SALINAS VALLEY
SOLID WASTE AUTHORITY

Salinas, California

BASIC FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

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For the Fiscal Year Ended June 30, 2012

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

AUDITORS

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

INTRODUCTORY SECTION:

FINANCIAL SECTION:

SALINAS VALLEY
SOLID WASTE AUTHORITY

"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"

October 23, 2012

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, 2012. 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 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, 2012, 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. Based upon the audit, the independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the Authority's financial statements for the fiscal year ended June 30, 2012, 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.

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 the eastern portion of Monterey County, to provide solid waste 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 County Board of Supervisors, and one City Council member each from the cities of 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 $2,021,376 and an improvement in net assets of $157,205 for the fiscal year ended June 30, 2012.

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, 2012 the Authority has accrued postclosure liabilities totaling $13,585,632 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 $4,836,524 are fully funded at June 30, 2012.

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, 2012, provides a detailed reconciliation of the Authority's decrease in cash of $92,157 to $8,576,842.

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 $14,945 during the current year, however, do not necessarily represent trends that will continue. During the fiscal year ended June 30, 2012 the Authority's investment earnings were $52,658, a decrease of $180,884 from 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 14 of the financial statements.

Financial Management

The Authority carefully monitors its gate rates. On July 1, 2011, the tipping fee remained at $64.00 per ton. 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, 2012, 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 and 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 $0.8 million on conversion technology projects, leaving $11.8 million for locating and permitting a new landfill site. At June 30, 2012, the Expansion Fund had unrestricted net assets of $6,566,596.

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.

During FY 2012-13 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, Ray Hendricks, Business Services Supervisor, and Christine Casey, 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, 2012

Fernando Armenta, County of Monterey
President

Elizabeth Silva, City of Gonzales
Vice President

Dennis Donahue, City of Salinas
Alternate Vice President

Lou Calcagno, County of Monterey
Board Member

Gloria De La Rosa, City of Salinas
Board Member

Robert Cullen, City of King City
Board Member

Yolanda Teneyuque, City of Greenfield
Board Member

Jyl Lutes, City of Salinas
Board Member

Richard Perez, City of Soledad
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

David Meza
Engineering 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, 2012, 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 the Authority as of June 30, 2012, 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

Daniel M. McGilloway, Jr., CPA, CVA, Gerald C. Ray, CPA, Clyde W. Brown, CPA, Patricia M. Kaufman, CPA, Larry W. Rollins, CPA, Helen Grace H. Rodriguez, CPA, CFE

Sarita C. Shannon, CPA, Deanna Lozano, CPA, Whitney Ernest, CPA, Devvyn MacBeth, CPA, Nancy H. Rimberg, CPA

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.

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 has 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.

McGillivray, Ray, Brown & Kaufman

October 23, 2012

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, 2012. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

Financial Highlights

- The Authority's net deficit improved by $157,205 to a deficit of $10,079,386.
- Operating revenues increased $203,228 (1.3%), as the result of a modest increase in local economic activity.
- Tons landfilled decreased 14,435 tons (5.8%) during the year from 250,683 tons in fiscal year 2010-11 to 236,248 tons in fiscal year 2011-12.
- Operating expenses increased $965,721 (7.9%) to $13,252,416 due primarily to increases in operating contracts and contractual services.
- The Authority's total liabilities decreased by $7,445,704 to $58,527,458.
- The closure of Crazy Horse Landfill is underway and expected to be completed by December 2012. This is the single largest project of the Authority since being formed in 1997.

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.

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 $10,079,386 which is an improvement of $157,205.

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2012 and 2011:

Salinas Valley Solid Waste Authority
Condensed Statement of Net Assets (Deficits)
June 30, 2012 and 2011

	2012	2011	Change	% Change
Assets				
Current Assets	$ 13,021,243	$ 20,544,545	$ (7,523,302)	-36.6%
Other Assets	6,709,526	6,506,762	202,764	3.1%
Capital Assets, Net	28,717,303	28,685,264	32,039	0.1%
Total Assets	48,448,072	55,736,571	(7,288,499)	-13.1%
Liabilities				
Current Liabilities	7,288,465	14,381,420	(7,092,955)	-49.3%
Long-term Liabilities	51,238,993	51,591,742	(352,749)	-0.7%
Total Liabilities	58,527,458	65,973,162	(7,445,704)	-11.3%
Net Assets (Deficit)				
Invested in Capital Assets Net of Related Debt	(8,493,008)	(9,560,964)	1,067,956	-11.2%
Restricted	2,933,606	2,820,700	112,906	4.0%
Unrestricted	(4,519,984)	(3,496,327)	(1,023,657)	29.3%
Total Net Assets (Deficit)	$ (10,079,386)	$ (10,236,591)	$ 157,205	-1.5%

