2,061,794	1,486,817	-	9,005	-	(565,972)	(565,972)
Sewer	1,946,755	2,249,463	-	301,903	-	604,611	604,611
Garbage	1,248,588	1,338,836	-	-	-	90,248	90,248
JPA Garbage	521,652	820,129	-	-	-	298,477	298,477
Transit	125,205	11,012	17,424	-	-	(96,769)	(96,769)
Total business-type activities	5,903,994	5,906,257	17,424	310,908	-	330,595	330,595
Total primary government	$ 19,246,135	$ 6,359,292	$ 1,378,833	$ 855,799	(10,982,806)	330,595	(10,652,211)
General Revenue							
Property taxes and assessments					5,063,541	-	5,063,541
Sales taxes					479,514	-	479,514
Franchise and other taxes					571,314	-	571,314
Transient lodging tax					68,747	-	68,747
Utility tax					592,674	-	592,674
Business license tax					63,878	-	63,878
Interest income					327,072	50,245	377,317
Rents and other income					391,526	-	391,526
Transfers					501,948	(501,948)	-
Total general revenue and transfers					8,060,214	(451,703)	7,608,511
Change in Net Assets					(2,922,592)	(121,108)	(3,043,700)
Net Assets							
Beginning of year					48,741,943	26,224,796	74,966,739
Prior period adjustments					5,364,562	-	5,364,562
End of year					$ 51,183,913	$ 26,103,688	$ 77,287,601

See accompanying notes.

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Community Redevelopment	Low-Moderate Income Housing	RDA Debt Service	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments	$ 280,667	$ 6,604,415	$ 3,307,349	$ -	$ 6,137,637	$ 3,195,942	$ 19,526,010
Restricted cash and investments	-	1,567,299	-	-	-	-	1,567,299
Accounts receivable	296,291	-	-	-	-	-	296,291
Due from other governments	-	27,868	-	-	-	216,242	244,110
Interest receivable	11,433	14,813	2,061	-	7,603	4,889	40,799
Due from other funds	3,514,643	-	848,589	-	-	-	4,363,232
Notes receivable	-	-	2,781,024	-	-	6,424,421	9,205,445
Land held for resale	-	-	180,000	-	-	-	180,000
Total assets	$ 4,103,034	$ 8,214,395	$ 7,119,023	$ -	$ 6,145,240	$ 9,841,494	$ 35,423,186
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable and accrued expense	$ 575,699	$ 46,767	$ 8,963	$ -	$ 29,848	$ 7,923	$ 669,200
Deposits and other liabilities	61,267	-	-	-	-	-	61,267
Due to other funds	-	848,589	-	-	-	142,680	991,269
Deferred revenue	-	-	2,781,024	-	-	6,424,421	9,205,445
Total liabilities	636,966	895,356	2,789,987	-	29,848	6,575,024	10,927,181
Fund Balance							
Reserved for land held for resale	-	-	180,000	-	-	-	180,000
Reserved for debt service	-	1,567,299	-	-	-	-	1,567,299
Unreserved:							
Desingated for specific projects and programs	-	1,584,282	4,149,036	-	6,115,392	3,266,470	15,115,180
Undesignated	3,466,068	4,167,458	-	-	-	-	7,633,526
Total fund balance	3,466,068	7,319,039	4,329,036	-	6,115,392	3,266,470	24,496,005
Total liabilities and fund balance	$ 4,103,034	$ 8,214,395	$ 7,119,023	$ -	$ 6,145,240	$ 9,841,494	$ 35,423,186

See accompanying notes.

CITY OF SOLEDAD

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balance	$ 24,496,005
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	35,805,184
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(19,478,920)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(511,609)
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	(88,838)
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.	1,034,968
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	9,205,445
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	721,678
Net assets of governmental activities	$ 51,183,913

