CITY OF SOLEDAD

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 of Soledad, California, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 35 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

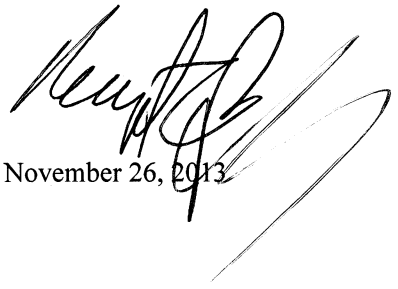
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013, on our consideration of the City of Soledad'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Soledad's internal control over financial reporting and compliance.



November 26, 2013

CITY OF SOLEDAD

STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 9,304,254	$ 1,676,742	$ 10,980,996
Restricted cash and investments	-	199,368	199,368
Accounts receivable, net	271,276	1,710,561	1,981,837
Due from other governments	381,186	-	381,186
Interest receivable	15,119	5,462	20,581
Notes receivable	9,090,334	-	9,090,334
Internal balances	1,044,194	(1,044,194)	-
Deferred charges - Bond issuance costs, net	-	5,806,550	5,806,550
Capital assets, net of allowance for depreciation	27,238,257	64,690,221	91,928,478
Total assets	47,344,620	73,044,710	120,389,330
LIABILITIES			
Accounts payable and accrued expense	828,603	698,316	1,526,919
Accrued interest payable	2,389	19,034	21,423
Deposits payable	61,271	87,066	148,337
Long-term liabilities			
Due within one year	69,379	1,526,195	1,595,574
Due in more than one year	72,189	43,340,735	43,412,924
Compensated absences	428,388	124,746	553,134
Total liabilities	1,462,219	45,796,092	47,258,311
NET POSITION			
Invested in capital assets, net of related debt	27,096,689	19,823,291	46,919,980
Restricted for debt service	-	199,368	199,368
Restricted for specific projects and programs	8,884,072	-	8,884,072
Unrestricted	9,901,640	7,225,959	17,127,599
Total net position/(deficit)	$ 45,882,401	$ 27,248,618	$ 73,131,019

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

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 Position: Governmental Activities	Net Revenue/(Expense) and Changes in Net Position: Business-Type Activities	Net Revenue/(Expense) and Changes in Net Position: Total
Primary Government							
Governmental activities							
General government	$ 1,133,763	$ 388,325	$ 14,539	$ -	$ (730,899)	$ -	$ (730,899)
Public works	1,465,718	-	616,350	-	(849,368)	-	(849,368)
Community development	1,606,835	170,410	62,728	252,720	(1,120,977)	-	(1,120,977)
Public safety	4,437,118	76,896	757,527	-	(3,602,695)	-	(3,602,695)
Community services	538,346	-	-	-	(538,346)	-	(538,346)
Debt Service							
Interest and fiscal charges	8,040	-	-	-	(8,040)	-	(8,040)
Total governmental activities	9,189,820	635,631	1,451,144	252,720	(6,850,325)	-	(6,850,325)
Business-type activities							
Water	1,761,493	1,457,049	-	86,660	-	(217,784)	(217,784)
Sewer	4,696,017	5,431,442	-	-	-	735,425	735,425
Garbage	1,212,970	1,238,063	7,323	-	-	32,416	32,416
JPA Garbage	543,944	723,792	-	-	-	179,848	179,848
Transit	-	-	-	-	-	-	-
Total business-type activities	8,214,424	8,850,346	7,323	86,660	-	729,905	729,905
Total primary government	$ 17,404,244	$ 9,485,977	$ 1,458,467	$ 339,380	(6,850,325)	729,905	(6,120,420)
General Revenue							
Property taxes and assessments					2,449,531	-	2,449,531
Sales taxes					1,141,026	-	1,141,026
Measure Y sales tax					317,920	-	317,920
Franchise and other taxes					561,088	-	561,088
Transient lodging taxes					71,349	-	71,349
Utility users tax					562,061	-	562,061
Business license tax					65,990	-	65,990
Investment income					34,101	19,540	53,641
Rents and other income					126,505	-	126,505
Gain on sale of property					60,700	-	60,700
Transfers					(27,316)	27,316	-
Total general revenue and transfers					5,362,955	46,856	5,409,811
Change in Net Position					(1,487,370)	776,761	(710,609)
Net Position							
Beginning of year					47,369,771	26,471,857	73,841,628
End of year					$ 45,882,401	$ 27,248,618	$ 73,131,019

See accompanying notes.

