

**SALINAS VALLEY  
SOLID WASTE AUTHORITY**

**Salinas, California**



**BASIC FINANCIAL STATEMENTS**

**For the Fiscal Year Ended June 30, 2010**



# **SALINAS VALLEY SOLID WASTE AUTHORITY**

## **BASIC FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2010**



PREPARED BY

THE AUTHORITY'S FINANCE DIVISION

Roberto Moreno  
Finance Manager/Treasurer

J.D. Black, Accountant  
Ray Hendricks, Business Services Supervisor  
Christine Casey, Accounting Technician

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AUDITORS

McGilloway, Ray, Brown & Kaufman  
Accountants and Consultants  
379 W. Market Street  
Salinas, CA 93901



SALINAS VALLEY SOLID WASTE AUTHORITY  
Annual Financial Report  
Table of Contents

Page

**INTRODUCTORY SECTION:**

Transmittal Letter .....	i
List of Principal Officials .....	iv

**FINANCIAL SECTION:**

<b>Independent Auditor’s Report</b> .....	1
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<b>Management’s Discussion and Analysis</b> (Required Supplementary Information) .....	3
---	---

**Basic Financial Statements**

Statement of Net Assets .....	7
Statement of Revenues, Expenses and Changes in Net Assets.....	8
Statement of Cash Flows .....	9
<b>Notes to Basic Financial Statements</b>	
1. Summary of Significant Accounting Policies .....	10
2. Cash and Investments .....	12
3. Accounts Receivable .....	14
4. Deferred Charges(Bond Issuance Costs).....	14
5. Restricted Cash.....	14
6. Capital Assets .....	15
7. Annual Leave Liability .....	15
8. Long Term Liabilities .....	16
9. Unamortized Bond Discount.....	17
10. Landfill Closure and Postclosure Requirements.....	17
11. Deferred Compensation Plan.....	19
12. Retirement Programs.....	20
13. Postemployment Healthcare Plan.....	21
14. Commitments and Contingencies .....	23
15. Restricted Net Assets.....	25
16. Net Deficit.....	25
17. Bond Rate Covenant.....	25

**Required Supplementary Information**

Schedule of Funding Progress – Public Employees’ Retirement System.....	26
Schedule of Funding Progress – Postemployment Healthcare Plan.....	26





*“To manage Salinas Valley solid waste as a resource, promoting sustainable, environmentally sound and cost effective practices through an integrated system of waste reduction, reuse, recycling, innovative technology, customer service and education”*

December 16, 2010

President and Board of the Salinas Valley Solid Waste Authority:

We are pleased to submit the Salinas Valley Solid Waste Authority’s (Authority) Basic Financial Statements for the fiscal year ended June 30, 2010. These statements combined with other information are analyzed in the narrative section called Management’s Discussion and Analysis (MD&A). The MD&A provides “financial highlights” and interprets the financial reports by analyzing trends and by explaining changes, fluctuations, and variances in the financial data. In addition, the MD&A is intended to disclose any known significant events or decisions that affect the financial condition of the Authority.

This report consists of management’s representations concerning the financial position of the Authority. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, the management of the Authority has established a comprehensive internal control framework that is designed both to protect the Authority’s assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the Authority’s financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the Authority’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Authority’s financial statements have been audited by McGilloway, Ray, Brown & Kaufman, a firm of licensed, certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Authority for the fiscal year ended June 30, 2010, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Authority’s financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Authority’s MD&A can be found immediately following the report of the independent auditors.

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## **Reporting Entity**

On January 1, 1997, the Salinas Valley Solid Waste Authority was created through a joint powers agreement among the cities of Salinas, Gonzales, Greenfield, King City, and Soledad, and the unincorporated area of eastern portion of Monterey County, to provide solid waste transfer and disposal services to the member cities and the unincorporated area in the eastern and southern portion of the county. The Authority is governed by a nine-member board consisting of three members of the Salinas City Council, two members of the Monterey Board of Supervisors, and one City Council member from Gonzales, Greenfield, King City, and Soledad.

## **Operating Results**

Generally Accepted Accounting Principles require that depreciation, estimated closure costs and estimated postclosure maintenance costs be charged as a current expense. These expenses are allocated over the estimated remaining capacity of the landfills within the Authority's disposal system. Based on these requirements, the Salinas Valley Solid Waste Authority reports operating income of \$2,973,162 and a positive change in net assets of \$1,128,705 for the fiscal year ended June 30, 2010.

As part of its adopted policy, the Authority does not set aside funds for postclosure maintenance. Per agreement with the California Integrated Waste Management Board, dated June 19, 1998, the Authority has pledged future revenue to cover the cost of postclosure maintenance. Authority tipping fees are not expected to cover the accrual of postclosure expenses in the current period. At June 30, 2010 the Authority has accrued postclosure liabilities totaling \$13,299,659 which will be paid out of future revenues over the next 30 years.

The Authority's policy is to set aside funds for closure costs. Closure liabilities of \$12,015,007 are fully funded at June 30, 2010.

The Authority's tipping fees are set at an amount sufficient to provide for operations, closure set-aside requirements, postclosure maintenance on a pay-as-you-go basis, capital requirements and debt service on bonds issued for capital replacement. Authority's tipping fees are not expected to recover depreciation expense.

The Statement of Cash Flows for the fiscal year ended June 30, 2010, provides a detailed reconciliation of the Authority's increase in cash of \$634,105 to \$8,768,119.

## **Cash Management Policies and Practices**

The Authority invests all idle funds daily. In accordance with the provisions of California Government Code Section 53600 et seq, an investment and cash management policy is adopted annually by the Board of Directors of the Salinas Valley Solid Waste Authority.

Investment income includes changes in the fair value of investments. Calculation of gains and losses in fair value of investments is unrealized and only measures the fair value at a point in time. Increases in fair value of \$34,527 during the current year, however, do not necessarily represent trends that will continue. During the fiscal year ended June 30, 2010, the Authority's investment earnings were \$289,760, a decrease \$475,052 over the previous year.

## **Risk Management**

The Authority purchases commercial insurance for general liability, automobile liability, pollution liability, public official's bonds and property damage. Additional information on the Agency's risk management activity can be found in Note 11 of the financial statements.

## **Financial Management**

The Authority carefully monitors its rates. On July 1, 2009, the tipping fee remained at \$63.00 per ton. However, a \$6.00 per ton surcharge was imposed on Salinas franchise waste to pay for the cost of direct hauling to Johnson Canyon Landfill. Due to decreases in tonnage tipping



fees are expected to increase annually. Management is, therefore, looking into a new Rate Model that would not be as heavily impacted by changes in tonnage.

### **Bond Issue 2002**

On May 15, 2002, the Salinas Valley Solid Waste Authority issued Revenue Bonds, Series 2002 in the amount of \$39,845,000. The bonds were sold to payoff the Authority's existing 1997 Revenue Bonds, payoff a portion of the Crazy Horse installment purchase agreement, provide for the cost of bond issuance, capitalized interest and a bond reserve, and to finance various capital projects at the landfill sites, including the completion of the Regional Environmental Impact Report. Maximum annual debt service is \$2,756,524, including interest at 5.56% for thirty (30) years. As of June 30, 2010, all bond proceeds have been spent.

### **Expansion Fund**

The "Expansion Fund" was established to collect proceeds from the sale of outside waste, pay costs associated with increased tonnage generated by outside waste, pay the costs related to locating and permitting a new landfill site and other long-term expansion costs. Over the ten-year term of the revised agreement with South Valley Disposal, revenue from the sale of outside waste is estimated at \$23.3 million, with costs estimated at \$4.9 million to operate Crazy Horse, \$1.8 million for liners at Johnson Canyon, \$2.2 million in closure set-asides, \$1.8 million in taxes and fees and \$.8 million on conversion technology projects, leaving \$11.8 million for locating and permitting a new landfill site. At June 30, 2010, the Expansion Fund had unrestricted net assets of \$4,298,844.

