CITY OF SOLEDAD

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2014

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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

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, 2014, 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, 2014, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedule of funding progress on pages 34 - 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 March 21, 2015, 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.

March 21, 2015

CITY OF SOLEDAD

STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	$ 12,554,204	$ 2,334,969	$ 14,889,173
Cash and investments with fiscal agent	86,570	199,422	285,992
Accounts receivable, net	248,124	2,185,457	2,433,581
Due from other governments	445,295	-	445,295
Interest receivable	1,254	340	1,594
Notes receivable	9,047,241	-	9,047,241
Deferred charges	-	5,206,107	5,206,107
Capital assets, net of allowance for depreciation	26,351,734	63,140,353	89,492,087
Total assets	48,734,422	73,066,648	121,801,070
LIABILITIES			
Accounts payable and accrued expense	740,284	405,514	1,145,798
Accrued interest payable	1,218	13,740	14,958
Deposits payable	13,895	89,420	103,315
Long-term liabilities			
Due within one year	72,189	1,738,321	1,810,510
Due in more than one year	-	41,582,344	41,582,344
Compensated absences	340,126	124,301	464,427
Total liabilities	1,167,712	43,953,640	45,121,352
NET POSITION			
Net investment in capital assets	26,279,545	19,819,688	46,099,233
Restricted for debt service	-	199,422	199,422
Restricted for long-term notes receivable	9,047,241	-	9,047,241
Restricted for specific projects and programs	10,906,440	-	10,906,440
Unrestricted	1,333,484	9,093,898	10,427,382
Total net position	$ 47,566,710	$ 29,113,008	$ 76,679,718

CITY OF SOLEDAD

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

		Program Revenue			Net Revenue/(Expense) and Changes in Net Position		
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	$ 1,685,550	$ 3,391	$ -	$ -	$ (1,682,159)	$ -	$ (1,682,159)
Public works	1,048,410	-	858,406	-	(190,004)	-	(190,004)
Community development	1,292,691	73,819	1,919	2,561,464	1,344,511	-	1,344,511
Public safety	3,999,292	197,494	515,048	-	(3,286,750)	-	(3,286,750)
Community services	463,913	-	-	-	(463,913)	-	(463,913)
Debt Service							
Interest and fiscal charges	4,564	-	-	-	(4,564)	-	(4,564)
Total governmental activities	8,494,420	274,704	1,375,373	2,561,464	(4,282,879)	-	(4,282,879)
Business-type activities							
Water	1,985,398	1,565,855	-	4,689	-	(414,854)	(414,854)
Sewer	4,107,142	5,840,186	-	-	-	1,733,044	1,733,044
Garbage	1,173,219	1,313,018	-	-	-	139,799	139,799
JPA Garbage	495,574	865,902	-	-	-	370,328	370,328
Total business-type activities	7,761,333	9,584,961	-	4,689	-	1,828,317	1,828,317
Total primary government	$ 16,255,753	$ 9,859,665	$ 1,375,373	$ 2,566,153	(4,282,879)	1,828,317	(2,454,562)
General Revenue							
Property taxes and assessments					2,371,128	-	2,371,128
Sales taxes					2,248,037	-	2,248,037
Franchise and other taxes					565,351	-	565,351
Transient lodging taxes					90,681	-	90,681
Utility users tax					563,773	-	563,773
Business license tax					72,109	-	72,109
Investment income					-	9,891	9,891
Rents and other income					82,291	-	82,291
Transfers					(26,182)	26,182	-
Total general revenue and transfers					5,967,188	36,073	6,003,261
Change in Net Position					1,684,309	1,864,390	3,548,699
Net Position							
Beginning of year					45,882,401	27,248,618	73,131,019
End of year					$ 47,566,710	$ 29,113,008	$ 76,679,718

See accompanying notes.