CITY OF SOLEDAD

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	$ 554,355	$ 5,585,367	$ 3,086,970	$ 9,226,692
Accounts receivable	232,780	-	-	232,780
Due from other governments	248,459	-	132,727	381,186
Interest receivable	1,424	8,481	5,214	15,119
Due from other funds	42,296	-	-	42,296
Notes receivable	-	-	9,090,334	9,090,334
Total assets	$ 1,079,314	$ 5,593,848	$ 12,315,245	$ 18,988,407
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expense	$ 648,165	$ 23,478	$ 105,961	$ 777,604
Deposits and other liabilities	61,271	-	-	61,271
Due to other funds	-	-	42,296	42,296
Deferred revenue	-	-	9,090,334	9,090,334
Total liabilities	709,436	23,478	9,238,591	9,971,505
Fund Balance				
Restricted				
Capital improvement projects	-	5,570,370	-	5,570,370
Circulation improvements	-	-	1,564,678	1,564,678
Lighting, landscape & park maintenance	-	-	1,072,493	1,072,493
Public safety programs	-	-	76,579	76,579
Low-income housing activities	-	-	362,904	362,904
Measure Y activities	237,048	-	-	237,048
Unassigned	132,830	-	-	132,830
Total fund balance	369,878	5,570,370	3,076,654	9,016,902
Total liabilities and fund balance	$ 1,079,314	$ 5,593,848	$ 12,315,245	$ 18,988,407

See accompanying notes.

CITY OF SOLEDAD

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total governmental fund balance	$ 9,016,902
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	27,238,257
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(141,568)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(428,388)
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	(2,389)
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 Position.	1,109,253
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	9,090,334
Net position of governmental activities	$ 45,882,401

CITY OF SOLEDAD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Development Impact Fees	Other Governmental Funds	Total Governmental Funds
Revenue				
Taxes and assessments	$ 5,068,480	$ -	$ 100,485	$ 5,168,965
Licenses, permits and impact fees	142,837	240,220	-	383,057
Intergovernmental	639,391	-	824,253	1,463,644
Charges for services	470,245	-	-	470,245
Fines and forfeitures	22,549	-	-	22,549
Interest	3,727	18,810	11,564	34,101
Rents	61,066	-	-	61,066
Gain on sale of property	60,700	-	-	60,700
Other	63,439	-	39,900	103,339
Total revenue	6,532,434	259,030	976,202	7,767,666
Expenditures				
Current				
General government	1,149,696	-	-	1,149,696
Public works	172,168	-	1,266,557	1,438,725
Community development	284,251	447,365	93,250	824,866
Public safety	4,166,113	-	143,694	4,309,807
Community services	478,375	-	-	478,375
Debt Service				
Principal	66,679	-	-	66,679
Interest and fiscal charges	8,434	-	-	8,434
Total expenditures	6,325,716	447,365	1,503,501	8,276,582
Revenue over/(under) expenditures	206,718	(188,335)	(527,299)	(508,916)
Other Financing Sources/(Uses)				
Transfers in/(out) - net	(16,412)	-	58,364	41,952
	(16,412)	-	58,364	41,952
Change in Fund Balance	190,306	(188,335)	(468,935)	(466,964)
Fund Balance				
Beginning of year	179,572	5,758,705	3,545,589	9,483,866
End of year	$ 369,878	$ 5,570,370	$ 3,076,654	$ 9,016,902

See accompanying notes.