### **Summary**

The Authority's operating expenses have been reduced to their lowest point. However, due to decreasing tonnage leading to decreased revenues, the Authority has not been able to benefit from the reduced operating expenses.

The deficit Net Assets is expected to diminish over time now that Crazy Horse landfill is closed. Closure, postclosure and depreciation expenses will be significantly less with Johnson Canyon Landfill as the only active landfill. Rates should now cover all operating expenses.

During FY 2010-11 staff will be working on developing a new rate model that can address the decreases in tonnage and provide sufficient revenue for operating expenses as well as for capital expenditures.

### **Acknowledgements**

I would like to take this opportunity to thank the members of the Salinas Valley Solid Waste Authority's Board of Directors for their interest and support in the financial operations of the Authority. It is the responsible and progressive manner in which business is conducted that makes the Authority successful. I would also like to extend special recognition to the Authority staff for their day-to-day involvement in the operations. In addition, I would like to offer special thanks to J. D. Black, Accountant, and Ray Hendricks, Accounting Technician, without whom this presentation would not be possible. I would also like to thank the Authority's auditors McGilloway, Ray, Brown & Kaufman. It is the combined effort of all participants that resulted in the issuance of this document.

Respectfully submitted,



Roberto Moreno  
Finance Manager/Treasurer



# SALINAS VALLEY SOLID WASTE AUTHORITY



## List of Principal Officials

As of June 30, 2010

**Gloria De La Rosa, City of Salinas**  
President

**Richard Ortiz, City of Soledad**  
Vice President

**Fernando Armenta, County of Monterey**  
Alternate Vice President

**Lou Calcagno, County of Monterey**  
Board Member

**Janet Barnes, City of Salinas**  
Board Member

**Dennis Donohue, City of Salinas**  
Board Member

**Annie Moreno, City of Greenfield**  
Board Member

**Matt Gourley, City of Gonzales**  
Board Member

**Robert Cullen, City of King**  
Board Member

**R. Patrick Mathews**  
General Manager/CAO

**Jose Gamboa**  
Assistant General Manager

**Thomas M. Bruen**  
General Counsel

**Roberto Moreno**  
Finance Manager/Treasurer

**Susan Warner**  
Diversion Manager

**Rose Gill**  
Administrative Manager



# McGILLOWAY, RAY, BROWN & KAUFMAN

*Accountants & Consultants*

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Board  
of the Salinas Valley Solid  
Waste Authority  
State of California

We have audited the accompanying basic financial statements of Salinas Valley Solid Waste Authority (Authority) as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Authority as of June 30, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and other required supplementary information, as listed in the table of contents, 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.

*Daniel M. McGilloway, Jr., CPA, CVA, Gerald C. Ray, CPA, Clyde W. Brown, CPA, Patricia M. Kaufman, CPA, Larry W. Rollins, CPA*

*Reginald F. Pires, CPA, Sarita C. Shannon, CPA, Helen H. Rodriguez, CPA, CFE, Nancy H. Rimberg, CPA*

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them

*McGilloway, Ray, Brown & Kaufman*

November 23, 2010

SALINAS VALLEY SOLID WASTE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010

This analysis of the Salinas Valley Solid Waste Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

### **Financial Highlights**

- The Authority's net assets increased \$1,128,705 to a deficit of \$10,423,265.
- Operating revenues increased \$8,368,566 (5.5%), as the result of a \$6.00 surcharge on Salinas waste and slight decrease in tonnage.
- Tons landfilled decreased 18,255 tons (6.7%) during the year from 271,808 tons in fiscal year 2008-09 to 253,553 tons in fiscal year 2009-10.
- Effective July 1, 2009 a \$6.00 per ton surcharge was imposed on Salinas franchise waste to cover the cost of hauling Salinas franchise waste to Johnson Canyon Landfill.
- Operating expenses decreased \$6,619,872 (33.5%). The decreased operating expenses were due primarily to a decrease of \$4,879,511 in closure/post-closure expenses and \$1,859,322 in depreciation.
- At June 30, all bond proceeds have been spent.
- The Authority's total long term debt decreased by \$1,234,299 to \$63,015,930.
- On September 1, 2009 the Authority took over the Scalehouse Operations which were previously contracted out to Norcal Engineering Corporation.
- FY 2009-10 was the first year with Johnson Canyon Landfill as the only operating landfill.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which are comprised of three components: 1) Management Discussion and Analysis (this document), 2) Basic Financial Statements, and 3) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements for further information and analysis.

### **Basic Financial Statements**

The Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine the Authority's credit worthiness and whether the Authority has successfully recovered all its costs through its user fees and other charges.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in the cash balance during the reporting period.

SALINAS VALLEY SOLID WASTE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
JUNE 30, 2010

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**Required Supplementary Information**

In addition to the basic financial statements, this report also presents certain Required Supplementary Information that presents the funding progress of the Authority's retirement plan.

**FINANCIAL STATEMENTS ANALYSIS**

**Statement of Net Assets**

Net assets are a good indicator of the Authority's financial position. At the end of this fiscal year, the Authority had a net deficit of \$10,423,265 which is an increase of \$1,128,705. The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2010 and 2009:

Salinas Valley Solid Waste Authority Condensed Statement of Net Assets June 30, 2010 and 2009				
	2010	2009	Change	% Change
<b>Assets:</b>				
Current Assets	\$ 10,503,063	\$ 9,710,494	\$ 792,569	8.2%
Other Assets	16,863,093	20,534,441	(3,671,348)	-17.9%
Capital Assets, Net	29,788,712	27,640,919	2,147,793	7.8%
<b>Total Assets</b>	<b>57,154,868</b>	<b>57,885,854</b>	<b>(730,986)</b>	<b>-1.3%</b>
<b>Liabilities:</b>				
Current Liabilities	4,562,203	5,187,595	(625,392)	-12.1%
Long-term Liabilities	63,015,930	64,250,229	(1,234,299)	-1.9%
<b>Total Liabilities</b>	<b>67,578,133</b>	<b>69,437,824</b>	<b>(1,859,691)</b>	<b>-2.7%</b>
<b>Net Assets:</b>				
Invested in Capital Assets, Net of Related Debt	(9,445,282)	(12,533,301)	3,088,019	22.3%
Restricted	2,820,700	6,876,058	(4,055,358)	-59.0%
Unrestricted	(3,798,683)	(5,894,727)	2,096,044	-40.5%
<b>Total Net Assets/(Deficit)</b>	<b>\$ (10,423,265)</b>	<b>\$ (11,551,970)</b>	<b>\$ 1,128,705</b>	<b>9.8%</b>

Other Assets decreased 17.9% due to the expenditure of the remaining bond proceeds for the construction of Module 456B at Johnson Canyon resulting in a 7.8% increase in capital assets. Total liabilities decreased 2.7% primarily by paying down long-term debt as scheduled. The \$2,820,700 in restricted net assets represents the bond reserve that cannot be spent until 2031 when the revenue bonds mature. Unrestricted net assets are a deficit of \$3,798,683. The total net deficit is due primarily to the deficit of \$9,445,282 in Invested in Capital Assets, Net of Related Debt. This is the result of capital assets depreciating at a faster rate than the related debt is being paid. \$51,000,923 of the long-term liabilities is scheduled to be paid with future revenues over the next 21 years.



SALINAS VALLEY SOLID WASTE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
JUNE 30, 2010

Net deficits are to be expected when a new enterprise, such as the Authority, uses debt to acquire and improve assets (landfills) that are at the end of their useful life. This situation will improve over time as the Authority pays down its debt.