CITY OF SOLEDAD

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	Development Impact Fees	Program Income	Gas Tax	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	$ 882,646	$ 5,332,725	$ 339,158	$ 1,501,677	$ 3,612,410	$ 11,668,616
Cash and investments with fiscal agent	-	-	-	-	86,570	86,570
Accounts receivable	248,124	-	-	-	-	248,124
Due from other governments	344,893	-	-	84,046	16,356	445,295
Interest receivable	-	726	44	205	152	1,127
Notes receivable	-	-	6,330,473	-	2,716,768	9,047,241
Total assets	$ 1,475,663	$ 5,333,451	$ 6,669,675	$ 1,585,928	$ 6,432,256	$ 21,496,973
LIABILITIES						
Accounts payable and accrued expense	$ 647,520	$ 36,702	$ -	$ 26,648	$ 4,279	$ 715,149
Deposits and other liabilities	13,895	-	-	-	-	13,895
Total liabilities	661,415	36,702	-	26,648	4,279	729,044
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues	-	-	6,330,473	-	2,716,768	9,047,241
Total deferred inflows of resources	-	-	6,330,473	-	2,716,768	9,047,241
FUND BALANCE						
Restricted						
Capital improvement projects	-	5,296,749	-	-	2,524,421	7,821,170
Circulation improvements	-	-	-	1,559,280	-	1,559,280
Lighting, landscape & park maintenance	-	-	-	-	1,018,768	1,018,768
Public safety programs	-	-	-	-	111,568	111,568
Low-income housing activities	-	-	339,202	-	56,452	395,654
Unassigned	814,248	-	-	-	-	814,248
Total fund balance	814,248	5,296,749	339,202	1,559,280	3,711,209	11,720,688
Total liabilities, deferred inflows of resources, and fund balance	$ 1,475,663	$ 5,333,451	$ 6,669,675	$ 1,585,928	$ 6,432,256	$ 21,496,973

See accompanying notes.

CITY OF SOLEDAD

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total governmental fund balance	$ 11,720,688
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	26,351,734
Governmental long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(72,189)
Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(340,126)
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	(1,218)
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.	860,580
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	9,047,241
Net position of governmental activities	$ 47,566,710

CITY OF SOLEDAD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General	Development Impact Fees	Program Income	Gas Tax	Other Governmental Funds	Total Governmental Funds
Revenue						
Taxes and assessments	$ 5,800,944	$ -	$ -	$ -	$ 110,135	$ 5,911,079
Licenses, permits and impact fees	75,486	-	-	-	-	75,486
Intergovernmental	342,772	-	-	858,406	174,195	1,375,373
Charges for services	164,891	-	-	-	-	164,891
Fines and forfeitures	34,327	-	-	-	-	34,327
Rents	61,324	-	-	-	-	61,324
Other	20,967	-	36,995	-	6,097	64,059
Total revenue	6,500,711	-	36,995	858,406	290,427	7,686,539
Expenditures						
Current						
General government	1,467,900	-	-	-	-	1,467,900
Public works	29,226	-	-	863,804	127,307	1,020,337
Community development	304,714	273,621	1,672	-	45,713	625,720
Public safety	3,731,621	-	-	-	171,026	3,902,647
Community services	403,941	-	-	-	-	403,941
Capital outlay	43,826	-	-	-	4,733	48,559
Debt Service						
Principal	69,379	-	-	-	-	69,379
Interest and fiscal charges	5,734	-	-	-	-	5,734
Total expenditures	6,056,341	273,621	1,672	863,804	348,779	7,544,217
Revenue over/(under) expenditures	444,370	(273,621)	35,323	(5,398)	(58,352)	142,322
Other Financing Sources/(Uses)						
Transfer from successor agency	-	-	-	-	2,561,464	2,561,464
Transfers in/(out) - net	-	-	-	-	-	-
	-	-	-	-	2,561,464	2,561,464
Change in Fund Balance	444,370	(273,621)	35,323	(5,398)	2,503,112	2,703,786
Fund Balance						
Beginning of year	369,878	5,570,370	303,879	1,564,678	1,208,097	9,016,902
End of year	$ 814,248	$ 5,296,749	$ 339,202	$ 1,559,280	$ 3,711,209	$ 11,720,688

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, 2014

Net change in fund balance - total governmental funds	$ 2,703,786
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	(935,082)
Repayment of long-term notes receivable is revenue in governmental funds, but the repayment reduces long-term assets in the statement of net position	(43,092)
Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are capitalized as an asset and depreciated over the period of service	48,559
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position	69,379
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	(248,673)
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	88,262
In the Statement of Activities interest is accrued on long-term debt, whereas, in governmental funds interest expenditure is reported when due	1,170
Change in net position of governmental activities	$ 1,684,309