The changes in Current Assets is the result of restricted cash being moved from Current Liabilities for closure costs paid during the year. This is the result of the Crazy Horse closure project which is to be completed within one year. The $2,933,606 in restricted net assets represents $2,820,700 for the bond reserve that cannot be spent until 2031 when the revenue bonds mature and $112,906 for unspent grant monies. Unrestricted net assets are a deficit of $4,519,984. The total net deficit is due primarily to the deficit of $8,493,008 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.

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, 2012 and 2011.

Salinas Valley Solid Waste Authority
Condensed Statement of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2012 and 2011

	2012	2011	Change	% Change
Operating Revenues	$ 15,273,792	$ 15,070,564	$ 203,228	1.3%
Operating Expenses	(13,252,416)	(12,286,695)	(965,721)	7.9%
Operating Income/(Loss)	2,021,376	2,783,869	(762,493)	-27.4%
Non-operating Revenues	221,151	383,335	(162,184)	-42.3%
Loss on Disposition of Assets	-	(848,017)	848,017	-100.0%
Non-operating Expenses	(2,085,322)	(2,132,513)	47,191	-2.2%
Change in Net Assets/(Deficit)	157,205	186,674	(29,469)	-15.8%
Net Assets/(Deficit) - Beginning	(10,236,591)	(10,423,265)	186,674	-1.8%
Net Assets/(Deficit) - Ending	$ (10,079,386)	$ (10,236,591)	$ 157,205	-1.5%

The Authority's activities improved the net deficit by $157,205. Key elements of this change are as follows:

Operating revenues increased $203,228 (1.3%) primarily due to a modest increase in local economic activity.

Operating expenses increased $965,721 (7.9%) due primarily to a $253,747 (22.3%) increase in contractual services and $382,021 (8.6%) increase in operating contracts. Two noteworthy increases in operating expenses were a $200,499 (56.5%) increase in green waste processing and $163,718 (27.2%) increase in the compaction incentive paid to the landfill operator.

The single biggest expense for the year was the $2,686,135 paid to Recology Waste Systems for operation of the Johnson Canyon landfill, diversion services and air space conservation adjustment.

The $2,085,322 in non-operating expenses is interest paid on the Authority's long term debt.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year, the Authority had $28,717,303 invested in capital assets, primarily in landfills as summarized below. During this fiscal year the Authority added $660,687 in capital assets and recorded depreciation expense of $628,648. Additional information on the Authority's capital assets can be found in Note 6 on page 17 of this report.

Salinas Valley Solid Waste Authority
Condensed Statement of Capital Assets
For the years ended June 30, 2012 and 2011

	2012	2011
Land	$ 42,600	$ 42,600
Building	456,484	456,484
Improvements other than building	53,421,755	53,421,755
Equipment	2,799,196	2,217,056
Construction in progress	281,864	203,317
	57,001,899	56,341,212
Accumulated Depreciation	(28,284,596)	(27,655,948)
Total	$ 28,717,303	$ 28,685,264

Long-Term Debt

At the end of this fiscal year, the Authority had $37.2 million in long-term debt as shown below. No new debt was incurred during this fiscal year. Principal payments of $1,049,180 were paid on the debt. Additional information on the Authority's long-term debt can be found in Note 8 on page 18 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, 2012 and 2011

	2012	2011
Revenue Bonds, Series 2002	$ 34,070,000	$ 35,010,000
Bond Discount	(265,265)	(278,527)
Installment Purchase Agreement	3,405,575	3,514,755
Total	$ 37,210,310	$ 38,246,228

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 2012-13 management is anticipating tonnage to remain constant. The tipping fees were recently increased to $67.00 per ton. The 2012-13 budget is balanced.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, grantors, 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 (DEFICIT)
JUNE 30, 2012
With Comparative Totals as of June 30, 2011