**Statement of Revenues, Expenses and Changes in Net Assets**

The following is the Condensed Statement of Revenues, Expenses and Changes in Net Assets for the fiscal years ended June 30, 2010 and 2009.

The Authority's activities increased net assets by \$1,128,705. Key elements of this change are as follows:

Salinas Valley Solid Waste Authority  
Condensed Statement of Revenues, Expenses and Changes in Net Assets  
For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>% change</u>
Operating Revenues	\$ 16,135,595	\$ 15,298,739	\$ 836,856	5.5%
Operating Expenses	<u>13,162,433</u>	<u>19,782,305</u>	<u>(6,619,872)</u>	-33.5%
Operating Income (Loss)	2,973,162	(4,483,566)	7,456,728	-166.3%
Non-operating Revenues	333,438	766,293	(432,855)	-56.5%
Non-operating Expenses	<u>(2,177,895)</u>	<u>(2,225,196)</u>	<u>47,301</u>	-2.1%
Change in Net Assets/(Deficit)	1,128,705	(5,942,469)	7,071,174	119.0%
Net Assets/(Deficit) - Beginning	<u>(11,551,970)</u>	<u>(5,609,501)</u>	<u>(5,942,469)</u>	105.9%
Net Assets/(Deficit) - Ending	<u>\$ (10,423,265)</u>	<u>\$ (11,551,970)</u>	<u>\$ 1,128,705</u>	-9.8%

Operating revenues increased \$836,856 (5.5%) primarily due to the \$ 6.00 per ton surcharge imposed on Salinas franchise waste. Tonnage from the Authority's service area decreased 13,851 tons (7.4%) from 187,486 to 173,635. The tonnage decrease was offset by a \$6.00 per ton surcharge imposed on Salinas franchise waste effective July 1, 2009.

Operating expenses decreased \$6,619,872 (33.5%). The reason for this decrease is a decrease of \$4,879,511 in closure/post-closure expense and a decrease of \$1,859,322 in depreciation. The large decreases are the result of large increases the previous year in both categories due to the closure of Crazy Horse Canyon Landfill. With only one operating landfill operating costs should be more normal in future years.

The single biggest expense for the year was the \$3,337,034 paid to Norcal Engineering for operation of the Johnson Canyon landfill, diversion services and air space conservation adjustment.

The \$2,177,895 in non-operating expenses is the interest paid on the Authority's long term debt.

SALINAS VALLEY SOLID WASTE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
JUNE 30, 2010

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year, the Authority had \$29.8 million invested in capital assets, primarily in landfills as summarized below. During this fiscal year the Authority added \$2,630,417 in capital assets and recorded depreciation expense of \$482,624. Additional information on the Authority's capital assets can be found in Note 6 on page 15 of this report.

Salinas Valley Solid Waste Authority  
Condensed Statement of Capital Assets  
For the years ended June 30, 2010 and 2009

	2010	2009
Land	\$ 42,600	\$ 42,600
Buildings	456,484	456,484
Improvements other than buildings	53,220,780	47,220,822
Equipment	2,217,056	1,941,878
Construction in progress	1,010,961	4,655,680
	<u>56,947,881</u>	<u>54,317,464</u>
Accumulated Depreciation	(27,159,169)	(26,676,545)
Totals	<u>\$ 29,788,712</u>	<u>\$ 27,640,919</u>

**Long-Term Debt**

At the end of this fiscal year, the Authority had \$39.2 million in long-term debt as shown below. No new debt was incurred during this fiscal year. Principal payments of \$953,489 were paid on the debt. Additional information on the Authority's long-term debt can be found in Note 8 on page 16 of this report.

Standard & Poor's Corporation assigned the revenue bonds a rating of "AAA". Moody's Investors Service assigned the same bonds a rating of "Aaa".

Salinas Valley Solid Waste Authority  
Condensed Statement of Long-Term Debt  
For the years ended June 30, 2010 and 2009

	2010	2009
Revenue Bonds, Series 2002	\$ 35,910,000	\$ 36,770,000
Bond Discount	(291,791)	(305,054)
Installment Purchase Agreement	3,615,785	3,709,274
Total Long-Term Debt	<u>\$ 39,233,994</u>	<u>\$ 40,174,220</u>

**ECONOMIC FACTORS AND NEXT YEAR'S RATES**

The Authority's operations are dependent on the amount of solid waste that is received at the landfills. For FY 2010-11 management is anticipating tonnage to remain constant. The tipping fee was increased \$1.00 to \$64.00 per ton and the Salinas franchise waste surcharge was decreased \$1.00 to \$5.00 per ton. The 2010-11 budget is balanced.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Authority's Finance Department, at the Salinas Valley Solid Waste Authority, P.O. Box 2159, Salinas, California 93902-2159.

SALINAS VALLEY SOLID WASTE AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2010  
With Comparative Totals as of June 30, 2009

	2010	2009
<b>Assets:</b>		
Current Assets:		
Cash and Investments	\$ 8,768,119	\$ 8,134,014
Accounts Receivable, Net	1,629,134	1,390,707
Interest Receivable	105,810	170,244
Prepaid Expenses	-	15,529
Total Current Assets	10,503,063	9,710,494
Noncurrent Assets:		
Deferred Charges	1,529,164	1,598,672
Restricted Cash	15,333,929	18,935,769
Capital Assets, Net	29,788,712	27,640,919
Total Noncurrent Assets	46,651,805	48,175,360
Total Assets	57,154,868	57,885,854
<b>Liabilities:</b>		
Current Liabilities:		
Accounts Payable	1,654,497	2,402,070
Wages Payable	180,685	127,619
Accrued Leave	280,948	245,567
Deferred Revenue	2,419	51,096
Interest Payable	864,424	884,554
Postclosure Payable	578,200	523,200
Installment Purchase Agreement	101,030	93,489
Bonds Payable	900,000	860,000
Total Current Liabilities	4,562,203	5,187,595
Long Term Liabilities:		
Postemployment Benefits Payable	46,500	-
Closure Payable	12,015,007	12,376,496
Postclosure Payable	12,721,459	12,653,002
Installment Purchase Agreement	3,514,755	3,615,785
Bonds Payable, Net	34,718,209	35,604,946
Total Long Term Liabilities	63,015,930	64,250,229
Total Liabilities	67,578,133	69,437,824
<b>Net Assets (Deficit):</b>		
Invested in Capital Assets, Net of Related Debt	(9,445,282)	(12,533,301)
Restricted for Debt Service	2,820,700	2,820,700
Restricted for Capital Projects	-	4,055,358
Unrestricted	(3,798,683)	(5,894,727)
Total Net Assets (Deficit)	\$ (10,423,265)	\$ (11,551,970)

The accompanying notes are an integral part of this statement.

SALINAS VALLEY SOLID WASTE AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR FISCAL YEAR ENDED JUNE 30, 2010  
With Comparative Totals for fiscal year ended June 30, 2009

	2010	2009
<b>Operating Revenues:</b>		
Charges for Services	\$ 15,612,328	\$ 15,038,687
Sales of Materials	405,466	186,521
Operating Grants and Contributions	117,801	73,531
Total Operating Revenues	16,135,595	15,298,739
<b>Operating Expenses:</b>		
Personnel Services	3,273,906	2,704,352
Contractual Services	1,561,532	1,916,644
Operating Contracts	5,326,363	5,539,953
Supplies	319,130	230,557
Insurance	216,358	233,477
Building Rent	96,814	99,190
Taxes	733,494	735,705
Utilities	155,503	134,839
Depreciation	482,624	2,341,946
Amortization	69,508	69,508
Closure/Postclosure Maint.	556,332	5,435,843
Hazardous Waste	174,899	168,862
Other	195,970	171,429
Total Operating Expenses	13,162,433	19,782,305
Operating Income (Loss)	2,973,162	(4,483,566)
<b>Non-Operating Revenues (Expenses):</b>		
Investment Earnings	289,760	764,812
Other Non-Operating Revenue	43,678	1,481
Interest Expense	(2,177,895)	(2,225,196)
Total Non-Operating Revenues (Expenses)	(1,844,457)	(1,458,903)
Change in Net Assets/(Deficit)	1,128,705	(5,942,469)
Total Net Assets/(Deficit) - Beginning	(11,551,970)	(5,609,501)
Total Net Assets/(Deficit) - End of Year	\$ (10,423,265)	\$ (11,551,970)

The accompanying notes are an integral part of this statement.