CITY (SOLEDAD

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Community Redevelopment	Low-Moderate Income Housing	RDA Debt Service	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
Revenue							
Taxes and assessments	$ 4,190,344	$ 425,002	$ 375,688	$ 1,077,750	$ -	$ 770,884	$ 6,839,668
Licenses, permits and impact fees	47,757	-	-	-	9,475	-	57,232
Intergovernmental	396,557	-	-	-	-	1,509,743	1,906,300
Charges for services	371,453	-	-	-	-	-	371,453
Fines and forfeitures	24,350	-	-	-	-	-	24,350
Interest	59,066	114,494	34,381	-	83,237	35,894	327,072
Rents	67,260	21,862	-	-	-	-	89,122
Other	215,844	5,873	68,287	-	-	12,400	302,404
Total revenue	5,372,631	567,231	478,356	1,077,750	92,712	2,328,921	9,917,601
Expenditures							
Current							
General government	1,079,070	-	-	-	-	-	1,079,070
Public works	135,899	-	-	-	-	775,470	911,369
Community development	258,145	1,009,497	198,661	-	447,986	13,395	1,927,684
Public safety	5,345,360	-	-	-	-	19,453	5,364,813
Community services	441,507	-	-	-	-	-	441,507
Tax pass-through	-	956,701	-	-	-	-	956,701
Capital outlay	-	4,419,706	-	-	77,407	616,726	5,113,839
Debt Service							
Principal	-	-	-	360,000	59,192	-	419,192
Interest and fiscal charges	-	-	-	1,018,498	15,921	-	1,034,419
Total expenditures	7,259,981	6,385,904	198,661	1,378,498	600,506	1,425,044	17,248,594
Revenue over/(under) expenditures	(1,887,350)	(5,818,673)	279,695	(300,748)	(507,794)	903,877	(7,330,993)
Other Financing Sources/(Uses)							
Transfers in/(out) - net	485,827	(174,061)	(300,748)	300,748	(359,717)	(207,265)	(255,216)
	485,827	(174,061)	(300,748)	300,748	(359,717)	(207,265)	(255,216)
Change in Fund Balance	(1,401,523)	(5,992,734)	(21,053)	-	(867,511)	696,612	(7,586,209)
Fund Balance							
Beginning of year	4,867,591	13,311,773	4,350,089	-	6,982,903	2,569,858	32,082,214
End of year	$ 3,466,068	$ 7,319,039	$ 4,329,036	$ -	$ 6,115,392	$ 3,266,470	$ 24,496,005

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, 2010

Net change in fund balance - total governmental funds	$ (7,586,209)
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	(1,043,893)
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	5,113,839
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	419,192
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	208,613
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	3,327
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due	(2,942)
Change in net assets of governmental activities	$ (2,922,592)

CITY OF SOLEDAD

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2010

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Water	Sewer	Garbage	JPA Garbage	Transit	Total Proprietary Funds	Internal Service Fund
ASSETS							
Current assets							
Cash and investments	$ 1,804,624	$ 1,248,460	$ -	$ 34,004	$ 4,179	$ 3,091,267	$ 1,011,632
Restricted cash and investments	198,457	-	-	-	-	198,457	-
Accounts receivable	206,780	806,608	294,720	195,339	-	1,503,447	92,113
Interest receivable	3,802	2,001	-	97	-	5,900	842
Total current assets	2,213,663	2,057,069	294,720	229,440	4,179	4,799,071	1,104,587
Non-current assets							
Deferred charges - Bond issuance costs, net	-	7,742,003	-	-	-	7,742,003	-
Advances to other funds	900,000	-	-	-	-	900,000	-
Property, plant and equipment, net of allowance for depreciation	10,462,703	57,412,114	-	-	147,404	68,022,221	332,898
Total assets	$ 13,576,366	$ 67,211,186	$ 294,720	$ 229,440	$ 151,583	$ 81,463,295	$ 1,437,485
LIABILITIES							
Current liabilities							
Accounts payable and accrued expenses	$ 78,071	$ 121,674	$ 84,792	$ 75,229	$ 2,534	$ 362,300	$ 69,619
Accrued interest	15,308	-	-	-	-	15,308	-
Due to other funds	118,284	2,455,484	798,195	-	-	3,371,963	-
Deposits	23,306	12,850	26,650	7,900	-	70,706	-
Current portion of long-term debt	139,465	2,377,814	-	-	-	2,517,279	-
Total current liabilities	374,434	4,967,822	909,637	83,129	2,534	6,337,556	69,619
Non-current liabilities							
Long-term debt	3,476,693	44,507,654	-	-	-	47,984,347	-
Advances from other funds	-	-	900,000	-	-	900,000	-
Compensated absences	61,846	68,457	-	-	7,401	137,704	37,911
Total noncurrent liabilities	3,538,539	44,576,111	900,000	-	7,401	49,022,051	37,911
Total liabilities	3,912,973	49,543,933	1,809,637	83,129	9,935	55,359,607	107,530
NET ASSETS							
Invested in capital assets, net of related debt	6,846,545	10,526,646	-	-	-	17,373,191	332,898
Restricted for debt service	198,457	-	-	-	-	198,457	-
Unrestricted/(deficit)	2,618,391	7,140,607	(1,514,917)	146,311	141,648	8,532,040	997,057
Total net assets/(deficit)	$ 9,663,393	$ 17,667,253	$ (1,514,917)	$ 146,311	$ 141,648	$ 26,103,688	$ 1,329,955