CITY OF SOLEDAD

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Net change in fund balance - total governmental funds	$	(466,964)
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		(978,497)
Repayment of long-term notes receivable is revenue in governmental funds, but the repayment reduces long-term assets in the statement of net position		(145,497)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position		66,679
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		106,039
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		(69,524)
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due		394
Change in net position of governmental activities	$	(1,487,370)

CITY OF SOLEDAD

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2013

	Business-Type Activities - Enterprise Funds						
	Water	Sewer	Garbage	JPA Garbage	Transit	Total Proprietary Funds	Governmental Activities Internal Service Fund
ASSETS							
Current assets							
Cash and investments	$ 1,438,505	$ -	$ -	$ 238,237	$ -	$ 1,676,742	$ 77,562
Restricted cash and investments	199,368	-	-	-	-	199,368	-
Accounts receivable	370,010	927,818	262,705	150,028	-	1,710,561	38,496
Interest receivable	1,923	2,926	363	250	-	5,462	-
Due from other funds	-	-	-	-	-	-	1,044,194
Total current assets	2,009,806	930,744	263,068	388,515	-	3,592,133	1,160,252
Non-current assets							
Deferred charges - Bond issuance costs, net	-	5,806,550	-	-	-	5,806,550	-
Advances to other funds	505,674	-	-	-	-	505,674	-
Property, plant and equipment, net of allowance for depreciation	9,640,054	55,050,167	-	-	-	64,690,221	180,750
Total assets	$ 12,155,534	$ 61,787,461	$ 263,068	$ 388,515	$ -	$ 74,594,578	$ 1,341,002
LIABILITIES							
Current liabilities							
Accounts payable and accrued expenses	$ 95,393	$ 102,696	$ 414,797	$ 85,430	$ -	$ 698,316	$ 50,999
Accrued interest	14,171	4,113	750	-	-	19,034	-
Due to other funds	-	663,063	381,131	-	-	1,044,194	-
Deposits	28,476	18,060	31,250	9,280	-	87,066	-
Current portion of long-term debt	154,482	1,371,713	-	-	-	1,526,195	-
Total current liabilities	292,522	2,159,645	827,928	94,710	-	3,374,805	50,999
Non-current liabilities							
Long-term debt	3,012,344	40,328,391	-	-	-	43,340,735	-
Advances from other funds	-	-	505,674	-	-	505,674	-
Compensated absences	48,703	76,043	-	-	-	124,746	-
Total noncurrent liabilities	3,061,047	40,404,434	505,674	-	-	43,971,155	-
Total liabilities	3,353,569	42,564,079	1,333,602	94,710	-	47,345,960	50,999
NET POSITION							
Invested in capital assets, net of related debt	6,473,228	13,350,063	-	-	-	19,823,291	180,750
Restricted for debt service	199,368	-	-	-	-	199,368	-
Unrestricted/(deficit)	2,129,369	5,873,319	(1,070,534)	293,805	-	7,225,959	1,109,253
Total net position/(deficit)	$ 8,801,965	$ 19,223,382	$ (1,070,534)	$ 293,805	$ -	$ 27,248,618	$ 1,290,003

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds						
	Water	Sewer	Garbage	JPA Garbage	Transit	Total Proprietary Funds	Governmental Activities Internal Service Fund
Operating Revenue							
Charges for services	$ 1,397,127	$ 5,431,442	$ 1,238,063	$ 723,792	$ -	$ 8,790,424	$ 2,556,137
Connection fees	59,922	-	-	-	-	59,922	-
Total operating income	1,457,049	5,431,442	1,238,063	723,792	-	8,850,346	2,556,137
Operating Expense							
Contractual services and utilities	557,451	1,217,884	1,138,481	538,510	-	3,452,326	1,052,772
Personnel	435,958	1,376,091	47,388	2,437	-	1,861,874	1,258,023
Supplies and materials	212,811	317,218	11,779	2,997	-	544,805	70,035
Depreciation	404,495	1,155,197	-	-	-	1,559,692	106,039
Total operating expense	1,610,715	4,066,390	1,197,648	543,944	-	7,418,697	2,486,869
Operating income/(loss)	(153,666)	1,365,052	40,415	179,848	-	1,431,649	69,268
Nonoperating Revenue/(Expense)							
Intergovernmental	-	-	7,323	-	-	7,323	-
Development impact fees	86,660	-	-	-	-	86,660	-
Interest income	18,163	20	804	553	-	19,540	-
Interest expense	(150,778)	(629,627)	(15,322)	-	-	(795,727)	-
Total nonoperating revenue/(expense)	(45,955)	(629,607)	(7,195)	553	-	(682,204)	-
Net income/(loss) before transfers	(199,621)	735,445	33,220	180,401	-	749,445	69,268
Operating Transfers In/(Out)	-	-	-	-	27,316	27,316	(69,268)
Change in Net Position	(199,621)	735,445	33,220	180,401	27,316	776,761	-
Net Position							
Beginning of year	9,001,586	18,487,937	(1,103,754)	113,404	(27,316)	26,471,857	1,290,003
End of year	$ 8,801,965	$ 19,223,382	$ (1,070,534)	$ 293,805	$ -	$ 27,248,618	$ 1,290,003