	2012	2011
Assets		
Current Assets		
Cash and Investments	$ 8,576,842	$ 8,668,999
Restricted Cash	2,992,471	10,156,429
Accounts Receivable, Net	1,441,464	1,695,160
Interest Receivable	10,466	23,957
Total Current Assets	13,021,243	20,544,545
Noncurrent Assets		
Deferred Charges	1,390,148	1,459,656
Restricted Cash	5,319,378	5,047,106
Capital Assets, Net	28,717,303	28,685,264
Total Noncurrent Assets	35,426,829	35,192,026
Total Assets	48,448,072	55,736,571
Liabilities		
Current Liabilities		
Accounts Payable	1,482,684	1,199,971
Wages Payable	74,245	191,971
Accrued Leave	350,960	323,105
Deferred Revenue	-	77,518
Interest Payable	828,103	846,515
Closure Payable	3,198,605	10,290,540
Postclosure Payable - Current	250,880	402,620
Installment Purchase Agreement	117,988	109,180
Bonds Payable - Current	985,000	940,000
Total Current Liabilities	7,288,465	14,381,420
Long Term Liabilities		
OPEB Liability	159,000	97,900
Closure Payable	1,637,919	1,334,727
Postclosure Payable	13,334,752	12,962,067
Installment Purchase Agreement	3,287,587	3,405,576
Bonds Payable, Net	32,819,735	33,791,472
Total Long Term Liabilities	51,238,993	51,591,742
Total Liabilities	58,527,458	65,973,162
Net Assets (Deficit)		
Invested in Capital Assets, Net of Related Debt	(8,493,008)	(9,560,964)
Restricted for Debt Service	2,820,700	2,820,700
Restricted for Grant	112,906	-
Unrestricted	(4,519,984)	(3,496,327)
Total Net Assets (Deficit)	$ (10,079,386)	$ (10,236,591)

The accompanying notes are an integral part of this financial statement

SALINAS VALLEY SOLID WASTE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
FOR FISCAL YEAR ENDED JUNE 30, 2012
With Comparative Totals for fiscal year ended June 30, 2011

	2012	2011
Operating Revenues		
Charges for Services	$ 14,654,565	$ 14,621,695
Sales of Materials	419,613	433,359
Operating Grants and Contributions	199,614	15,510
Total Operating Revenues	15,273,792	15,070,564
Operating Expenses		
Personnel Services	3,593,200	3,697,152
Contractual Services	1,390,036	1,136,289
Operating Contracts	4,804,124	4,422,103
Supplies	382,533	361,401
Insurance	220,868	189,062
Building Rent	99,606	99,310
Taxes and Permits	742,681	685,116
Utilities	133,416	160,573
Depreciation	628,648	496,778
Amortization	69,508	69,508
Closure/Postclosure Maint.	897,535	641,333
Hazardous Waste	173,359	171,496
Other	116,902	156,574
Total Operating Expenses	13,252,416	12,286,695
Operating Income (Loss)	2,021,376	2,783,869
Non-Operating Revenues (Expenses)		
Investment Earnings	52,658	233,542
Other Non-Operating Revenue	168,493	149,793
Loss on Disposition of Capital Assets	-	(848,017)
Interest Expense	(2,085,322)	(2,132,513)
Total Non-Operating Revenues (Expenses)	(1,864,171)	(2,597,195)
Change in Net Assets (Deficit)	157,205	186,674
Total Net Assets (Deficit) - Beginning	(10,236,591)	(10,423,265)
Total Net Assets (Deficit) - End of Year	$ (10,079,386)	$ (10,236,591)

The accompanying notes are an integral part of this financial statement

SALINAS VALLEY SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
FOR FISCAL YEAR ENDED JUNE 30, 2012
With Comparative Totals for fiscal year ended June 30, 2011