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Water	Sewer	Garbage	JPA Garbage	Transit	Total Proprietary Funds	Internal Service Fund
Operating Revenue							
Charges for services	$ 1,477,972	$ 2,249,463	$ 1,338,836	$ 820,129	$ 11,012	$ 5,897,412	$ 1,348,792
Connection fees	8,845	-	-	-	-	8,845	-
Total operating income	1,486,817	2,249,463	1,338,836	820,129	11,012	5,906,257	1,348,792
Operating Expense							
Contractual services and utilities	629,379	550,966	1,206,098	514,001	10,583	2,911,027	1,457,151
Personnel	781,187	994,856	-	-	77,874	1,853,917	308,212
Supplies and materials	100,803	236,978	15,902	7,651	9,506	370,840	139,200
Depreciation	383,186	139,363	-	-	27,242	549,791	106,079
Total operating expense	1,894,555	1,922,163	1,222,000	521,652	125,205	5,685,575	2,010,642
Operating income/(loss)	(407,738)	327,300	116,836	298,477	(114,193)	220,682	(661,850)
Nonoperating Revenue/(Expense)							
Intergovernmental	-	298,865	-	-	17,424	316,289	-
Development impact fees	9,005	3,038	-	-	-	12,043	-
Interest income	43,887	6,289	-	69	-	50,245	7,220
Interest expense	(167,239)	(24,592)	(26,588)	-	-	(218,419)	-
Total nonoperating revenue/(expense)	(114,347)	283,600	(26,588)	69	17,424	160,158	7,220
Net income/(loss) before transfers	(522,085)	610,900	90,248	298,546	(96,769)	380,840	(654,630)
Operating Transfers In/(Out)	(386,603)	(214,182)	(31,657)	(164,757)	295,251	(501,948)	757,164
Change in Net Assets	(908,688)	396,718	58,591	133,789	198,482	(121,108)	102,534
Net Assets							
Beginning of year	10,572,081	17,270,535	(1,573,508)	12,522	(56,834)	26,224,796	1,227,421
End of year	$ 9,663,393	$ 17,667,253	$ (1,514,917)	$ 146,311	$ 141,648	$ 26,103,688	$ 1,329,955

See accompanying notes.

CITY OF SOLEDAD

COMBINING STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-Type Activities - Enterprise Funds						Governmental Activities
	Water	Sewer	Garbage	JPA Garbage	Transit	Total Business-Type Funds	Internal Service Fund
Operating Activities							
Receipts from customers and users	$ 1,647,810	$ 2,338,575	$ 1,308,536	$ 787,887	$ 11,012	$ 6,093,820	$ 1,256,679
Payments for contractual services and utilities	(766,912)	(469,189)	(1,136,583)	(519,831)	(11,776)	(2,904,291)	(1,398,500)
Payments to employees	(760,626)	(976,098)	(19,868)	(25,529)	(77,911)	(1,860,032)	(289,561)
Payment to suppliers	(100,803)	(236,978)	(15,902)	(7,651)	(9,506)	(370,840)	(139,200)
Net cash provided by (used in) operating activities	19,469	656,310	136,183	234,876	(88,181)	958,657	(570,582)
Non-capital Financial Activities							
Payments from other governments	9,005	4,275,740	-	-	17,496	4,302,241	-
Payments from developers	-	3,038	-	-	-	3,038	-
Payments (to)/from other funds	(268,319)	2,241,302	(31,657)	(164,757)	295,251	2,071,820	757,164
Net cash provided by (used in) noncapital financing activities	(259,314)	6,520,080	(31,657)	(164,757)	312,747	6,377,099	757,164
Capital and Related Financing Activities							
Purchase of property, plant and equipment	-	(10,512,847)	-	-	-	(10,512,847)	(28,199)
Principal received (paid) on long-term debt, net	(139,786)	12,575,991	490,057	-	-	12,926,262	-
Payments for deferred issuance costs	-	(2,105,012)	-	-	-	(2,105,012)	-
Interest paid on long-term debt	(182,294)	(34,342)	(26,588)	(28)	-	(243,252)	-
Net cash provided by (used in) capital and related financing activities	(322,080)	(76,210)	463,469	(28)	-	65,151	(28,199)
Investing Activities							
Interest received	44,733	4,288	-	-	-	49,021	8,071
Net cash provided by investing activities	44,733	4,288	-	-	-	49,021	8,071
Net Increase (Decrease) in Cash	(517,192)	7,104,468	567,995	70,091	224,566	7,449,928	166,454
Cash							
Beginning of year	2,520,273	(5,856,008)	(567,995)	(36,087)	(220,387)	(4,160,204)	845,178
End of year	$ 2,003,081	$ 1,248,460	$ -	$ 34,004	$ 4,179	$ 3,289,724	$ 1,011,632
Cash Flows from Operating Activities							
Operating income (loss)	$ (407,738)	$ 327,300	$ 116,836	$ 298,477	$ (114,193)	$ 220,682	$ (661,850)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	383,186	139,363	-	-	27,242	549,791	106,079
(Increase) Decrease in Accounts Receivable	159,133	89,112	(32,830)	(35,652)	-	181,763	(92,113)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(115,112)	100,535	52,177	(29,949)	(1,230)	6,421	77,302
Net Cash Provided (Used) by Operating Activities	$ 19,469	$ 656,310	$ 136,183	$ 234,876	$ (88,181)	$ 958,657	$ (570,582)