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds						Governmental Activities Internal Service Fund
	Water	Sewer	Garbage	JPA Garbage	Transit	Total Business-Type Funds	
Operating Activities							
Receipts from customers and users	$ 1,525,020	$ 5,427,624	$ 1,262,132	$ 746,433	$ -	$ 8,961,209	$ 2,518,672
Payments for contractual services and utilities	(562,038)	(1,201,116)	(803,631)	(503,902)	-	(3,070,687)	(1,046,759)
Payments to employees	(412,384)	(1,347,463)	(47,388)	(2,437)	-	(1,809,672)	(1,367,086)
Payment to suppliers	(212,811)	(317,218)	(11,779)	(2,997)	-	(544,805)	(70,035)
Net cash provided by (used in) operating activities	337,787	2,561,827	399,334	237,097	-	3,536,045	34,792
Non-capital Financial Activities							
Payments from other governments	-	-	7,323	-	-	7,323	-
Payments from developers	86,660	-	-	-	-	86,660	-
Payments (to)/from other funds	177,283	(1,137,704)	(392,899)	-	-	(1,353,320)	(1,113,462)
Net cash provided by (used in) noncapital financing activities	263,943	(1,137,704)	(385,576)	-	-	(1,259,337)	(1,113,462)
Capital and Related Financing Activities							
Purchase of property, plant and equipment	-	-	-	-	-	-	(92,846)
Principal received (paid) on long-term debt, net	(160,496)	(1,405,068)	-	-	-	(1,565,564)	-
Interest paid on long-term debt	(151,760)	(19,218)	(14,572)	-	-	(185,550)	-
Net cash provided by (used in) capital and related financing activities	(312,256)	(1,424,286)	(14,572)	-	-	(1,751,114)	(92,846)
Investing Activities							
Interest received	18,772	163	814	1,140	-	20,889	-
Net cash provided by investing activities	18,772	163	814	1,140	-	20,889	-
Net Increase (Decrease) in Cash	308,246	-	-	238,237	-	546,483	(1,171,516)
Cash							
Beginning of year	1,329,627	-	-	-	-	1,329,627	1,249,078
End of year	$ 1,637,873	$ -	$ -	$ 238,237	$ -	$ 1,876,110	$ 77,562
Cash Flows from Operating Activities							
Operating income (loss)	$ (153,666)	$ 1,365,052	$ 40,415	$ 179,848	$ -	$ 1,431,649	$ 69,268
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	404,495	1,155,197	-	-	-	1,559,692	106,039
(Increase) Decrease in Accounts Receivable	66,741	(6,438)	24,569	22,551	-	107,423	(37,465)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	20,217	48,016	334,350	34,698	-	437,281	(103,050)
Net Cash Provided (Used) by Operating Activities	$ 337,787	$ 2,561,827	$ 399,334	$ 237,097	$ -	$ 3,536,045	$ 34,792

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS
JUNE 30, 2013

	The Vineyards Assessment District	Diamond Ridge Assessment District	Total
ASSETS			
Cash and investments	$ 308,499	$ 383,014	$ 691,513
Cash and investments with fiscal agent	-	380,399	380,399
Interest receivable	306	412	718
Special assessment receivable	3,041,195	2,866,175	5,907,370
Total assets	3,350,000	3,630,000	6,980,000
LIABILITIES			
Accounts payable and accrued expenses	-	-	-
Due to bondholders	3,350,000	3,630,000	6,980,000
Total liabilities	$ 3,350,000	$ 3,630,000	$ 6,980,000