SALINAS VALLEY SOLID WASTE AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR FISCAL YEAR ENDED JUNE 30, 2010  
With Comparative Totals for fiscal year ended June 30, 2009

	2010	2009
<b>Cash Flows from Operating Activities:</b>		
Receipts from Customer and Users	\$ 15,897,168	\$ 15,349,777
Payments to Suppliers	(10,306,472)	(9,856,596)
Payments to Employees	(3,138,959)	(2,586,953)
Net Cash Provided by Operating Activities	2,451,737	2,906,228
<b>Cash Flows from Non-Capital Financing Activities:</b>		
Other Non-Operating Revenue/(Expense)	(4,999)	(10,381)
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Acquisition of Capital Assets	(2,630,417)	(5,012,989)
Principal paid on Capital Debt	(953,489)	(911,510)
Interest paid on Capital Debt	(2,184,761)	(2,228,504)
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,768,667)	(8,153,003)
<b>Cash Flows from Investing Activities:</b>		
Interest Received	319,667	851,527
Increase (Decrease) in Fair Value of Investments	34,527	34,194
Transfer (to) from Restricted Cash	3,601,840	4,010,633
Net Cash Provided by Investing Activities	3,956,034	4,896,354
Net Increase (Decrease) in Cash and Cash Equivalents	634,105	(360,802)
Cash and Cash Equivalents at Beginning of Year	8,134,014	8,494,816
Cash and Cash Equivalents at End of Year	\$ 8,768,119	\$ 8,134,014
<b>Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:</b>		
Operating Income (Loss)	\$ 2,973,162	\$ (4,483,566)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	482,624	2,341,946
Amortization	69,508	69,508
(Increase) Decrease in Accounts Receivable	(238,427)	51,038
(Increase) Decrease in Prepaid Expenses	15,529	(15,529)
Increase (Decrease) in Accounts Payable	(747,573)	(191,790)
Increase (Decrease) in Wages Payable	53,066	50,160
Increase (Decrease) in Accrued Leave	35,381	67,239
Increase (Decrease) in OPEB Payable	46,500	-
Increase (Decrease) in Closure/Postclosure Payable	(238,032)	5,017,222
Total Adjustments to Net Income	521,425	7,389,794
Net Cash Provided by Operating Activities	\$ 2,451,737	\$ 2,906,228

The accompanying notes are an integral part of this statement.

SALINAS VALLEY SOLID WASTE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010

**1. Summary of Significant Accounting Policies:**

**A. *Financial Reporting Entity***

The Salinas Valley Solid Waste Authority (Authority) is a joint exercise of powers authority, created pursuant to an agreement dated as of January 1, 1997, (the "Authority Agreement") among the County of Monterey, and the cities of Salinas, Gonzales, Greenfield, Soledad, and King City (the "Members"). The Authority was established to acquire and manage the landfill assets of each member, ensure long-term landfill capacity of the Authority service area, and provide a unified and coordinated solid waste management for the members.

The Authority is governed by a nine member governing board, consisting of three members of the Salinas City Council, two members of the Monterey County Board of Supervisors, and one City Council member each from the cities of Gonzales, Greenfield, King City and Soledad. Pursuant to the Authority Agreement, the affirmative vote of at least one member of the Authority Board who is a member of the Salinas City Council is required to approve Board actions.

**B. *Measurement Focus and Basis of Accounting and Financial Statement Presentation***

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis is financed or recovered primarily through user charges.

The basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from the operation of the Authority's landfill sites, transfer station and related services. The principal operating revenues of the Authority are tipping fees charged to customers for use of the landfills and transfer stations. Operating grants that are exchange transactions and are activities that are related to the operation of the landfill are also considered operating revenues. Operating expenses include the cost of maintenance and operation of the landfills and transfer stations, closure, and postclosure costs, general and administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

The Authority does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. The Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as statements and interpretations of the FASB, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

SALINAS VALLEY SOLID WASTE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2010

**C. Use of Restricted/Unrestricted Net Assets**

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

**D. Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less at the time of acquisition.

In accordance with GASB State ment No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

**E. Accounts Receivable**

The Authority sets aside an allowance for uncollectible accounts based on an analysis of those accounts considered to be uncollectible at year-end. Accounts receivable are reported net of the allowance for uncollectible accounts.

**F. Capital Assets**

Capital assets, which include land, buildings, improvements, equipment and infrastructure assets, are reported at cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. Capitalized costs include material, direct labor, transportation and such indirect items as engineering, supervision, employee fringe benefits and interest on net borrowed funds related to capital assets under construction. The Authority has set the capitalization thresholds for reporting capital assets at the following:

- General Capital Assets                      \$5,000

For all exhaustible capital assets depreciation is recorded on a straight-line method (beginning the year after acquisition) over the useful lives of the assets as follows:

Buildings	20-40 years
Other Improvements	4-50 years
Equipment	5-10 years

Depletion and depreciation of the Authority's landfill sites has been provided over the estimated remaining capacity of its landfills. By the time a landfill stops accepting waste that landfill must be fully depreciated. This will lead to larger amounts of depreciation charged at the end of the landfill's life for projects capitalized in those latter years.

The cost of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized.

**G. Compensated Absences**

The Authority accrues the cost of unused annual leave as a current liability at fiscal year end along with the cost of associated retirement benefits.

SALINAS VALLEY SOLID WASTE AUTHORITY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (CONTINUED)  
 JUNE 30, 2010

**H. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly actual results could differ from those estimates.

**I. Bond Premiums, Discounts and Issuance Costs**

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

**J. Classification of Net Assets**

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

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

Unrestricted Net Assets – This category represents the net assets which are not restricted for any project or other purpose.

**2. Cash and Investments:**

The Authority's cash and investments at June 30, 2010, are included in the accompanying basic financial statements as follows:

Cash	and Investments	\$	8,768,119
Restricted	Cash		<u>15,333,929</u>
Total		\$	<u>24,102,048</u>

The Authority's cash and investments at June 30, 2010, were held as follows:

Cash managed by the Authority Treasurer	\$	<u>241,986</u>
Investments managed by the Authority Treasurer		21,039,362
Investments managed by the Fiscal Agent		<u>2,820,700</u>
Investments subtotal		<u>23,860,062</u>
Total	\$	<u>24,102,048</u>

The Authority follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures. Earnings from these investments are allocated quarterly to each fund based on average monthly cash balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund. The Authority's investment policy conforms to state law (Government Code Sections 53601 through 53659). The investment of bond proceeds is governed by the specific Indenture of Trust. The investment policy is reviewed annually. Investments shown at fair value are for information only to assess the actual value if the Authority were to liquidate the investments before maturity. The Authority intends to hold all investments to maturity.

The Authority participates in the Local Authority Investment Fund (LAIF), an investment pool managed by the State of California. At June 30, 2010 LAIF had invested a portion of the pool



SALINAS VALLEY SOLID WASTE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2010

funds in Structured Notes and Asset-Backed Securities. These Structured Notes and Asset-Backed Securities are subject to market risk as a result of changes in interest rates.