	2012	2011
Cash Flows from Operating Activities:		
Receipts from Customer and Users	$ 15,527,496	$ 15,004,542
Payments to Suppliers	(15,246,156)	(8,802,504)
Payments to Employees	(3,621,968)	(3,592,304)
Net Cash Provided (Used) by Operating Activities	(3,340,628)	2,609,734
Cash Flows from Non-Capital Financing Activities:		
Other Non-Operating Revenue/(Expense)	90,976	224,892
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(660,687)	(241,346)
Principal paid on Capital Debt	(1,049,180)	(1,001,030)
Interest paid on Capital Debt	(2,090,476)	(2,137,159)
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,800,343)	(3,379,535)
Cash Flows from Investing Activities:		
Interest Received	51,207	285,352
Increase (Decrease) in Fair Value of Investments	14,945	30,043
Transfer (to) from Restricted Cash	6,891,686	130,394
Net Cash Provided (Used) by Investing Activities	6,957,838	445,789
Net Increase (Decrease) in Cash and Cash Equivalents	(92,157)	(99,120)
Cash and Cash Equivalents at Beginning of Year	8,668,999	8,768,119
Cash and Cash Equivalents at End of Year	$ 8,576,842	$ 8,668,999
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:		
Operating Income (Loss)	$ 2,021,376	$ 2,783,869
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	628,648	496,778
Amortization	69,508	69,508
(Increase) Decrease in Accounts Receivable	253,696	(66,026)
Increase (Decrease) in Accounts Payable	282,713	(454,526)
Increase (Decrease) in Wages Payable	(117,726)	11,286
Increase (Decrease) in Accrued Leave	27,855	42,157
Increase (Decrease) in OPEB Payable	61,100	51,400
Increase (Decrease) in Closure/Postclosure Payable	(6,567,798)	(324,712)
Total Adjustments to Net Income	(5,362,004)	(174,135)
Net Cash Provided (Used) by Operating Activities	$ (3,340,628)	$ 2,609,734

The accompanying notes are an integral part of this financial statement

1. *Summary of Significant Accounting Policies:*

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 unified and coordinated solid waste management for the members agencies.

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.

Basis of Presentation: The financial activities of the Authority are accounted for in a single enterprise fund that reports the operations of the solid waste system, which is financed primarily by tipping fees. The solid waste system includes landfills, transfer stations and resource recovery facilities located in Monterey County. Solid waste collection services are provided by local municipalities and private companies.

Basis of Accounting: The Authority's single enterprise fund is accounted for using the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when they are incurred. The Authority applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December, 2010, GASB issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This included pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedures, unless those pronouncements conflict or contradict with GASB pronouncements.

Measurement Focus: The Authority's single enterprise fund is accounted for on a cost of service or "economic resources" measurement focus. This means that assets and all activities are included on the statement of net assets. Operating statements present increases (revenues) and decreases (expenses) in net total assets. The financial statements distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to residents and customers for waste collection and disposal and the revenues from the sale of processed waste materials. Operating expenses include the cost of waste disposal and recycling services, administrative expenses, closure and post closure maintenance and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Budgets: The Authority adopts an annual, operating budget as a financial plan for the year, pursuant to the legal requirements of the Authority's bond documents. The budget is adopted by the governing Board as an operating plan and budgetary basis financial statements are not presented because there is no legal requirement to report budgetary basis financial information.

1. *Summary of Significant Accounting Policies (continued):*

Cash and Cash Equivalents: Cash and cash equivalents consist of petty cash, deposits in non-interest bearing checking accounts, money market mutual funds, and investments with Local Authority Investment Fund (LAIF) managed by the State of California. Deposits in LAIF are generally available for withdrawal by the Authority on a next day basis and are therefore considered cash equivalents.

For purposes of determining cash equivalents, the Authority has defined its policy concerning the treatment of short-term investments to include investments with a maturity of three months or less when purchased, as cash equivalents if management does not plan to reinvest the proceeds. Short-term investments that management intends to rollover into similar investments are considered part of the investment portfolio and are classified as investments.

Investments: Investments consisted of deposits in open end, money market mutual funds and deposits with the LAIF, an investment pool with restricted withdrawals, and BNY, which is restricted for debt service. All investments are stated at fair value.

Accounts Receivable: Accounts receivable are composed primarily of monthly billings for tipping fees, services and contractual amounts receivables. All accounts receivable are uncollateralized.

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.

Capital Assets: Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are recorded at cost or, if donated, fair value at the date of donation. Expenses, which materially extend the useful life of existing assets, are capitalized. Certain costs for professional services and interest associated with the acquisition and construction of capital assets have been capitalized. The cost of capital assets sold or retired is removed from the appropriate accounts and any resulting gain or loss is included in the increase in net assets. Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets, which are summarized 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 may 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.

1. *Summary of Significant Accounting Policies (continued):*

Restricted Cash: Restricted cash of the Authority represent bond proceeds legally required by the Authority's bond covenants and trust indenture to be set aside for debt service and funds required to be set-aside for the eventual closure of the landfills under state law. Restricted resources are used first to fund expenses incurred for restricted purposes.