CITY OF SOLEDAD

STATEMENT OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY
JUNE 30, 2013

Assets	
Cash and investments	
Held in City Treasury	$ 3,711,432
Held with trustees	1,640,006
Interest receivable	6,551
Land held for redevelopment	180,000
Land	7,649,732
Total assets	13,187,721
Liabilities	
Accounts payable and accrued liabilities	19,509
Interest payable	77,593
Long-term debt	
Due within one year	555,000
Due in more than one year	17,165,000
Total liabilities	17,817,102
Net Position	
Held in trust for other governments	$ (4,629,381)

See accompanying notes

CITY OF SOLEDAD

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY
JUNE 30, 2013

Additions		
Property taxes	$	1,216,641
Investment earnings and other		15,428
Total additions		1,232,069
Deductions		
Administrative costs		250,000
Program expenses		1,898,865
Interest expense		948,235
Total deductions		3,097,100
Change In Net Position		(1,865,031)
Net Position		
Beginning of year		(2,764,350)
End of year	$	(4,629,381)

See accompanying notes

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.

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 Position and the Statement of Activities) 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.

The Statement of Activities 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 position 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 position. 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds, including fiduciary funds and the blended component units. 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.

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.

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.

Private-Purpose Trust Funds - The Private-Purpose Trust Fund accounts for assets held by the City as trustee for the Successor Agency.

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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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.

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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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 Position. 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 Position. 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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 Position.

Net Position - The government-wide and business-type activities financial statements utilize a net position presentation. Net position 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 position. 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 Position - This category presents external restrictions on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

Fund Equity – In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.

- Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.

- Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.

- Assigned fund balance are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.

- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

Implementation of New GASB Pronouncements - The District adopted new accounting standards in order to conform with the following Governmental Accounting Standards Board Statements (GASB):

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the authoritative pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*

- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

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, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	$ 10,980,996
Restricted Cash and Investments	199,368
Fiduciary Funds:	
Cash and Investments	4,402,945
Cash and Investments with Fiscal Agent	2,020,405
Total Cash and Investments	$ 17,603,714

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	$ 1,079
Deposits with Financial Institutions	8,715,493
Local Agency Investment Fund	6,667,370
Held by Fiscal Agent:	
U.S. Treasury Obligations	2,219,772
Total Cash and Investments	$ 17,603,714

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 (external investment pools and mutual funds are excluded from this disclosure requirement).

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).

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: The City did not have any deposits with financial institutions in excess of federal depository insurance limits and held in uncollateralized accounts.

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, 2013:

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 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 4.46% interest and the face amount of the note at June 30, 2013 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, 2013 was $3,760,000.

Revolving Loan Program – Long-term loans receivable of $2,480,334 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, 2013 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 were due through March 1, 2011. Beginning April 1, 2011 principal and interest payments of $16,500 are due through April 1, 2016. The outstanding advance balance as of June 30, 2013 is $505,674.

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, 2013 are as follows:

	Due From	Due To
General Fund	$ 42,296	$ -
HOME Grant Fund	-	42,296
Internal Service Fund	1,044,194	-
Sewer Fund	-	663,063
Garbage Fund	-	381,131
	$ 1,086,490	$ 1,086,490

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	$ -	$ (16,412)
Proprietary Funds:		
Transit Fund	27,316	-
Nonmajor Governmental Funds:		
Internal Service Fund	-	(69,268)
HOME Grant Fund	58,364	-
Local Transportation Fund	-	(25,814)
Gas Tax Fund	25,814	-
	$ 111,494	$ (111,494)