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. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

<u>Investment Type</u>	<u>Investment Maturities</u>				
	<u>Fair Value</u>	<u>0-6 mths</u>	<u>6-12 mths</u>	<u>1-5 years</u>	<u>over 5 yrs</u>
State of California					
Local Agency Investment Fund	\$ 21,039,362	\$ -	\$ 21,039,362	\$ -	\$ -
AIG Matched Funding					
Investment Agreement	2,820,700	-	-	-	2,820,700
	<u>\$ 23,860,062</u>	<u>\$ -</u>	<u>\$ 21,039,362</u>	<u>\$ -</u>	<u>\$ 2,820,700</u>

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 Local Agency Investment Fund managed by the State Treasurer, representing 88.2% of the investment portfolio, is not rated. Investments in money market funds are limited by Government Code Section 53601 to those that have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations. AIG Matched Funding was rated A- and A 3 by Standard and Poor's Rating Group and Moody's Investor's Service, respectively.

Concentration of Credit Risk

The Local Agency Investment Fund, representing 88.2% of the portfolio is not considered a concentrated risk. The AIG Matched Funding Investment Agreement represents 11.8% of the investment portfolio. This investment agreement exceeds 5% of the Authority's investment portfolio and therefore does represent a concentration of credit risk. The investment is in accordance with the Indenture of Trust and is insured by AMBAC Financial Guaranty Insurance.

Custodial Credit Risk

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. According to the investment policy investment of bond proceeds are restricted by the provisions of relevant bond documents. Funds held by Bank of New

SALINAS VALLEY SOLID WASTE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2010

York (BNY) the Fiscal Agent of the 2002 Revenue Bonds are held in the Trustee's name, BNY, for the benefit of the Authority. This custodial credit risk exists due to the requirements of the bond indenture.

Investment in State Investment Pool

The Authority 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 Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority'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

**3. Accounts Receivable:**

Accounts receivable at June 30, 2010 consists of the following:

Billed Receivables:	
Tipping Fees	\$ 1,316,357
Franchise Contracts Management	57,000
A & S Metal Sales	22,383
FUTA Refund	1,953
Electronic Asset Recovery	26,337
Employees' Flexible Spending Account	7,760
Recology Shared Revenue	19,846
Salinas Rate Stabilization Agreement	23,152
Intergovernmental Grants	50,205
Recology Contract Receivables	117,305
	1,642,298
Allowance for Doubtful Accounts	(13,164)
	\$ 1,629,134

**4. Deferred Charges (Bond Issuance Costs):**

The Authority incurred bond issuance costs of \$2,085,228 in connection with the issuance of the Revenue Bonds, Series 2002. The issuance costs are being amortized over 30 years, the life of the 2002 Revenue Bonds, at an annual amortization expense of \$ 69,508. The following is a summary of unamortized bond issuance costs at June 30, 2010, reported on the Statement of Net Assets as deferred charges:

	2009	Increases	Decreases	2010
Revenue Bonds, Series 2002	\$ 1,598,672	\$ -	\$ 69,508	\$ 1,529,164

**5. Restricted Cash:**

Cash and investments of \$15,333,929 are recorded as restricted assets at June 30, 2010.

Cash and investments of \$12,513,229 are restricted by the California Integrated Waste Management Board for the eventual closure of the landfills.

SALINAS VALLEY SOLID WASTE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2010

Cash and investments of \$2,820,700 held by the fiscal agent are restricted to cover expenses of debt service.

**6. Capital Assets:**

Capital asset activity for the year ended June 30, 2010, is as shown:

<b>Business-type activities</b>	<u>June 30, 2009</u>	<u>Increases</u>	<u>Adjustments</u>	<u>June 30, 2010</u>
Nondepreciable Assets:				
Land	\$ 42,600	\$ -	\$ -	\$ 42,600
Construction in Progress	4,655,680	35,508	(3,680,227)	1,010,961
Total nondepreciable assets	<u>4,698,280</u>	<u>35,508</u>	<u>(3,680,227)</u>	<u>1,053,561</u>
Depreciable Assets:				
Buildings	456,484	-	-	456,484
Other Improvements	47,220,822	5,999,958	-	53,220,780
Machinery and Equipment	1,941,878	275,178	-	2,217,056
Total depreciable assets	49,619,184	6,275,136	-	55,894,320
Less Accumulated Depreciation	<u>(26,676,545)</u>	<u>(482,624)</u>	<u>-</u>	<u>(27,159,169)</u>
Total Depreciable Assets, Net	<u>22,942,639</u>	<u>5,792,512</u>	<u>-</u>	<u>28,735,151</u>
Total Capital Assets, Net	<u>\$ 27,640,919</u>	<u>\$ 5,828,020</u>	<u>\$ (3,680,227)</u>	<u>\$ 29,788,712</u>

Construction in progress at June 30, 2010, consists of \$538,413 in costs related to long-term expansion of the Authority's capacity, \$272,904 associated with a cogeneration project, and \$199,644 in costs associated with various landfill projects.

**7. Annual Leave Liability:**

Employees are eligible to receive their entire unused annual leave balance upon termination, or can elect to be paid annually for a maximum of fifteen days of annual leave, depending on years of service. At June 30, 2010, the liability for this accrued leave is \$280,948.

SALINAS VALLEY SOLID WASTE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2010

**8. Long Term Liabilities:**

The following is a summary of long term liabilities for the fiscal year ended June 30, 2010:

	June 30, 2009	Increases	Decreases	June 30, 2010	Due Within One Year
Long Term Debt:					
2002 Revenue Bonds	\$ 36,770,000	\$ -	\$ 860,000	\$ 35,910,000	\$ 900,000
Bond Discount	(305,054)	-	(13,263)	(291,791)	-
Installment Purchase Agreement	3,709,274	-	93,489	3,615,785	101,030
Long Term Debt Subtotal	40,174,220	-	940,226	39,233,994	1,001,030
Other Long Term Liabilities:					
Post Employment Benefits	-	46,500	-	46,500	-
Closure Payable	12,376,496	295,960	657,449	12,015,007	-
Post Closure Payable	13,176,202	260,372	136,915	13,299,659	578,200
Total Long Term Liabilities	<u>\$ 65,726,918</u>	<u>\$ 602,832</u>	<u>\$ 1,734,590</u>	<u>\$ 64,595,160</u>	<u>\$ 1,579,230</u>

**Revenue Bonds, Series 2002**

On May 15, 2002, the Authority issued Revenue Bonds, Series 2002 in the amount of \$39,845,000 to finance capital improvement projects, refund the Authority's 1997 Revenue Bonds, payoff a portion of the Crazy Horse installment purchase agreement and provide capitalized interest and a debt service reserve fund. Maximum annual debt service is \$2,756,524, including interest at 5.56% for 30 years. The annual debt service requirements are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	\$ 900,000	\$ 1,853,091	\$ 2,753,091
2012	940,000	1,814,554	2,754,554
2013	985,000	1,769,954	2,754,954
2014	1,035,000	1,721,524	2,756,524
2015	1,085,000	1,667,203	2,752,203
2016-2020	6,445,000	7,320,916	13,765,916
2021-2025	8,400,000	5,370,778	13,770,778
2026-2030	10,895,000	2,861,906	13,756,906
2030-2032	5,225,000	277,857	5,502,857
	<u>\$ 35,910,000</u>	<u>\$ 24,657,783</u>	<u>\$ 60,567,783</u>

SALINAS VALLEY SOLID WASTE AUTHORITY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (CONTINUED)  
 JUNE 30, 2010

Installment Purchase Agreement

The Authority purchased Crazy Horse Sanitary Landfill from the City of Salinas for \$8,000,000. On August 12, 1997, the Authority and the City entered into an installment purchase agreement. The installment payments to the City were \$701,244 per year, including interest at 7.91% for 30 years.