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS
JUNE 30, 2010

	The Vineyards Assessment District	Diamond Ridge Assessment District	Total
ASSETS			
Cash and investments	$ 312,719	$ 381,798	$ 694,517
Cash and investments with fiscal agent	-	379,295	379,295
Interest receivable	651	802	1,453
Special assessment receivable	3,372,824	3,099,363	6,472,187
Total assets	3,686,194	3,861,258	7,547,452
LIABILITIES			
Accounts payable and accrued expenses	1,194	1,258	2,452
Due to bondholders	3,685,000	3,860,000	7,545,000
Total liabilities	$ 3,686,194	$ 3,861,258	$ 7,547,452

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, 2010 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 Income Housing – The Redevelopment Agency Low-Moderate Income 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.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for the payment of interest and principal on the Agency's long-term debt.

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, 2010 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	$ 23,628,909
Restricted Cash and Investments	1,765,756
Fiduciary Funds:	
Cash and Investments	694,517
Cash and Investments with Fiscal Agent	379,295
Total Cash and Investments	$ 26,468,477

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	$ 600
Deposits with Financial Institutions	7,636,335
Local Agency Investment Fund	9,723,753
Held by Fiscal Agent:	
Money Market Mutual Funds	4,083,575
U.S. Treasury Obligations	1,503,601
U.S. Agency Securities	3,520,613
Total Cash and Investments	$ 26,468,477

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, 2010:

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, 2010 was $1,600,000.

Benito FLC, L.P. - The HOME Investment Partnership Grant program approved $3,760,000 of grant funds to be made available for local development of an affordable housing project. The City entered into an agreement with Benito FLC, L.P. to loan such funds for the construction of the Benito Street Farm Labor Center. Funds were provided in the form of a deferred payment loan. If not paid sooner, 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% interest and the face amount of the note at June 30, 2010 was $3,760,000.

Revolving Loan Program – Long-term loans receivable of $2,595,445 represent monies loaned to homebuyers and small business owners in connection with a downpayment assistance, home rehabilitation and business assistance programs. The loans are secured by real property with repayment due upon the sale of real property or starting at the end of the 30 year deferral period. At the time of sale, the seller pays the loan balance in full plus interest, ranging from 0% to 4%. For the homebuyer loan program, starting at the end of the 30 year deferral period, the borrower is required to repay the loan, without interest, over the following 15 years.

Multi-Family Affordable Housing Rehabilitation Loans – Long-term notes receivable of $1,250,000 represent monies loaned to two developers in connection with construction and rehabilitation of low-income multi-family housing projects. The loans are secured by real property with repayment due upon the sale of real property or starting at the end of the 55 year deferral period. At the time of sale of the project or at the end of the deferral period, the borrower shall pay the loan balance in full with interest at 4 percent per annum.

Note 5 – Interfund Advances, Receivables, Payables and Transfers

Long-Term Interfund Advance

Advances receivable and payable constitute long-term borrowing between funds. Advances typically carry a stated interest rate and have scheduled debt service payments. Interfund advances receivable and payable balances at June 30, 2010 are as follows:

In 2009, the Garbage Service Fund borrowed $900,000 from the Water Fund. The loan criteria carries a 2% annual simple interest rate. Interest only payments of $4,500 are due through March 1, 2011. Beginning April 1, 2011 principal and interest payments of $16,500 are due through April 1, 2016.

Interfund Receivables and Payables

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash.