Net Assets: The financial statements utilize a net asset presentation. Net assets are categorized as:

Invested in Capital Assets, Net of Related Debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent, related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on the use of net assets by external restrictions imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There are no net assets restricted by enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of *Invested in Capital Assets, Net of Related Debt* or *Restricted.*

Revenue Recognition: Revenue from tipping fees is recognized when the service is provided for customers using the Authority's facilities. Credit customers are billed monthly and non-credit customers pay at the transfer station, landfill or resource recovery facility.

Amortization: Premium, discount and issue costs on long-term debt are amortized on the straight-line method over the life of the related debt issues.

Landfill Expenses: Landfill expenses include the cost to design and construct landfill "cells" on property permitted and approved as a landfill site. The design and construction costs for each cell are recorded as capital assets and amortized to expense based on the cell capacity used in each year. Landfill expenses also include accruals for landfill closure and postclosure care costs based on the landfill capacity used in each year.

Compensated Absences: Authority employees accumulate Paid Time Off (PTO) which is payable to employees upon termination or retirement at the pay rate on that date. The Authority accrues unused PTO and related taxes and benefits on the statement of net assets as current liabilities.

1. ***Summary of Significant Accounting Policies (continued):***

Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

2. ***Cash and Investments:***

Cash and Cash Equivalents: The bank balance and carrying value of the Authority's cash and cash equivalents, including restricted balances, at June 30, 2012 were as follows:

Cash and Investments	$	8,576,842
Restricted Cash		8,311,849
Total	$	16,888,691

The Authority's cash and investments at June 30, 2012, were held as follows:

Cash managed by the Authority's Treasurer	$	49,529
Investments managed by the Authority's Treasurer		14,018,462
Investments managed by the Fiscal Agent		2,820,700
Investments Subtotal		16,839,162
Total	$	16,888,691

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. 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, 2012, LAIF had invested a portion of the pool 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.

Custodial Credit Risk: Custodial credit risk is defined as the risk that the Authority may not recover the securities held by another party in the event of a financial failure. The Authority's investment policy for custodial credit risk requires all investment securities to be held in the Authority's name by a third party safekeeping institution. All deposits with financial institutions are considered fully insured or collateralized pursuant to the custodial credit risk categories of GASB Statement No. 3. According to the investment policy investment of bond proceeds are restricted by the provisions of relevant bond documents. Funds held by Bank of New 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.

2. ***Cash and Investments (continued):***

Credit Risk

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 (LAIF) managed by the State Treasurer, representing 72.9% 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.

Concentration of Credit Risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single issuer. The Authority's investment policy addresses the concentration of credit risk by limiting the maximum amount that may be invested in certain investments and in any one issuer, except for investments in LAIF and those made by Bank of New York (BNY). The investment in LAIF, representing 72.9% of the portfolio is not considered a concentrated risk. The BNY investment, the bond reserve represents 16.7% of the investment portfolio and exceeds 5% of the Authority's investment portfolio. The investment is made in accordance with the Indenture of Trust of the 2002 Revenue Bonds and is invested in U.S. Treasuries Money Market Fund and, therefore, does represent a concentration of credit risk. The Rabobank Certificates of Deposit represents 10.4% of the portfolio. They are fully collateralized at 110% of value.

The Authority was in compliance with these limitations at June 30, 2012. At June 30, 2012 certain individual investments exceeded 5% of the total investment portfolio (including cash and cash equivalents) as follows:

	Investment Maturities				
Investment Type	Fair Value	0-6 Mths	6-12 Mths	1-5 years	% of Total
State of California					
Local Agency Investment Fund	$12,268,462	$ -	$12,268,462	$ -	72.9
Bank of New York					
JP Morgan US Treasury Plus Premier #3920	5,290	5,290			-
Certificates of Deposit - various institutions	1,470,000		1,470,000		8.7
Commerican Paper - Abbey National Corp	1,345,410	1,345,410			8.0
Rabobank Certificates of Deposit	1,750,000			1,750,000	10.4
	$16,839,162	$1,350,700	$13,738,462	$1,750,000	100.0

3. ***Accounts Receivable:***

Accounts receivable and the related allowance for doubtful accounts at June 30, 2012 are summarized as follows:

Billed Receivables:

Tipping Fee Accounts Receivable	$	1,194,180
EDD Overpayment Refund		294
Franchise Administration		29,479
ECS - Sales of E-Waste		35,702
Sales of Recycling Materials		13,881
Recology - Rent		335
Recology - Tonnage Band		121,376
Plasco Energy Group - Reimbursement		12,870
Employees' Flexible Spending Account		6,500
Intergovernmental Grants Receivable		38,789
Total Accounts Receivable		1,453,406
Allowance for Doubtful Accounts		(11,942)
	$	1,441,464

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, 2012, reported on the Statement of Net Assets as deferred charges:

	2011	Increases	Decreases	2012
Revenue Bonds, Series 2002	$ 1,459,656	$ -	$ (69,508)	$ 1,390,148

5. ***Restricted Cash:***

Cash and investments of $8,311,849 are recorded as restricted assets at June 30, 2012.