Note 6 – Capital Assets – Capital asset activities for the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Additions	Reclassifications/ Retirements	Balance June 30, 2013
Governmental Activities				
Capital assets, not being depreciated				
Land	$ 822,801	$ -	$ -	$ 822,801
Construction in progress	17,705	-	-	17,705
Total capital assets, not being depreciated	840,506	-	-	840,506
Capital assets, being depreciated				
Buildings and improvements	4,572,867	-	-	4,572,867
Infrastructure	32,277,690	-	-	32,277,690
Machinery and equipment	3,899,155	-	188,080	4,087,235
Total capital assets, being depreciated	40,749,712	-	188,080	40,937,792
Less accumulated depreciation for				
Buildings and improvements	(1,296,427)	(119,173)	-	(1,415,600)
Infrastructure	(8,732,055)	(674,372)	-	(9,406,427)
Machinery and equipment	(3,437,828)	(184,952)	(95,234)	(3,718,014)
Total accumulated depreciation	(13,466,310)	(978,497)	(95,234)	(14,540,041)
Total capital assets, being depreciated, net	27,283,402	(978,497)	92,846	26,397,751
Governmental activities capital assets, net	$ 28,123,908	$ (978,497)	$ 92,846	$ 27,238,257
Business-Type Activities				
Capital assets, not being depreciated				
Land	$ 2,509,996	$ -	$ -	$ 2,509,996
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	2,509,996	-	-	2,509,996
Capital assets, being depreciated				
Buildings and improvements	55,213,534	-	-	55,213,534
Infrastructure	16,861,959	-	-	16,861,959
Machinery and equipment	1,705,904	-	(188,080)	1,517,824
Total capital assets, being depreciated	73,781,397	-	(188,080)	73,593,317
Less: accumulated depreciation	(9,948,634)	(1,559,692)	95,234	(11,413,092)
Total capital assets, being depreciated, net	63,832,763	(1,559,692)	(92,846)	62,180,225
Business-type activities capital assets, net	$ 66,342,759	$ (1,559,692)	$ (92,846)	$ 64,690,221

Note 6 – Capital Assets (Continued)

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

Governmental Functions:	
General Government	$ 89,850
Public Works	26,993
Community Development	674,372
Public Safety	127,311
Community Services	59,971
	$ 978,497
Business-Type Functions:	
Water	$ 404,495
Sewer	1,155,197
	$ 1,559,692

Note 7 – Long-Term Debt

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Current Portion
Governmental Activity Long Term Debt					
Lease Payable					
Fire Truck Capital Lease	$ 208,247	$ -	$ (66,679)	$ 141,568	$ 69,379
Business-Type Activity Long Term Debt					
Bonds Payable					
1980 Sewer Revenue Bond	$ 285,000	$ -	$ (30,000)	$ 255,000	$ 30,000
1981 Water Revenue Bond	325,000	-	(30,000)	295,000	30,000
Loans Payable					
Water System Improvement Loan	1,941,000	-	(53,000)	1,888,000	56,000
Sewer Plant Loan	42,786,817	-	(1,341,713)	41,445,104	1,341,713
Leases Payable					
Energy Retrofit Capital Lease	1,061,322	-	(77,496)	983,826	68,482
Hydrojetter Capital Lease	33,355	-	(33,355)	-	-
Total Business-Type Activity Debt	$ 46,432,494	$ -	$ (1,565,564)	$ 44,866,930	$ 1,526,195
Compensated Absences					
Government Activities	$ 467,927	$ -	$ (39,539)	$ 428,388	
Business-Type Activities	$ 72,544	$ 52,202	$ -	$ 124,746	

Note 7 – Long-Term Debt (Continued)

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, 2013 was $141,568.

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 did require a 16.667% loan fee resulting in an effective interest rate of 1.8%. The loan was to be repaid in twenty equal annual installments of $2,322,554 beginning January 1, 2011. However, the City renegotiated the payment terms to be $1,341,713 for the second, third, and fourth year with $2,506,462 for the remaining 16 years. Unamortized loan charges of $5,806,550 remains to be amortized over the remaining life of the loan.

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, 2013 was $983,826.

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 was retired as of June 30, 2013.