Individual fund interfund receivables and payables balances as of June 30, 2010 are as follows:

	Due From	Due To
General Fund	$ 3,514,643	$ -
Low-Moderate Income Housing Fund	848,589	-
Community Redevelopment Fund	-	848,589
Program Income Fund	-	55,051
ARRA Grant Fund	-	87,629
Water Fund	-	118,284
Sewer Fund	-	2,455,484
Garbage Fund	-	798,195
	$ 4,363,232	$ 4,363,232

Note 5 – Interfund Advances, Receivables, Payables and Transfers (Continued)

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	$ 485,827	$ -
Community Redvelopment Fund	-	(174,061)
Low-Moderate Income Housing Fund	-	(300,748)
RDA Debt Service Fund	300,748	-
Development Impact Fees Fund	-	(359,717)
Proprietary Funds:		
Water Fund	-	(386,603)
Sewer Fund	-	(214,182)
Garbage Fund	-	(31,657)
JPA Garbage Fund	-	(164,757)
Transit Fund	295,251	-
Nonmajor Governmental Funds:		
Internal Service Fund	757,164	-
Program Income Fund	66,210	-
Maintenance Districts Fund	-	(27,518)
Public Safety Fund	-	(86,830)
Local Transportation Fund	137,395	-
Prop 1B Fund	-	(230,313)
Revolving Loan Fund	-	(66,209)
	$ 2,042,595	$ (2,042,595)

CITY OF SOLEDAD

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

Note 6 – Capital Assets – Capital asset activities for the year ended June 30, 2010 were as follows:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Governmental Activities				
Capital assets, not being depreciated				
Land	$ 2,125,288	$ 4,419,706	$ -	$ 6,544,994
Total capital assets, not being depreciated	2,125,288	4,419,706	-	6,544,994
Capital assets, being depreciated				
Buildings and improvements	6,663,775	-	-	6,663,775
Infrastructure	30,686,154	694,133	-	31,380,287
Machinery and equipment	3,771,511	28,199	-	3,799,710
Total capital assets, being depreciated	41,121,440	722,332	-	41,843,772
Less accumulated depreciation for				
Buildings and improvements	(1,969,949)	(166,364)	-	(2,136,313)
Infrastructure	(6,749,773)	(637,251)	-	(7,387,024)
Machinery and equipment	(2,819,967)	(240,278)	-	(3,060,245)
Total accumulated depreciation	(11,539,689)	(1,043,893)	-	(12,583,582)
Total capital assets, being depreciated, net	29,581,751	(321,561)	-	29,260,190
Governmental activities capital assets, net	$ 31,707,039	$ 4,098,145	$ -	$ 35,805,184
Business-Type Activities				
Capital assets, not being depreciated				
Land	$ 2,509,996	$ -	$ -	$ 2,509,996
Construction in progress	41,097,724	8,124,667	-	49,222,391
Total capital assets, not being depreciated	43,607,720	8,124,667	-	51,732,387
Capital assets, being depreciated				
Buildings and improvements	5,186,941	-	-	5,186,941
Infrastructure	16,725,175	-	-	16,725,175
Machinery and equipment	1,743,757	-	(74,000)	1,669,757
Total capital assets, being depreciated	23,655,873	-	(74,000)	23,581,873
Less: accumulated depreciation	(6,816,248)	(549,791)	74,000	(7,292,039)
Total capital assets, being depreciated, net	16,839,625	(549,791)	-	16,289,834
Business-type activities capital assets, net	$ 60,447,345	$ 7,574,876	$ -	$ 68,022,221

Note 6 – Capital Assets (Continued)

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

Governmental Functions:		
General Government	$	72,307
Public Works		126,837
Community Development		640,332
Public Safety		151,435
Community Services		52,982
	$	1,043,893
Business-Type Functions:		
Water	$	383,186
Sewer		139,363
Transit		27,242
	$	549,791