CITY OF SOLEDAD

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Garbage	JPA Garbage	Total Proprietary Funds	Internal Service Fund
ASSETS						
Current assets						
Cash and investments	$ 650,760	$ 1,155,610	$ -	$ 528,599	$ 2,334,969	$ 885,588
Cash and investments with fiscal agent	199,422	-	-	-	199,422	-
Accounts receivable	470,355	1,235,054	290,372	189,676	2,185,457	-
Interest receivable	192	30	118	-	340	127
Due from other funds	754,401	-	-	-	754,401	-
Total current assets	2,075,130	2,390,694	290,490	718,275	5,474,589	885,715
Non-current assets						
Deferred charges	-	5,206,107	-	-	5,206,107	-
Advances to other funds	324,845	-	-	-	324,845	-
Property, plant and equipment, net of allowance for depreciation	9,235,559	53,904,794	-	-	63,140,353	107,244
Total assets	$ 11,635,534	$ 61,501,595	$ 290,490	$ 718,275	$ 74,145,894	$ 992,959
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	$ 119,476	$ 130,101	$ 111,309	$ 44,628	$ 405,514	$ 25,135
Accrued interest	13,740	-	-	-	13,740	-
Due to other funds	-	-	754,401	-	754,401	-
Deposits	29,310	20,070	30,670	9,370	89,420	-
Current portion of long-term debt	165,883	1,572,438	-	-	1,738,321	-
Total current liabilities	328,409	1,722,609	896,380	53,998	3,001,396	25,135
Non-current liabilities						
Long-term debt	2,846,461	38,735,883	-	-	41,582,344	-
Advances from other funds	-	-	324,845	-	324,845	-
Compensated absences	50,817	73,484	-	-	124,301	-
Total noncurrent liabilities	2,897,278	38,809,367	324,845	-	42,031,490	-
Total liabilities	3,225,687	40,531,976	1,221,225	53,998	45,032,886	25,135
NET POSITION						
Net investment in capital assets	6,223,215	13,596,473	-	-	19,819,688	107,244
Restricted for debt service	199,422	-	-	-	199,422	-
Unrestricted/(deficit)	1,987,210	7,373,146	(930,735)	664,277	9,093,898	860,580
Total net position/(deficit)	$ 8,409,847	$ 20,969,619	$ (930,735)	$ 664,277	$ 29,113,008	$ 967,824

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Garbage	JPA Garbage	Total Proprietary Funds	Internal Service Fund
Operating Revenue						
Charges for services	$ 1,509,950	$ 5,840,186	$ 1,313,018	$ 865,902	$ 9,529,056	$ 636,616
Connection fees	55,905	-	-	-	55,905	-
Total operating income	1,565,855	5,840,186	1,313,018	865,902	9,584,961	636,616
Operating Expense						
Contractual services and utilities	660,895	951,523	1,001,649	495,574	3,109,641	754,954
Personnel	528,290	1,110,580	137,234	-	1,776,104	52,262
Supplies and materials	255,193	286,516	24,223	-	565,932	51,891
Depreciation	404,495	1,145,373	-	-	1,549,868	73,506
Total operating expense	1,848,873	3,493,992	1,163,106	495,574	7,001,545	932,613
Operating income/(loss)	(283,018)	2,346,194	149,912	370,328	2,583,416	(295,997)
Nonoperating Revenue/(Expense)						
Intergovernmental	-	-	-	-	-	-
Development impact fees	4,689	-	-	-	4,689	-
Interest income	9,645	102	-	144	9,891	-
Interest expense	(136,525)	(613,150)	(10,113)	-	(759,788)	-
Total nonoperating revenue/(expense)	(122,191)	(613,048)	(10,113)	144	(745,208)	-
Net income/(loss) before transfers	(405,209)	1,733,146	139,799	370,472	1,838,208	(295,997)
Operating Transfers In/(Out)	13,091	13,091	-	-	26,182	(26,182)
Change in Net Position	(392,118)	1,746,237	139,799	370,472	1,864,390	(322,179)
Net Position						
Beginning of year	8,801,965	19,223,382	(1,070,534)	293,805	27,248,618	1,290,003
End of year	$ 8,409,847	$ 20,969,619	$ (930,735)	$ 664,277	$ 29,113,008	$ 967,824