On August 28, 2002, a principal of \$3,470,438 was paid to the City reducing the outstanding balance on the installment purchase agreement to \$4,168,269. The installment payments to the City are reduced to \$385,097 per year, including interest at 7.91% for the remaining 27 years. At June 30, 2010, the remaining balance due was \$3,615,785. The annual debt service requirements are as follows:

Fiscal Year Ended	Principal	Interest	Total
June 30,			
2011	\$ 101,030	\$ 284,067	\$ 385,097
2012	109,180	275,917	385,097
2013	117,988	267,109	385,097
2014	127,506	257,591	385,097
2015	137,792	247,306	385,098
2016-2020	874,745	1,050,741	1,925,486
2021-2025	1,289,274	636,211	1,925,485
2026-2028	858,270	104,471	962,741
	<u>\$ 3,615,785</u>	<u>\$ 3,123,413</u>	<u>\$ 6,739,198</u>

**9. Unamortized Bond Discount:**

The 2002 Revenue Bonds were sold at a discount of \$397,895. The discount is being amortized over the life of the bond issue (30 years) at an annual rate of \$13,263. The following is a summary of the 2002 Revenue Bonds unamortized discount at June 30, 2010:

	June 30, 2009	Increases	Decreases	June 30, 2010
Revenue Bonds, Series 2002	\$ 305,054	\$ -	\$ (13,263)	\$ 291,791

Total bonded debt outstanding at June 30, 2010 net of the unamortized bond discount is as follows:

Bonds payable	\$ 35,910,000
Less unamortized bond discount	<u>(291,791)</u>
Net bonds payable	<u>\$ 35,618,209</u>

**10. Landfill Closure and Postclosure Requirements:**

The Salinas Valley Solid Waste Authority operates a solid waste disposal system serving the waste shed of the cities of Salinas, Gonzales, Greenfield, Soledad and King City, and the eastern and southern portions of the unincorporated area of the County. The system currently consists of one active landfill (Johnson Canyon), two transfer stations (Sun Street and Jolon Road) and three closed landfills (Lewis Road, Jolon Road and Crazy Horse).

The landfills are regulated by the California Integrated Waste Management Board (CIWMB) which requires the Authority to set-aside funds annually for landfill closure postclosure maintenance for at least 30 years after closure. On June 19, 1998, the CIWMB approved the Authority's financial assurance mechanisms for closure and postclosure maintenance for the

SALINAS VALLEY SOLID WASTE AUTHORITY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (CONTINUED)  
 JUNE 30, 2010

Authority's four landfills. Since then, the CIWMB and the Authority have agreed to the financial assurance mechanism for corrective action for the Jolon Road and Crazy Horse Landfills. The State found the Enterprise Fund and Pledge of Revenue Agreement met the requirements of Title 27 of the California Code of Regulations and Federal Title 40 regulations. Under the terms of these agreements the Authority is to annually set-aside funds for the closure of the landfills. The postclosure maintenance and corrective action costs will be funded on a pay-as-you go basis when they are actually incurred and are secured by a pledge of revenue.

Closure costs are determined and funded annually based on landfill capacity used. Although postclosure maintenance costs will be paid near or after the date that the landfills stop accepting waste, the Authority reports a portion of these costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

Postclosure maintenance costs are based on the level of service required to protect the environment during the postclosure period. These include the cost of equipment and facilities, such as leachate collection systems and final cover maintenance. Postclosure care costs extend over a 30 year period of time. For this reason, it is likely there will be unforeseen repair or replacement costs during the postclosure period. Some of these variances are due to changes in technologies, changes in operational conditions and physical changes at the landfills. Estimated current costs of closure and postclosure care are evaluated annually as required by Generally Accepted Accounting Principles (GAAP). The results of the annual evaluation can increase or decrease closure and postclosure costs depending on the various components here described.

The system estimated capacity at June 30, 2010 is presented as follows:

	<u>Johnson Canyon</u>	
Permitted Capacity (cu. yd.)	10,512,141	100%
Cumulative Capacity Used (cu. yd.)	<u>(1,291,702)</u>	12%
Remaining Capacity (cu. yd.)	<u>9,220,439</u>	88%

System Capacity

As of June 30, 2010, the Authority has 88% of its revised system capacity remaining. System capacity is based on the capacity of the one active landfill, Johnson Canyon. During the fiscal year ending June 30, 2010, the Authority landfilled a total of 253,553 tons of solid waste. As of June 30, 2010 the Authority has 30 years remaining landfill capacity.

Johnson Canyon Landfill

On February 1, 2008 Johnson Canyon was granted a revised permit by the California Integrated Waste Management Board increasing its landfill capacity. It has capacity to the year 2040 based on the assumption that the goal of 75% is reached by the year 2015. The site capacity estimates and closure and postclosure costs were revised as part of the permit process.

Closed Landfills

Crazy Horse Landfill closed on May 31, 2009. It is now undergoing the closure process.

Jolon Road Landfill is accepting waste only as a transfer station. The Landfill was completed in October 2007. No refuse is being landfilled on this site.

SALINAS VALLEY SOLID WASTE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2010

Lewis Road Landfill is a closed landfill. No refuse is being landfilled on this site.

Closure and Postclosure Maintenance Costs

Estimated closure and postclosure maintenance costs and amounts set-aside for closure as of June 30, 2010, are presented as follows:

	June 30, 2010				
	<u>Total</u>	<u>Crazy Horse</u>	<u>Johnson Canyon</u>	<u>Lewis Road</u>	<u>Jolon Road</u>
Estimated:					
Closure Cost	\$ 19,421,382	\$ 10,977,219	\$ 8,444,163	\$ -	\$ -
Postclosure Maintenance Cost	<u>\$ 15,802,409</u>	<u>\$ 10,319,642</u>	<u>\$ 2,994,625</u>	<u>\$ 1,275,119</u>	<u>\$ 1,213,023</u>
Expense (Income):					
Closure	\$ 295,960	\$ -	\$ 295,960	\$ -	\$ -
Postclosure Maintenance	<u>260,372</u>	<u>123,836</u>	<u>104,958</u>	<u>16,302</u>	<u>15,276</u>
Total Expense (Income)	<u>\$ 556,332</u>	<u>\$ 123,836</u>	<u>\$ 400,918</u>	<u>\$ 16,302</u>	<u>\$ 15,276</u>
Outstanding Liability:					
Closure	\$ 12,015,007	\$ 10,977,219	\$ 1,037,788	\$ -	\$ -
Postclosure Maintenance	<u>13,299,659</u>	<u>10,443,478</u>	<u>368,039</u>	<u>1,275,119</u>	<u>1,213,023</u>
Total Liability	<u>\$ 25,314,666</u>	<u>\$ 21,420,697</u>	<u>\$ 1,405,827</u>	<u>\$ 1,275,119</u>	<u>\$ 1,213,023</u>
Assets Set-Aside for Closure-Cash	<u>\$ 12,513,229</u>	<u>\$ 10,867,871</u>	<u>\$ 1,645,358</u>	<u>\$ -</u>	<u>\$ -</u>
Cash over/(under) Closure Liability	<u>\$ 498,222</u>	<u>\$ (109,348)</u>	<u>\$ 607,570</u>	<u>\$ -</u>	<u>\$ -</u>

Johnson Canyon Landfill estimated closure costs increased \$100,128 as a result of the CIWMB inflation factor of 1.2%. After taking into account the capacity used at the landfill, the Authority recognized a closure expense of \$295,960 for Johnson Canyon.

Johnson Canyon Landfill estimated postclosure costs increased \$35,509 as a result of the CIWMB inflation factor of 1.2%. After taking into account the remaining capacity of the landfill, the Authority recognized a postclosure expense of \$104,958.