Note 7 – Long-Term Debt

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Current Portion
Governmental Activity Long Term Debt					
Bonds Payable					
1998 Tax Allocation Bonds	$ 6,520,000	$ -	$ (185,000)	$ 6,335,000	$ 200,000
2007 Series A & B Tax Allocation Bonds	12,985,000	-	(175,000)	12,810,000	185,000
Lease Payable					
Fire Truck Capital Lease	393,112	-	(59,192)	333,920	61,589
Total Governmental Activity Debt	$ 19,898,112	$ -	$ (419,192)	$ 19,478,920	$ 446,589
Business-Type Activity Long Term Debt					
Bonds Payable					
1980 Sewer Revenue Bond	$ 364,000	$ -	$ (25,000)	$ 339,000	$ 25,000
1981 Water Revenue Bond	405,000	-	(25,000)	380,000	25,000
Loans Payable					
Water System Improvement Loan	2,088,000	-	(47,000)	2,041,000	49,000
Sewer Plant Loan	33,821,272	12,629,812	-	46,451,084	2,322,554
Leases Payable					
Energy Retrofit Capital Lease	1,262,944	-	(67,786)	1,195,158	65,465
Hydrojetter Capital Lease	124,205	-	(28,821)	95,384	30,260
Total Business-Type Activity Debt	$ 38,065,421	$ 12,629,812	$ (193,607)	$ 50,501,626	$ 2,517,279
Compensated Absences					
Government Activities	$ 496,285	$ 15,324	$ -	$ 511,609	
Business-Type Activities	$ 143,819	$ -	$ (6,115)	$ 137,704	

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, 2010 is $6,335,000.

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, 2010 is $12,810,000.

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, 2010 was $333,920.

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 $46,451,084 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%. The loan is to be repaid in twenty equal annual installments of $2,322,554 beginning January 1, 2011. Unamortized loan charges of $7,742,003 remains to be amortized over the twenty year life of the loan.

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, 2010 was $1,195,158.

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, 2010 was $95,384.

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, 2010, totaled $511,609 for governmental activities and $137,704 for business-type activities.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2010 were as follows:

	Governmental Activities		Business-Type Activities	
Years ending June 30,	Principal	Interest	Principal	Interest
2011	$ 446,589	$ 1,017,290	$ 2,517,279	$ 183,536
2012	574,084	994,395	2,528,694	174,301
2013	596,679	966,185	2,540,313	164,522
2014	624,379	936,854	2,513,128	154,316
2015	657,189	905,532	2,518,437	145,498
2016-2020	3,435,000	4,024,918	12,762,201	578,576
2021-2025	4,445,000	3,026,811	12,485,802	325,137
2026-2030	5,485,000	1,710,863	12,130,772	185,580
2031-2034	3,215,000	356,500	505,000	58,095
	$19,478,920	$13,939,348	$50,501,626	$ 1,969,561

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, 2010 not reflected in these statements is $3,685,000 for The Vinyards and $3,860,000 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, 2010 was 7.237% for the miscellaneous plan and 17.258% 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, 2010, the City's annual pension cost of $920,479 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008, 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, 2010, was 16 years.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	$ 845,787	100%	-
June 30, 2009	$ 1,255,254	100%	-
June 30, 2010	$ 920,479	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 Fund has a deficit net asset balance as of June 30, 2010 of $1,514,917. The deficit is expected to be relieved from future rate increases or transfers from the General Fund.