Cash and investments of $5,491,149 are restricted by the California Integrated Waste Management Board for the eventual closure of the landfills.

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

6. ***Capital Assets:***

The changes in capital assets of the Authority for the year ended June 30, 2012 are summarized as follows:

	2011	Increases	Decreases	2012
Business-type activities				
Nondepreciable assets:				
Land	$ 42,600	$ -	$ -	$ 42,600
Construction in Progress	203,317	78,547	-	281,864
Total nondepreciable assets	245,917	78,547	-	324,464
Depreciable Assets:				
Buildings	456,484	-	-	456,484
Other Improvements	53,421,755	-		53,421,755
Machinery and Equipment	2,217,056	582,140	-	2,799,196
Total depreciable assets	56,095,295	582,140	-	56,677,435
Less Accumulated Depreciation	(27,655,948)	(628,648)	-	(28,284,596)
Total Depreciable Assets, Net	28,439,347	(46,508)	-	28,392,839
Total Capital Assets, Net	$ 28,685,264	$ 32,039	$ -	$ 28,717,303

Construction in progress at June 30, 2012, consists of $281,864 in costs associated with various landfill projects.

7. ***Accrued Leave:***

Employees are eligible to receive their entire unused paid time off 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, 2012, the liability for this accrued leave is $350,960.

8. ***Long Term Liabilities:***

The following is a summary of long term liabilities for the fiscal year ended June 30, 2012:

	June 30, 2011	Increases	Decreases	June 30, 2012	Due Within One year
Long Term Debt:					
2002 Revenue Bonds	$ 35,010,000	$ -	$ 940,000	$ 34,070,000	$ 985,000
Bond Discount	(278,527)	-	(13,262)	(265,265)	-
Installment Purchase Agreement	3,514,755	-	109,180	3,405,575	117,988
Long term Debt Subtotal	38,246,228	-	1,035,918	37,210,310	1,102,988
Other Long Term Liabilities:					
Post Employment Benefits	97,900	61,100	-	159,000	-
Closure Payable	11,625,267	303,192	7,091,935	4,836,524	3,198,605
Postclosure Payable	13,364,687	372,685	151,740	13,585,632	250,880
Total Long Term Liabilities	$ 63,334,082	$ 736,977	$ 8,279,593	$ 55,791,466	$ 4,552,473

8. ***Long Term Liabilities (continued)*:**

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
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	1,150,000	1,604,344	2,754,344
2017	1,215,000	1,537,828	2,752,828
2018-2022	7,180,000	6,584,581	13,764,581
2023-2027	9,315,000	4,449,509	13,764,509
2028-2032	12,105,000	1,655,194	13,760,194
	$ 34,070,000	$ 20,990,137	$ 55,060,137

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, 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, 2012, the remaining balance due was $3,405,575. The annual debt service requirements are as follows:

Fiscal year Ended June 30,	Principal	Interest	Total
2013	$ 117,988	$ 267,109	$ 385,097
2014	127,506	257,591	385,097
2015	137,792	247,306	385,098
2016	148,907	236,190	385,097
2017	160,919	224,178	385,097
2018-2022	1,021,567	903,918	1,925,485
2023-2027	1,505,674	419,812	1,925,486
2028	185,222	7,326	192,548
	$ 3,405,575	$ 2,563,430	$ 5,969,005

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 $13,264. The following is a summary of the 2002 Revenue Bonds unamortized discount at June 30, 2012:

	2011	Increases	Decreases	2012
Revenue Bonds, Series 2002	$ 278,527	$ -	$ (13,262)	$ 265,265

Total bonded debt outstanding at June 30, 2012 net of the unamortized bond discount is as follows:

Bonds payable	$ 34,070,000
Less unamortized bond discount	(265,265)
Net bonds payable	$ 33,804,735

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 Department of Resources, Recycling, and Recovery (CalRecycle) which requires the Authority to set-aside funds annually for landfill closure and to fund postclosure maintenance for at least 30 years after closure. On June 19, 1998, the CalRecycle, approved the Authority's financial assurance mechanisms for closure and postclosure maintenance for the Authority's four landfills. Since then, the CalRecycle and the Authority have agreed to the financial assurance mechanism for corrective action for the Jolon Road, Johnson Canyon and Crazy Horse Landfills. The State found that 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.