The postclosure maintenance liability of \$13,299,659 will be funded from future revenues as expenditures take place.

**11. Deferred Compensation Plan:**

Effective July 1, 2004, the Authority established a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Small Business Job Protection Act of 1996 requires the establishment of a trust or similar vehicle to ensure that the assets of the deferred compensation plans under the Internal Revenue Code Section 457 are protected and used exclusively for the benefit of plan participants and/or their beneficiaries. All employees are eligible to participate through voluntary salary reduction. The Authority's adopted Plan Document includes the provision for such a Trust. The existence of the trust does little to change the Plan structure except to add a layer of protection for money set aside for the employee against claims of the Employer's creditors.

SALINAS VALLEY SOLID WASTE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2010

The Authority's deferred compensation plan is administered by the ICMA Retirement Corporation. The ICMA Deferred Compensation plan has a balance of \$257,427 as of June 30, 2010. Since these funds are held by the ICMA Retirement Corporation under a trust arrangement for the benefit of the employees, these funds are not reported on the financial statements.

**12. Retirement Programs:**

Effective July 1, 2004, the Authority entered into a contract with the California Public Employees' Retirement System (CalPERS) for the provision of retirement benefits under the Public Employees' Retirement Law. The total pension expense for the fiscal year was \$354,279 which included normal costs, annual amortization of prior service costs and Employer Paid Member Contributions.

Public Employees Retirement System

Plan Description The Authority's defined benefit pension Miscellaneous Plan, provides retirement and disability benefits, a annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 Q Street – Sacramento, CA 95811.

The Authority entered into a contract with CalPERS effective July 1, 2004, to provide 2% at 55 for Local Miscellaneous Members. All CalPERS participant benefits vest after five years of service. Miscellaneous employees under CalPERS who retire at or after age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount that varies from 2% at age 55 to a maximum 2.418 % at age 63, of the single highest year's salary for each year of credited service.

Funding Policy Active plan members are required to contribute 7% of their annual covered salary. Effective January 1, 2010 the Authority began contributing the 7% as Employer Paid Member Contributions. The Authority is also required to contribute an actuarially determined rate. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-10 was 9.373% for miscellaneous employees of annual covered payroll. The contribution requirements of the plan members are established by State statute and employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost For fiscal year 2009-10, the Authority's annual pension cost of \$354,279 was equal to the Authority's required and actual contributions of \$216,332 and \$137,947 as Employer Paid Member Contributions. In addition, the employees contributed \$9,870 from their earnings on a pre-tax basis. The required contribution for fiscal year 2009-10 was determined as part of the original actuarial valuation using the Entry Age Actuarial Cost Method with the contributions determined as a percent of pay. The actuarial assumption included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members, and (c) 3.25% payroll growth. Both (a) and (b) include an inflation component of 3.0%. The



SALINAS VALLEY SOLID WASTE AUTHORITY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (CONTINUED)  
 JUNE 30, 2010

actuarial value of CalPERS assets was determined using techniques that smooth the effects of short term volatility in the market value of investments spreading the unrealized and realized gain/(loss) over a 15 year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of assumed future payroll on a closed basis. All pension costs are paid upon receipt of invoices.

Trend Information – Following is the three-year trend information for CalPERS:

<u>THREE-YEAR TREND INFORMATION FOR PERS</u>			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/08	\$ 131,531	100%	\$ -
6/30/09	167,804	100%	-
6/30/10	216,332	100%	-

The Authority has less than 100 active members; therefore, it is required to participate in a risk pool.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents the risk pool multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**13. Postemployment Healthcare Plan:**

Plan Description and Funding Policy

The Authority participates in an agent multiple-employer defined benefit postemployment healthcare plan administered by CalPERS. Employees who retired directly from the Authority under the California Public Employee's Retirement System (CalPERS) at the minimum age of 50 with at least 5 years of CalPERS service (or disability) are eligible to receive up to \$105/month for medical insurance premiums paid to CalPERS. This same benefit may continue to a surviving spouse depending on the retirement plan election. Currently, there is one retiree from the Authority. This retiree declined this benefit. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, P.O. Box 942701, Sacramento, CA 94229-2701.

Annual OPEB Costs and Net OPEB Obligation

The Authority funds the payment of current retirees health costs on a pay-as-you go basis. For the fiscal year ended June 30, 2010, the Authority's pay-as-you-go contribution for health care benefits for retirees are \$0. There were no retirees on the health insurance.

The Authority's annual Other Post Employment Benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the Authority's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation (NOO) for the year ended June 30, 2010 is as follows:

SALINAS VALLEY SOLID WASTE AUTHORITY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (CONTINUED)  
 JUNE 30, 2010

		Total
Annual required contribution	\$	46,500
Payments made		-
Increase (decrease) in net OPEB obligation	\$	46,500
Net OPEB obligation - beginning of year		-
Net OPEB obligation - ending of year	\$	46,500

**Funded Status and Funding Progress**

As of June 30, 2009, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well as the unfunded actuarial accrued liability (UAAL) was \$84,600. The covered payroll (annual payroll of active employees covered by the plan) was \$2,096,000 and the ratio of the UAAL to the covered payroll was 4.0%. The plan has no segregated assets.

If the Authority elected to fully fund the annual required contribution through an irrevocable trust (at an average investment return of 7.75%), the increase in the annual contribution would be only \$43,100.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of including this information in the financial report, the data presented is limited.

**Actuarial Methods and Assumptions**

In the June 30, 2009 actuarial valuation, the actuarial cost method used is Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost. For the retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at June 30, 2010 for 30 years. GASB 45 requires the interest rate to represent the underlying expected return for the source of funds used to pay benefits. The actuarial methods and assumptions included 4.5% interest rate, representing the long term expected rate of return on the Authority's pooled investments. Annual inflation assumed to increase at 3% per annum and Aggregate Payroll assumed to increase at 3.25% per annum. The study also used assumptions for the salary merit and longevity increases, and demographic assumptions such as mortality withdrawal, and disability based on CalPERS 1997-2002 Experience Study. Retirement assumption was also based on CalPERS 1997-2002 Experience Study of the Miscellaneous Plan 2.0% at 55 years, with expected retirement age of approximately 62.78.

SALINAS VALLEY SOLID WASTE AUTHORITY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (CONTINUED)  
 JUNE 30, 2010

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**14. Commitments and Contingencies:**

Recology Waste Systems Long-Term Contract

On October 23, 2003, the Authority entered into a revised long-term contract with Norcal Waste Systems (Norcal) for the operation of the Crazy Horse (until it closed on May 31, 2009) and Johnson Canyon landfills and scalehouses and the Sun Street Transfer Station and scalehouse. Recology is also compensated for diversion services at each of the landfills and transfer station. All of these services are provided based on a minimum flat monthly fee along with additional fees based on tonnages/quantities processed at each of the sites and landfill compaction. Since the Authority took over the scalehouse operations on September 1, 2009, that part of the contract is not considered a long-term contract. The basic contract terms, at June 30, 2010, were as follows:

<u>Contract</u>		<u>Basic</u>	<u>Future Minimum</u>
<u>Ending Date</u>	<u>Service</u>	<u>Annual Fee</u>	<u>Contractual Amount</u>
12/31/2013	Johnson Canyon Landfill Basic Facility Fee	\$ 1,952,760	\$ 6,834,660
5/1/2010	Diversion Assistance Fees-all landfills	93,732	93,732

The contract with Norcal for the operation of Sun Street ended December 31, 2007, when the Authority took over the operation. The agreement for Diversion services is for five (5) years from the date the program began on May 1, 2005.