Note 11 – Prior Period Adjustments

The Agency recorded a prior period adjustment of $5,364,562 to reflect Downpayment Assistance and Home Rehabilitation Program loans that were not recorded as notes receivable on the Statement of Net Assets in the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive/ (Negative)
Revenue				
Taxes	$ 4,186,624	$ 4,186,624	$ 4,190,344	$ 3,720
Licenses and permits	127,500	127,500	47,757	(79,743)
Intergovernmental	286,000	286,000	396,557	110,557
Charges for services	193,438	193,438	371,453	178,015
Fines and forfeitures	25,000	25,000	24,350	(650)
Interest	55,000	55,000	59,066	4,066
Rents	85,000	85,000	67,260	(17,740)
Other	311,694	311,694	215,844	(95,850)
Total revenue	5,270,256	5,270,256	5,372,631	102,375
Expenditures				
Current				
General government	887,231	887,231	1,079,070	(191,839)
Public works	237,653	237,653	135,899	101,754
Community development	254,165	254,165	258,145	(3,980)
Public safety	5,089,813	5,089,813	5,345,360	(255,547)
Community services	375,885	375,885	441,507	(65,622)
Capital outlay	-	-	-	-
Total expenditures	6,844,747	6,844,747	7,259,981	(415,234)
Revenue over (under)expenditures	(1,574,491)	(1,574,491)	(1,887,350)	(312,859)
Other Financing Sources				
Transfers in (out) - net	1,574,491	1,574,491	485,827	(1,088,664)
Net Change in Fund Balance	$ -	$ -	(1,401,523)	$ (1,401,523)
Fund Balance				
Beginning of year			4,867,591	
End of year			$ 3,466,068	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
COMMUNITY REDEVELOPMENT FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Property taxes	$ 707,745	$ 707,745	$ 425,002	$ (282,743)
Interest and rent	160,000	160,000	136,356	(23,644)
Other	5,000	5,000	5,873	873
Total revenue	872,745	872,745	567,231	(305,514)
Expenditures				
Current				
Community development	2,104,462	2,104,462	1,009,497	1,094,965
Tax pass-through	-	-	956,701	(956,701)
Capital outlay	11,354,000	11,354,000	4,419,706	6,934,294
Total expenditures	13,458,462	13,458,462	6,385,904	7,072,558
Revenue over/(under) expenditures	(12,585,717)	(12,585,717)	(5,818,673)	6,767,044
Other Financing Sources				
Tranfers in/(out)	(130,000)	(130,000)	(174,061)	(44,061)
Total other financing sources	(130,000)	(130,000)	(174,061)	(44,061)
Change in Fund Balance	$ (12,715,717)	$ (12,715,717)	(5,992,734)	$ 6,722,983
Fund Balance				
Beginning of year			13,311,773	
End of year			$ 7,319,039	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
LOW-MODERATE INCOME HOUSING FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive/ (Negative)
Revenue				
Property tax	$ 532,000	$ 532,000	$ 375,688	$ (156,312)
Interest	60,000	60,000	34,381	(25,619)
Other	-	-	68,287	68,287
Total revenue	592,000	592,000	478,356	(113,644)
Expenditures				
Current				
Community development	765,653	765,653	198,661	566,992
Capital outlay	2,682,000	2,682,000	-	2,682,000
Total expenditures	3,447,653	3,447,653	198,661	3,248,992
Revenue over/(under) expenditures	(2,855,653)	(2,855,653)	279,695	3,135,348
Other Financing Sources				
Tranfers in/(out)	(295,386)	(295,386)	(300,748)	(5,362)
Change in Fund Balance	$ (3,151,039)	$ (3,151,039)	(21,053)	$ 3,129,986
Fund Balance				
Beginning of year			4,350,089	
End of year			$ 4,329,036	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive/ (Negative)
Revenue				
Impact fees	$ -	$ -	$ 9,475	$ 9,475
Interest	93,500	93,500	83,237	(10,263)
Total revenue	93,500	93,500	92,712	(788)
Expenditures				
Current				
Community development	410,118	410,118	447,986	(37,868)
Capital outlay	1,894,834	1,894,834	77,407	1,817,427
Debt Service				
Principal	-	-	59,192	(59,192)
Interest and fiscal charges	-	-	15,921	(15,921)
Total expenditures	2,304,952	2,304,952	600,506	1,704,446
Revenue over (under)expenditures	(2,211,452)	(2,211,452)	(507,794)	1,703,658
Other Financing Sources				
Transfers in (out) - net	(117,297)	(117,297)	(359,717)	(242,420)
Net Change in Fund Balance	$ (2,328,749)	$ (2,328,749)	(867,511)	$ 1,461,238
Fund Balance				
Beginning of year			6,982,903	
End of year			$ 6,115,392	

CITY OF SOLEDAD

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010

	Special Revenue Funds					
	Program Income	RSTP	Maintenance Districts	Public Safety	Local Transportation	Prop 1B
ASSETS						
Cash and investments	$ 346,714	$ -	$ 1,285,449	$ 101,249	$ 78,350	$ 23,226
Due from other governments	-	-	-	15,253	-	-
Interest receivable	-	-	2,110	356	-	-
Notes receivable	6,424,421	-	-	-	-	-
Total assets	$ 6,771,135	$ -	$ 1,287,559	$ 116,858	$ 78,350	$ 23,226
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable and accrued expense	$ 913	$ -	$ 221	$ 6,789	$ -	$ -
Due to other funds	55,051	-	-	-	-	-
Deferred revenue	6,424,421	-	-	-	-	-
Total liabilities	6,480,385	-	221	6,789	-	-
Fund Balance						
Unreserved:						
Designated for specific projects and programs	290,750	-	1,287,338	110,069	78,350	23,226
Undesignated	-	-	-	-	-	-
Total fund balance	290,750	-	1,287,338	110,069	78,350	23,226
Total liabilities and fund balance	$ 6,771,135	$ -	$ 1,287,559	$ 116,858	$ 78,350	$ 23,226