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Garbage	JPA Garbage	Total Business-Type Funds	Internal Service Fund
Operating Activities						
Receipts from customers and users	$ 1,466,344	$ 5,534,960	$ 1,284,771	$ 826,344	$ 9,112,419	$ 674,985
Payments for contractual services and utilities	(636,812)	(924,118)	(1,305,137)	(536,376)	(3,402,443)	(780,818)
Payments to employees	(526,176)	(1,113,139)	(137,234)	-	(1,776,549)	(52,262)
Payment to suppliers	(255,193)	(286,516)	(24,223)	-	(565,932)	(51,891)
Net cash provided by (used in) operating activities	48,163	3,211,187	(181,823)	289,968	3,367,495	(209,986)
Non-capital Financial Activities						
Payments from developers	4,689	-	-	-	4,689	-
Payments (to)/from other funds	(560,481)	(649,972)	192,441	-	(1,018,012)	1,018,012
Net cash provided by (used in) noncapital financing activities	(555,792)	(649,972)	192,441	-	(1,013,323)	1,018,012
Capital and Related Financing Activities						
Purchase of property, plant and equipment	-	-	-	-	-	-
Principal paid on long-term debt	(154,482)	(1,371,713)	-	-	(1,526,195)	-
Interest paid on long-term debt	(136,956)	(36,890)	(10,863)	-	(184,709)	-
Net cash provided by (used in) capital and related financing activities	(291,438)	(1,408,603)	(10,863)	-	(1,710,904)	-
Investing Activities						
Interest received	11,376	2,998	245	394	15,013	-
Net cash provided by investing activities	11,376	2,998	245	394	15,013	-
Net Increase (Decrease) in Cash	(787,691)	1,155,610	-	290,362	658,281	808,026
Cash						
Beginning of year	1,637,873	-	-	238,237	1,876,110	77,562
End of year	$ 850,182	$ 1,155,610	$ -	$ 528,599	$ 2,534,391	$ 885,588
Cash Flows from Operating Activities						
Operating income (loss)	$ (283,018)	$ 2,346,194	$ 149,912	$ 370,328	$ 2,583,416	$ (295,997)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	404,495	1,145,373	-	-	1,549,868	73,506
(Increase) Decrease in Accounts Receivable	(100,345)	(307,236)	(27,667)	(39,648)	(474,896)	38,369
Increase (Decrease) in Accounts Payable and Accrued Liabilities	27,031	26,856	(304,068)	(40,712)	(290,893)	(25,864)
Net Cash Provided (Used) by Operating Activities	$ 48,163	$ 3,211,187	$ (181,823)	$ 289,968	$ 3,367,495	$ (209,986)

See accompanying notes.

CITY OF SOLEDAD

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES – AGENCY FUNDS
JUNE 30, 2014

	The Vineyards Assessment District	Diamond Ridge Assessment District	Total
ASSETS			
Cash and investments	$ 327,055	$ 567,643	$ 894,698
Cash and investments with fiscal agent	-	158,832	158,832
Interest receivable	39	61	100
Total assets	327,094	726,536	1,053,630
LIABILITIES			
Accounts payable and accrued expenses	81	-	81
Due to bondholders	327,013	726,536	1,053,549
Total liabilities	$ 327,094	$ 726,536	$ 1,053,630

CITY OF SOLEDAD

STATEMENT OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY
JUNE 30, 2014

Assets		
Cash and investments		
Held in City Treasury	$	1,036,634
Held with trustees		1,553,639
Interest receivable		1,960
Land held for redevelopment		180,000
Land		7,649,732
Total assets		10,421,965
Liabilities		
Accounts payable and accrued liabilities		163,845
Interest payable		75,218
Long-term debt		
Due within one year		585,000
Due in more than one year		16,580,000
Total liabilities		17,404,063
Net Position		
Held in trust for other governments	$	(6,982,098)

CITY OF SOLEDAD

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND – SUCCESSOR AGENCY
JUNE 30, 2014

Additions	
Property taxes	$ 1,483,884
Investment earnings and other	6,282
Total additions	1,490,166
Deductions	
Administrative costs	234,422
Program expenses	126,155
Transfer to City of Soledad	2,561,464
Interest expense	920,842
Total deductions	3,842,883
Change In Net Position	(2,352,717)
Net Position	
Beginning of year	(4,629,381)
End of year	$ (6,982,098)

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.

Program Income Fund - This fund accounts for housing program loans funded by grants.

Gas Tax Fund - This fund accounts for the expenditures of State Gas Tax monies received.

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.

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.

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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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 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.

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)

Unearned Revenue – Unearned revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records unearned revenue related to uncollected outstanding performing loans and intergovernmental revenues received but not earned (qualifying expenditures not yet incurred).