10. Landfill Closure and Postclosure Requirements (continued):

The system estimated capacity at June 30, 2012 is presented as follows:

	Johnson Canyon	
Permitted Capcity (cu. yd.)	10,512,141	100.0%
Cumulative Capcity Used (cu. yd.)	(1,977,520)	18.8%
Remaining Capacity (cu. yd.)	8,534,621	81.2%

System Capacity

As of June 30, 2012, the Authority has 81.2% of its revised system capacity remaining. System capacity is based on the capacity of the one active landfill, Johnson Canyon. During the fiscal year ended June 30, 2012, the Authority landfilled a total of 236,248 tons of solid waste. As of June 30, 2012 the Authority has 28 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 closed in October 2007. No refuse is being landfilled on this site.

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

10. Landfill Closure and Postclosure Requirements (continued):

Closure and Postclosure Maintenance Costs

Estimated closure and postclosure maintenance costs and amounts set-aside for closure as of June 30, 2012, are presented as follows:

	June 30, 2012				
	Total	Crazy Horse	Johnson Canyon	Lewis Road	Jolon Road
Estimated:					
Closure Cost	$ 11,906,311	$ 3,198,605	$ 8,707,706	$ -	$ -
Postclosure Maintenance Cost	$ 16,092,850	$ 10,769,419	$ 3,088,087	$ 1,042,727	$ 1,192,617
Expense (Income):					
Closure	$ 519,293	$ 216,101	$ 303,192	$ -	$ -
Postclosure Maintenance	378,242	221,506	107,524	24,231	24,981
Total Expense (Income)	$ 897,535	$ 437,607	$ 410,716	$ 24,231	$ 24,981
Outstanding Liability:					
Closure	$ 4,836,524	$ 3,198,605	$ 1,637,919	$ -	$ -
Postclosure Maintenance	13,585,632	10,769,419	580,869	1,042,727	1,192,617
Total Liability	$ 18,422,156	$ 13,968,024	$ 2,218,788	$ 1,042,727	$ 1,192,617
Assets Set-Aside for Closure-Cash	$ 5,491,149	$ 2,992,471	$ 2,498,678	$ -	$ -
Cash over/(under) Closure Liability	$ 654,625	$ (206,134)	$ 860,759	$ -	$ -

Johnson Canyon Landfill estimated closure costs increased $179,101 as a result of the CalRecycle inflation factor of 2.1%. After taking into account the capacity used at the landfill, the Authority recognized a closure expense of $303,192 for Johnson Canyon.

Johnson Canyon Landfill estimated postclosure costs increased $63,516 as a result of the CalRecycle inflation factor of 2.1%. After taking into account the remaining capacity of the landfill, the Authority recognized a postclosure expense of $107,524.

The postclosure maintenance liability of $13,585,632 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.

The Authority's deferred compensation plan is administered by the ICMA Retirement Corporation. The ICMA Deferred Compensation plan has a balance of $401,322 as of June 30, 2012. 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 $388,253 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, 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 statues 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 2011-12 was 10.227% 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.

12. Retirement Programs (continued):

Annual Pension Cost For fiscal year 2011-12, the Authority's annual pension cost of $388,253 was equal to the Authority's required and actual contributions of $227,470 and $160,783 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 2011-12 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 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:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$ 216,332	100%	$ -
6/30/2011	383,979	100%	-
6/30/2012	388,253	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 retire 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, 2012, the Authority's pay-as-you-go contribution for health care benefits for retirees are $0. There were no retirees on the health insurance.

13. ***Postemployment Healthcare Plan (continued):***

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, 2012 and June 30, 2011 are as follows:

Annual OPEB Costs and Net OPEB Obligation

	June 30, 2012	June 30, 2011
Annual required contribution	$ 56,900	$ 49,400
Payments made	-	-
Interest on net OPEB obligation	4,200	2,000
Annual OPEB expense	61,100	51,400
Contribution made	-	-
Increase in OPEB obligation	61,100	51,400
Net OPEB obligation - beginning of year	97,900	46,500
Net OPEB obligation - end of year	$ 159,000	$ 97,900

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.