Note 7 – Long-Term Debt (Continued)

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 Position. 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, 2013, totaled $428,388 for governmental activities and $124,746 for business-type activities.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2013 were as follows:

	Governmental Activities		Business-Type Activities	
Years ending June 30,	Principal	Interest	Principal	Interest
2014	$ 69,379	$ 5,734	$ 1,526,195	$ 751,171
2015	72,189	2,924	2,702,345	733,452
2016	-	-	2,718,801	691,826
2017	-	-	2,725,410	649,116
2018	-	-	2,732,181	605,558
2019-2023	-	-	13,639,573	2,344,554
2024-2028	-	-	13,083,502	1,232,013
2029-2033	-	-	5,603,923	236,401
2034	-	-	135,000	6,075
	$ 141,568	$ 8,658	$44,866,930	$ 7,250,166

Assessment District Debt - The City acts as an agent for bond offerings within two assessment districts 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, 2013 not reflected in these statements is $3,350,000 for The Vineyards and $3,630,000 for Diamond Ridge. The Diamond Ridge Assessment District issued refunding bonds totaling $3,540,000 at 5.83% interest in August 2013.

Note 8 – Risk Management

The City is provided with 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 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.

Note 8 – Risk Management (Continued)

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, 2013 was 8.069% for the miscellaneous plan and 22.118% 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, 2013, the City's annual pension cost of $475,183 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.0 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75 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, 2013, was 20 years safety plan and 9 years for the miscellaneous plan.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	$ 1,184,691	100%	-
June 30, 2012	$ 1,137,548	100%	-
June 30, 2013	$ 475,183	100%	-

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

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 Position Balance

Net Asset Deficits – The Garbage Fund has a deficit net position balance as of June 30, 2013 of $1,070,534. The deficits are expected to be relieved from future rate increases or transfers from the General Fund.

Note 11 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through November 26, 2013, the date which these financial statements were available to be issued. In connection with the information in Note 7, the City's Public Finance Authority issued $3,780,000 in bonds on August 1, 2013. The net proceeds of $3,540,000 were loaned to the Diamond Ridge Assessment District in order for it to refund its older higher interest rate debt with lower interest rate debt. Management has concluded that no other material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Taxes	$ 4,421,615	$ 4,421,615	$ 5,068,480	$ 646,865
Licenses and permits	73,589	73,589	142,837	69,248
Intergovernmental	488,662	488,662	639,391	150,729
Charges for services	1,439,232	1,439,232	470,245	(968,987)
Fines and forfeitures	29,635	29,635	22,549	(7,086)
Interest	1,172	1,172	3,727	2,555
Rents	50,960	50,960	61,066	10,106
Gain on sale of property	41,300	41,300	60,700	19,400
Other	68,730	68,730	63,439	(5,291)
Total revenue	6,614,895	6,614,895	6,532,434	(82,461)
Expenditures				
Current				
General government	1,124,337	1,124,337	1,149,696	(25,359)
Public works	139,517	139,517	172,168	(32,651)
Community development	225,054	225,054	284,251	(59,197)
Public safety	4,210,911	4,210,911	4,166,113	44,798
Community services	499,721	499,721	478,375	21,346
Debt Service				
Principal	66,679	66,679	66,679	-
Interest and fiscal charges	8,434	8,434	8,434	-
Total expenditures	6,274,653	6,274,653	6,325,716	(51,063)
Revenue over (under)expenditures	340,242	340,242	206,718	(133,524)
Other Financing Sources				
Transfers in (out) - net	(399,310)	(399,310)	(16,412)	382,898
Net Change in Fund Balance	$ (59,068)	$ (59,068)	190,306	$ 249,374
Fund Balance				
Beginning of year			179,572	
End of year			$ 369,878	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive/
	Original	Final	Amounts	(Negative)
Revenue				
Impact fees	$ 23,387	$ 23,387	$ 240,220	$ 216,833
Interest	8,500	8,500	18,810	10,310
Total revenue	31,887	31,887	259,030	227,143
Expenditures				
Current				
Community development	1,598,298	1,598,298	447,365	1,150,933
Capital outlay	-	-	-	-
Total expenditures	1,598,298	1,598,298	447,365	1,150,933
Revenue over (under)expenditures	(1,566,411)	(1,566,411)	(188,335)	1,378,076
Other Financing Sources				
Transfers in (out) - net	-	-	-	-
Net Change in Fund Balance	$ (1,566,411)	$ (1,566,411)	(188,335)	$ 1,378,076
Fund Balance				
Beginning of year			5,758,705	
End of year			$ 5,570,370	