CITY OF SOLEDAD

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2010

	Special Revenue Funds				
	Gas Tax	Traffic Congestion Releif	ARRA Grant	Revolving Loan	Total Non-major Governmental Funds
ASSETS					
Cash and investments	$ 1,175,474	$ 185,480	$ -	$ -	$ 3,195,942
Due from other governments	43,417	69,943	87,629	-	216,242
Interest receivable	2,040	383	-	-	4,889
Notes receivable	-	-	-	-	6,424,421
Total assets	$ 1,220,931	$ 255,806	$ 87,629	$ -	$ 9,841,494
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable and accrued expense	$ -	$ -	$ -	$ -	$ 7,923
Due to other funds	-	-	87,629	-	142,680
Deferred revenue	-	-	-	-	6,424,421
Total liabilities	-	-	87,629	-	6,575,024
Fund Balance					
Unreserved:					
Designated for specific projects and programs	1,220,931	255,806	-	-	3,266,470
Undesignated	-	-	-	-	-
Total fund balance	1,220,931	255,806	-	-	3,266,470
Total liabilities and fund balance	$ 1,220,931	$ 255,806	$ 87,629	$ -	$ 9,841,494

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	Special Revenue Funds					
	Program Income	RSTP	Maintenance Districts	Public Safety	Local Transportation	Prop 1B
Revenue						
Taxes and assessments	$ -	$ -	$ 748,295	$ 22,589	$ -	$ -
Intergovernmental	-	-	-	105,394	169,502	-
Interest	3,420	-	12,902	969	988	2,976
Other	12,400	-	-	-	-	-
Total revenue	15,820	-	761,197	128,952	170,490	2,976
Expenditures						
Public works	-	-	168,966	-	158,340	185,619
Community development	13,395	-	-	-	-	-
Public Safety	-	-	-	19,453	-	-
Capital outlay	-	-	-	-	71,195	-
Total expenditures	13,395	-	168,966	19,453	229,535	185,619
Revenue over (under) expenditures	2,425	-	592,231	109,499	(59,045)	(182,643)
Other financing sources/(uses)						
Operating transfers in/(out) - net	66,210	-	(27,518)	(86,830)	137,395	(230,313)
	66,210	-	(27,518)	(86,830)	137,395	(230,313)
Change in Fund Balance	68,635	-	564,713	22,669	78,350	(412,956)
Fund Balance						
Beginning of year	222,115	-	722,625	87,400	-	436,182
End of year	$ 290,750	$ -	$ 1,287,338	$ 110,069	$ 78,350	$ 23,226

CITY OF SOLEDAD

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2010

	Special Revenue Funds				
	Gas Tax	Traffic Congestion Releif	ARRA Grant	Revolving Loan	Total Non-major Governmental Funds
Revenue					
Taxes	$ -	$ -	$ -	$ -	$ 770,884
Intergovernmental	436,600	253,356	544,891	-	1,509,743
Interest	11,846	2,153	640	-	35,894
Other	-	-	-	-	12,400
Total revenue	448,446	255,509	545,531	-	2,328,921
Expenditures					
Public works	97,545	165,000	-	-	775,470
Community development	-	-	-	-	13,395
Public Safety	-	-	-	-	19,453
Capital outlay	-	-	545,531	-	616,726
Total expenditures	97,545	165,000	545,531	-	1,425,044
Revenue over (under) expenditures	350,901	90,509	-	-	903,877
Other financing sources/(uses)					
Operating transfers in/(out) - net	-	-	-	(66,209)	(207,265)
	-	-	-	(66,209)	(207,265)
Change in Fund Balance	350,901	90,509	-	(66,209)	696,612
Fund Balance					
Beginning of year	870,030	165,297	-	66,209	2,569,858
End of year	$ 1,220,931	$ 255,806	$ -	$ -	$ 3,266,470

SUPPLEMENTAL ONLY INFORMATION

BRYANT L. JOLLEY
CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Travis B. 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, 2010, and have issued our report thereon dated January 6, 2011. 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 as a basis for designing 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 over financial reporting.

A deficiency in 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting 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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

901 "N" STREET, SUITE 104 FIREBAUGH, CALIFORNIA 93622 PHONE 559.659.3045 FAX 559.659.0615

We noted certain matters that we reported to management of the City of Soledad in a separate letter dated January 6, 2011.

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.

January 6, 2011

BRYANT L. JOLLEY
CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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 the requirements that could have a direct and material effect on a major federal program in to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, 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, 2010, and for the year then ended, and have issued our report thereon dated January 6, 2011. 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 solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 6, 2011

CITY OF SOLEDAD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Transportation			
Passed through from the California Department of Transportation			
American Recovery and Reinvestment Act of 2009	20.205	ESPL-5248(006)	$ 544,891
Total Federal Expenditures			$ 544,891

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

CITY OF SOLEDAD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

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
20.205	American Recovery and Reinvestment Act of 2009 (ARRA)

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.

Summary Schedule of Prior Audit Findings

There were no prior year audit findings.