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 is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

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 Pronouncement – For the year ended June 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The objective of GASB 65 is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). Upon implementation, there was no effect on the City's accounting or financial reporting.

New GASB Pronouncements Not Yet Adopted - In June 30, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions–an Amendment of GASB Statement No. 27.* The provisions of GASB Statement No. 68 are effective for the fiscal year ended June 30, 2015.

In January 2014, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* The provisions of GASB Statement No. 69 are effective for the fiscal year ended June 30, 2015.

In April 2014, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The provisions of GASB Statement No. 70 are effective for the fiscal year ended June 30, 2015.

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, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and Investments	$ 14,889,173
Cash and Investments with Fiscal Agent	285,992
Fiduciary Funds:	
Cash and Investments	1,931,332
Cash and Investments with Fiscal Agent	1,712,471
Total Cash and Investments	$ 18,818,968

Note 3 – Cash and Investments (Continued)

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	$ 800
Deposits with Financial Institutions	10,135,873
Local Agency Investment Fund	6,683,832
Held by Fiscal Agent:	
U.S. Treasury Obligations	1,998,463
Total Cash and Investments	$ 18,818,968

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, 2014:

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 14^{th} 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, 2014 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, 2014 was \$3,760,000.

Revolving Loan Program – Long-term loans receivable of \$2,437,241 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, 2014 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, 2014 is $324,845.

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, 2014 are as follows:

	Due From	Due To
Water Fund	$ 754,401	$ -
Garbage Fund	-	754,401
	$ 754,401	$ 754,401

Transfers Between Funds

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
Proprietary Funds:		
Water Fund	$ 13,091	$ -
Sewer Fund	13,091	-
Nonmajor Governmental Funds:		
Internal Service Fund	-	(26,182)
	$ 26,182	$ (26,182)

Note 6 – Capital Assets – Capital asset activities for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions	Reclassifications/ Retirements	Balance June 30, 2014
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	4,087,235	48,559	-	4,135,794
Total capital assets, being depreciated	40,937,792	48,559	-	40,986,351
Less accumulated depreciation for				
Buildings and improvements	(1,415,600)	(113,099)	-	(1,528,699)
Infrastructure	(9,406,427)	(666,971)	-	(10,073,398)
Machinery and equipment	(3,718,014)	(155,012)	-	(3,873,026)
Total accumulated depreciation	(14,540,041)	(935,082)	-	(15,475,123)
Total capital assets, being depreciated, net	26,397,751	(886,523)	-	25,511,228
Governmental activities capital assets, net	$ 27,238,257	$ (886,523)	$ -	$ 26,351,734
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	1,517,824	-	-	1,517,824
Total capital assets, being depreciated	73,593,317	-	-	73,593,317
Less: accumulated depreciation	(11,413,092)	(1,549,868)	-	(12,962,960)
Total capital assets, being depreciated, net	62,180,225	(1,549,868)	-	60,630,357
Business-type activities capital assets, net	$ 64,690,221	$ (1,549,868)	$ -	$ 63,140,353

Note 6 – Capital Assets (Continued)

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

Governmental Functions:		
General Government	$	83,421
Public Works		28,073
Community Development		666,971
Public Safety		96,645
Community Services		59,972
	$	935,082

Business-Type Functions:		
Water	$	404,495
Sewer		1,145,373
	$	1,549,868

Note 7 – Long-Term Debt

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Current Portion
Governmental Activity Long Term Debt					
Lease Payable					
Fire Truck Capital Lease	$ 141,568	$ -	$ (69,379)	$ 72,189	$ 72,189
Business-Type Activity Long Term Debt					
Bonds Payable					
1980 Sewer Revenue Bond	$ 255,000	$ -	$ (30,000)	$ 225,000	$ 30,000
1981 Water Revenue Bond	295,000	-	(30,000)	265,000	30,000
Loans Payable					
Water System Improvement Loan	1,888,000	-	(56,000)	1,832,000	58,000
Sewer Plant Loan	41,445,104	-	(1,341,713)	40,103,391	1,542,438
Leases Payable					
Energy Retrofit Capital Lease	983,826	-	(68,482)	915,344	77,883
Total Business-Type Activity Debt	$ 44,866,930	$ -	$ (1,526,195)	$ 43,340,735	$ 1,738,321
Compensated Absences					
Government Activities	$ 428,388	$ -	$ (88,262)	$ 340,126	
Business-Type Activities	$ 124,746	$ -	$ (445)	$ 124,301	

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, 2014 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, 2014 was $983,826.