SUPPLEMENTAL ONLY INFORMATION

CITY OF SOLEDAD

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Special Revenue Funds							Total Non-major Governmental Funds
	Program Income	HOME Grant	Maintenance Districts	Public Safety	Local Transportation	Gas Tax	Low-Moderate Housing Asset	
ASSETS								
Cash and investments	$ 303,407	$ -	$ 1,074,148	$ 59,187	$ -	$ 1,592,138	$ 58,090	$ 3,086,970
Due from other governments	-	45,403	-	30,265	-	56,124	935	132,727
Interest receivable	472	-	1,819	67	-	2,856	-	5,214
Notes receivable	6,367,469	-	-	-	-	-	2,722,865	9,090,334
Total assets	$ 6,671,348	$ 45,403	$ 1,075,967	$ 89,519	$ -	$ 1,651,118	$ 2,781,890	$ 12,315,245
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable and accrued expense	$ -	$ 3,107	$ 3,474	$ 12,940	$ -	$ 86,440	$ -	$ 105,961
Due to other funds	-	42,296	-	-	-	-	-	42,296
Deferred revenue	6,367,469	-	-	-	-	-	2,722,865	9,090,334
Total liabilities	6,367,469	45,403	3,474	12,940	-	86,440	2,722,865	9,238,591
Fund Balance								
Restricted								
Circulation improvements	-	-	-	-	-	1,564,678	-	1,564,678
Public safety programs	-	-	-	76,579	-	-	-	76,579
Lighting, landscape & park maintenance	-	-	1,072,493	-	-	-	-	1,072,493
Low-income housing activities	303,879	-	-	-	-	-	59,025	362,904
Unassigned	-	-	-	-	-	-	-	-
Total fund balance	303,879	-	1,072,493	76,579	-	1,564,678	59,025	3,076,654
Total liabilities and fund balance	$ 6,671,348	$ 45,403	$ 1,075,967	$ 89,519	$ -	$ 1,651,118	$ 2,781,890	$ 12,315,245

CITY OF SOLEDAD

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	Special Revenue Funds							Total Non-major Governmental Funds
	Program Income	HOME Grant	Maintenance Districts	Public Safety	Local Transportation	Gas Tax	Low-Moderate Housing Asset	
Revenue								
Taxes and assessments	$ -	$ -	$ 60,394	$ 40,091	$ -	$ -	$ -	$ 100,485
Intergovernmental	-	16,653	-	137,225	-	628,850	41,525	824,253
Interest	1,046	-	4,035	149	-	6,334	-	11,564
Rents	-	-	-	-	-	-	-	-
Other	22,400	-	-	-	-	-	17,500	39,900
Total revenue	23,446	16,653	64,429	177,465	-	635,184	59,025	976,202
Expenditures								
Public works	-	-	243,920	-	-	1,022,637	-	1,266,557
Community development	18,233	75,017	-	-	-	-	-	93,250
Public Safety	-	-	-	143,694	-	-	-	143,694
Capital outlay	-	-	-	-	-	-	-	-
Total expenditures	18,233	75,017	243,920	143,694	-	1,022,637	-	1,503,501
Revenue over (under) expenditures	5,213	(58,364)	(179,491)	33,771	-	(387,453)	59,025	(527,299)
Other financing sources/(uses)								
Operating transfers in/(out) - net	-	58,364	-	-	(25,814)	25,814	-	58,364
	-	58,364	-	-	(25,814)	25,814	-	58,364
Change in Fund Balance	5,213	-	(179,491)	33,771	(25,814)	(361,639)	59,025	(468,935)
Fund Balance								
Beginning of year	298,666	-	1,251,984	42,808	25,814	1,926,317	-	3,545,589
End of year	$ 303,879	$ -	$ 1,072,493	$ 76,579	$ -	$ 1,564,678	$ 59,025	$ 3,076,654

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, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated November 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

November 26, 2013