For the fiscal year ended June 30, 2010, the Authority paid Norcal Engineering \$ 3,337,034 for operations of Crazy Horse and Johnson Canyon landfills and scalehouses, diversion services, excess tonnage, and air space conservation adjustment.

USA Waste Long-Term Contract

As part of the Settlement Agreement and Release on the Jolon Road litigation, the Authority entered into an Amended and Restated Operating Agreement for the Jolon Road Transfer Station. The initial term of this Amended Agreement commenced on June 3, 2004 and ends on September 1, 2016, however, it may be extended for up to three (3) additional one-year renewal terms. Effective June 1, 2010, the base compensation consists of a fuel component of \$2,198 and a non-fuel component of \$51,438. The base compensation is adjusted annually on the anniversary date of the Amended Agreement based on changes in the Retail On-Highway Diesel Prices and Consumer Price Index. The basic contract terms at June 30, 2010, were as follows:

<u>Ending Date</u>	<u>Service</u>	<u>Annual Fee</u>	<u>Contractual Amount</u>
09/01/2016	Jolon Road Transfer Station	\$ 643,637	\$ 3,969,050

SALINAS VALLEY SOLID WASTE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2010

Lease Obligations

On October 19, 2006, the Authority entered into a ten year lease commencing January 1, 2007, for office space at 128 Sun Street in Salinas. Monthly lease payments for the first five years are \$6,540. The minimum monthly rent will increase to \$7,194 on January 1, 2012. The lease has an option to extend for two five-year periods.

The future minimum lease payments through December 2016 are as follows:

Fiscal Year Ending June 30,	Amount
2011	\$ 78,478
2012	82,401
2013	86,328
2014	86,328
2015	86,328
2016	86,328
2017	43,165
	\$ 549,356

Vernon Dower et al. v. Bridgestone Firestone North America Tire, L.L.C. et al

The Salinas Valley Solid Waste Authority (“SVSWA”), and the City of Salinas, a member agency of the SVSWA, were sued as third party defendants in a lawsuit entitled *Vernon Dower et al. v. Bridgestone Firestone North America Tire, L.L.C. et al*, which was pending in the United States District Court for the Northern District of California, Civil No. C-06-6837 JW(RS) (the “Action”). The SVSWA and the City were brought into the lawsuit through a third party complaint filed by Bridgestone Firestone North America Tire, L.L.C., and Bridgestone Americas Holding, Inc. (collectively “Bridgestone”).

A separate lawsuit involving additional plaintiffs was also filed against the Bridgestone Defendants before the same judge, and Bridgestone in turn filed a similar third party complaint against the SVWMA and the City of Salinas. These two cases were consolidated for trial.

Both cases have now been settled, with Bridgestone dismissing its third party complaints against both the Authority and the City of Salinas. Neither the Authority nor the City made any settlement payment to Bridgestone or any other party for the settlement, other than to agree not to pursue Bridgestone for their attorneys fees and costs. The Authority and City have reached a separate settlement with their insurance carrier for reimbursement to the Authority and City of most of their defense costs in the litigation.

Other claims and lawsuits are pending against the Authority. Although the outcome of these claims and lawsuits is not presently determinable, in the opinion of the Authority’s management, and on advice of legal counsel, it is unlikely that they will have a material adverse effect on the accompanying financial statements.

Risk Management

The Authority is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. Effective July 1, 2009 the Authority has purchased worker’s compensation insurance through the Zurich American Insurance Company for its employees. The Authority has the following commercial insurance policies:

SALINAS VALLEY SOLID WASTE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
JUNE 30, 2010

<u>Coverage</u>	<u>Limits</u>	<u>Deductible</u>
Pollution liability	\$10,000,000	\$ 25,000
General liability	2,000,000	-
Automobile liability	1,000,000	25,000
Property damage	2,106,214	10,000
Public Officials/Employment practices	1,000,000	10,000/25,000
Excess Liability	2,000,000	10,000

There have been no significant reductions in any insurance coverage, nor have there been any insurance related settlements that exceeded insurance coverage during the past three fiscal years.

**15. Restricted Net Assets:**

At June 30, 2010, the statement of net assets reports restricted net assets of \$2,820,700. None of the net assets are restricted by enabling legislation. This amount is the debt service reserve which cannot be used until the bonds are paid in full in 2031.

**16. Net Deficit:**

Deficit Invested in Capital Assets, Net of Related Debt

The deficit of \$9,737,073 Invested in Capital Assets, Net of Related Debt is the result of the Authority issuing 30-year debt to purchase and improve assets that depreciated at a much faster rate than the debt is being repaid. Three of the Authority's landfills are closed and fully depreciated, however, the debt associated with those assets will not be paid in full until 2032.

Unrestricted Net Deficit

The deficit of \$3,506,892 in Unrestricted Net Deficit is the result of accrued operating expenses such as postclosure that will be paid from future revenues. Per Board policy tipping fees are set at an amount such that postclosure maintenance is funded on a pay-as-you-go basis. Thus far \$13,299,659 in operating expenses has accrued as a liability which will be funded over the next 30 years from tipping fees. This is in accordance with the Pledge of Revenue that is part of the Financial Assurances agreement between the Authority and CalRecycle.

**17. Bond Rate Covenant**

Pursuant to the Master Indenture of the Revenue Bonds, Series 2002, the Authority has agreed to at all times while any of the Bonds remain Outstanding to set fees and charges and manage operations so as to yield Net Revenues during the fiscal year equal to at least one hundred fifteen percent (115%) of the bond's annual debt service for the fiscal year.

This calculation is based on Net Revenues as described in the Master Indenture. The calculation is based on operating income increased by investment earnings on all funds other than bond project funds and reduced by postclosure expense, depreciation and amortization, all non-cash items. The calculation comes out to 155%.

SALINAS VALLEY SOLID WASTE AUTHORITY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2010

California Public Employees' Retirement System  
 Schedule of Funding Progress

Miscellaneous 2% at 55 Risk Pool

Actuarial Valuation Date	(a) Actuarial Accrued Liability- (AAL) Entry Age	(b) Actuarial Value of Assets	(a-b) Unfunded AAL (UAAL)	(b/a) Funded Ratio	(c) Covered Payroll	[(a-b)/c] UAAL as a Percentage of Covered Payroll
6/30/2005	\$ 2,891,460,651	\$ 2,588,713,000	\$ 302,747,651	89.5%	\$ 755,046,679	40.1%
6/30/2006	\$ 2,754,396,608	\$ 2,492,226,176	\$ 262,170,432	90.5%	\$ 699,897,835	37.5%
6/30/2007	\$ 2,611,746,790	\$ 2,391,434,447	\$ 220,312,343	91.6%	\$ 665,522,859	33.1%
6/30/2008	\$ 2,780,280,768	\$ 2,547,323,278	\$ 232,957,490	91.6%	\$ 688,606,681	33.8%

Since the Authority has less than 100 active members it is required to participate in a risk pool. The above data is for the Miscellaneous 2% at 55 Risk Pool which the Authority participates in.

Prior to July 1, 2004 the Authority's employees were covered with the City of Salinas under a separate contract with the California Public Employees' Retirement System (CALPERS) retirement plan. There is no outstanding liability from that plan to the Authority.

Postemployment Health Insurance Benefits Plan  
 Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Accrued Liability- (AAL) Entry Age	(b) Actuarial Value of Assets	(a-b) Unfunded AAL (UAAL)	(b/a) Funded Ratio	(c) Covered Payroll	[(a-b)/c] UAAL as a Percentage of Covered Payroll
6/30/2009	\$ 84,600	\$ 0	\$ 84,600	0.0%	\$ 2,096,000	4.0%

Note: Fiscal year 2010 was the year of implementation of GASB No. 45 and the Authority elected to implement prospectively, therefore, prior year comparative data is not available. In future years, three year trend information will be presented.