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, 2014, totaled $340,126 for governmental activities and $124,301 for business-type activities.

The annual requirement to amortize the principal and interest on all long-term debt at June 30, 2014 were as follows:

	Governmental Activities		Business-Type Activities	
Years ending June 30,	Principal	Interest	Principal	Interest
2015	$ 72,189	$ 2,924	$ 1,738,321	$ 733,521
2016	-	-	1,754,777	477,751
2017	-	-	1,761,386	455,825
2018	-	-	1,768,157	433,484
2019	-	-	1,785,094	410,467
2020-2024	-	-	8,739,990	1,704,669
2025-2029	-	-	8,208,191	1,215,919
2030-2034	-	-	8,330,191	749,761
2035-2039	-	-	7,712,191	302,022
2040	-	-	1,542,437	15,574
	$ 72,189	$ 2,924	$43,340,735	$ 6,498,993

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, 2014 not reflected in these statements is $3,230,000 for The Vineyards and $3,780,000 for Diamond Ridge.

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, 2014 was 8.260% for the miscellaneous plan and 22.921% 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, 2014, the City's annual pension cost of $468,988 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2012, 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, 2014, was 17 years for the safety plan and 7 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, 2012	$ 1,137,548	100%	-
June 30, 2013	$ 475,183	100%	-
June 30, 2014	$ 468,988	100%	-

Note 10 – Deferred Outflows/Inflows of Resources

The City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2014.

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows or resources, certain items that were previously reported as assets and liabilities.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no items to report in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds are unavailable revenues of $9,047,241 related to long-term notes and loans receivable.

Note 11 – Deficit Net Position Balance

Net Position Deficits – The Garbage Fund has a deficit net position balance as of June 30, 2014 of $930,735. The deficits are expected to be relieved from future rate increases or transfers from the General Fund.

Note 12 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through March 21, 2015, the date which these financial statements were available to be issued. With exception to the Sewer Plant debt terms renegotiated as discussed in Note 7, management concluded that no material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive/ (Negative)
Revenue				
Taxes	$ 4,794,382	$ 4,794,382	$ 5,800,944	$ 1,006,562
Licenses and permits	173,680	173,680	75,486	(98,194)
Intergovernmental	367,602	367,602	342,772	(24,830)
Charges for services	546,508	546,508	164,891	(381,617)
Fines and forfeitures	1,000	1,000	34,327	33,327
Interest	1,172	1,172	-	(1,172)
Rents	50,960	50,960	61,324	10,364
Other	86,230	86,230	20,967	(65,263)
Total revenue	6,021,534	6,021,534	6,500,711	479,177
Expenditures				
Current				
General government	905,698	905,698	1,467,900	(562,202)
Public works	62,406	62,406	29,226	33,180
Community development	233,324	233,324	304,714	(71,390)
Public safety	4,307,570	4,307,570	3,731,621	575,949
Community services	394,600	394,600	403,941	(9,341)
Capital outlay	43,826	43,826	43,826	-
Debt Service				
Principal	69,379	69,379	69,379	-
Interest and fiscal charges	5,734	5,734	5,734	-
Total expenditures	6,022,537	6,022,537	6,056,341	(33,804)
Revenue over (under)expenditures	(1,003)	(1,003)	444,370	445,373
Other Financing Sources				
Transfers in (out) - net	-	-	-	-
Net Change in Fund Balance	$ (1,003)	$ (1,003)	444,370	$ 445,373
Fund Balance				
Beginning of year			369,878	
End of year			$ 814,248	

CITY OF SOLEDAD

BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT FEES FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Revenue				
Impact fees	$ 142,558	$ 142,558	$ -	$ (142,558)
Interest	6,500	6,500	-	(6,500)
Total revenue	149,058	149,058	-	(149,058)
Expenditures				
Current				
Community development	79,400	79,400	273,621	(194,221)
Capital outlay	-	-	-	-
Total expenditures	79,400	79,400	273,621	(194,221)
Revenue over (under)expenditures	69,658	69,658	(273,621)	(343,279)
Other Financing Sources				
Transfers in (out) - net	-	-	-	-
Net Change in Fund Balance	$ 69,658	$ 69,658	(273,621)	$ (343,279)
Fund Balance				
Beginning of year			5,570,370	
End of year			$ 5,296,749	

CITY OF SOLEDAD

SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2014

Valuation Date	<a> Actuarial Liabilities (AL)	<b> Actuarial Value of Assets (AVA)	<a>-<b> Unfunded Liability (UL)	<b>/<a> Funded Ratio (AVA/AL)	<c> Annual Covered Payroll	[<a>-<b>]/<c> UL as a % of Payroll
CalPERS Retirement Plan - Miscellaneous (Plan Specific):						
6/30/2011	$ 3,462,594	$ 2,868,006	$ 594,588	82.8%	$ 2,982,458	19.9%
6/30/2012	$ 4,097,920	$ 3,247,107	$ 850,813	79.2%	$ 2,494,533	34.1%
6/30/2013	$ 4,382,369	$ 3,674,019	$ 708,350	83.8%	$ 2,202,289	32.2%
CalPERS Retirement Plan - Safety (Plan Specific):						
6/30/2011	$ 7,835,694	$ 5,808,733	$ 2,026,961	74.1%	$ 2,381,285	85.1%
6/30/2012	$ 8,239,890	$ 5,797,142	$ 2,442,748	70.4%	$ 1,556,952	156.9%
6/30/2013	$ 8,761,445	$ 6,597,253	$ 2,164,192	75.3%	$ 1,339,077	161.6%

SUPPLEMENTAL ONLY INFORMATION

CITY OF SOLEDAD

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	Special Revenue Funds			Capital Projects Fund	
	Maintenance Districts	Public Safety	Low-Moderate Housing Asset	Community Development	Total Non-major Governmental Funds
ASSETS					
Cash and investments	$ 1,022,754	$ 95,353	$ 56,452	$ 2,437,851	$ 3,612,410
Cash and investments with fiscal agent	-	-	-	86,570	86,570
Due from other governments	-	16,356	-	-	16,356
Interest receivable	142	10	-	-	152
Notes receivable	-	-	2,716,768	-	2,716,768
Total assets	$ 1,022,896	$ 111,719	$ 2,773,220	$ 2,524,421	$ 6,432,256
LIABILITIES					
Accounts payable and accrued expense	$ 4,128	$ 151	$ -	$ -	$ 4,279
Total liabilities	4,128	151	-	-	4,279
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues	-	-	2,716,768	-	2,716,768
Total deferred inflows of resources	-	-	2,716,768	-	2,716,768
Fund Balance					
Restricted					
Capital improvement projects	-	-	-	2,524,421	2,524,421
Public safety programs	-	111,568	-	-	111,568
Lighting, landscape & park maintenance	1,018,768	-	-	-	1,018,768
Low-income housing activities	-	-	56,452	-	56,452
Unassigned	-	-	-	-	-
Total fund balance	1,018,768	111,568	56,452	2,524,421	3,711,209
Total liabilities, deferred inflows of resources and fund balance	$ 1,022,896	$ 111,719	$ 2,773,220	$ 2,524,421	$ 6,432,256

CITY OF SOLEDAD

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	Special Revenue Funds			Capital Projects Fund	
	Maintenance Districts	Public Safety	Low-Moderate Housing Asset	Community Development	Total Non-major Governmental Funds
Revenue					
Taxes and assessments	$ 78,315	$ 31,820	$ -	$ -	$ 110,135
Intergovernmental	-	174,195	-	-	174,195
Other	-	-	6,097	-	6,097
Total revenue	78,315	206,015	6,097	-	290,427
Expenditures					
Public works	127,307	-	-	-	127,307
Community development	-	-	8,670	37,043	45,713
Public Safety	-	171,026	-	-	171,026
Capital outlay	4,733	-	-	-	4,733
Total expenditures	132,040	171,026	8,670	37,043	348,779
Revenue over (under) expenditures	(53,725)	34,989	(2,573)	(37,043)	(58,352)
Other financing sources/(uses)					
Transfer from successor agency	-	-	-	2,561,464	2,561,464
Operating transfers in/(out) - net	-	-	-	-	-
	-	-	-	2,561,464	2,561,464
Change in Fund Balance	(53,725)	34,989	(2,573)	2,524,421	2,503,112
Fund Balance					
Beginning of year	1,072,493	76,579	59,025	-	1,208,097
End of year	$ 1,018,768	$ 111,568	$ 56,452	$ 2,524,421	$ 3,711,209