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.

13. Postemployment Healthcare Plan (continued):

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, 2012 for 29 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.

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. Concentrations

The Authority received 79.2% of its Charges for Services (tipping fees) from three haulers: Republic Services, Waste Management and Recology South Valley. These three haulers comprised $977,398 (67.8%) of accounts receivable balances at June 30, 2012. A major reduction in revenue from any of the above sources may have a significant effect on the future operations of the Authority, however this is very unlikely.

Under the Waste Delivery Agreements that support the Revenue Bonds and under the Joint Powers Agreement, establishing the Authority, each member agency is required to direct all garbage to Authority facilities. They do this by means of the Franchise Agreements with their respective haulers. Republic Services, serving the City of Salinas, and Waste Management, serving Unincorporated Monterey County and the City of King City, are required to bring their garbage and yard waste to Authority facilities.

Recology South Valley brings their waste to Johnson Canyon Landfill, under the Waste Disposal and Capacity Guarantee Agreement approved in 2003. This agreement has a termination date of December 31, 2013, but can be extended for up to four 1-year extensions at the Authority's sole discretion. Their revenue is guaranteed for as long as the agreement is in place.

15. ***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 scalehouses Sun Street Transfer Station and diversion services. Norcal has since become Recology Waste Systems (Recology), 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. The Authority has taken over several of the operations. The basic contract terms, at June 30, 2012, were as follows:

Contract Ending Date	Service	Basic Annual Fee	Future Minimum Contractual Amount
12/31/2013	Johnson Canyon Landfill Basic Facility Fee	$ 1,921,440	$ 2,882,160

For the fiscal year ended June 30, 2012, the Authority paid Recology Waste Systems $2,686,135 for operations of Johnson Canyon landfills, 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, 2012, the base compensation consists of a fuel component of $3,005 and a non-fuel component of $53,723. 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, 2012, were as follows:

Contract Ending Date	Service	Basic Annual Fee	Future Minimum Contractual Amount
9/1/2016	Jolon Road Transfer Station	$ 680,736	$ 2,836,350

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. Effective January 1, 2012, the monthly lease payments were $7,194. The lease has an option to extend for two five-year periods.

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

Ended June 30	Amount
2013	$ 86,328
2014	86,328
2015	86,328
2016	86,328
2017	43,165
	$ 388,477

15. ***Commitments and Contingencies (continued):***

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:

Coverage	Detail	Limits	Deductible
Environmental impairment liability	Per occurrence	$ 10,000,000	$ 25,000
Additional pollution liability limited occurence		1,000,000	10,000
General liability	Aggregate	2,000,000	-
Automobile liability	Per accident	1,000,000	1,000
Property damage	Per occurrence	2,932,565	5,000
Public officials/employment practices	Each act	1,000,000	10,000
Excess liability	Each act	2,000,000	-
Crime	-	1,000,000	5,000

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.

Corrective Action Plan

The California Code of Regulations requires landfill owners and operators to demonstrate the availability of financial resources to conduct corrective action activities for all known or reasonably foreseeable releases from the disposal facility affecting water quality.

The Authority has conducted studies to determine the site remediation cost to mitigate those releases. These cost estimates are incorporated into the Final Closure and Postclosure Maintenance Plan for each of the landfills. These amounts have been reviewed and approved by CalRecycle and the Regional Water Quality Control Board.

The estimated cost of capital improvements and operations and maintenance costs to mitigate a potential release at the Authority landfills is estimated as follows:

Landfill - Action	Capital Improvements	Maintenance	Total	Contigency
Johnson Canyon	$ 385,106	$ 377,220	$ 762,326	$ -
Crazy Horse	2,908,200	6,583,500	9,491,700	-
Jolon Road	-	1,302,000	1,302,000	-
Lewis Road	122,700	226,000	348,700	35,000
Total Corrective Actions	$ 3,416,006	$ 8,488,720	$ 11,904,726	$ 35,000

The capital improvements costs are one-time costs. The maintenance costs are the total estimated cost ranging from 20 years for Lewis Road to 58 years for Johnson Canyon. If there should be a release at one of the landfill sites the Authority would have to spend up to the amounts shown on capital improvements. If the capital improvements have to be made, the Authority would be obligated to spend the maintenance amounts shown on the table for maintenance of the improvements.

15. *Commitments and Contingencies (continued):*

These amounts have not been recorded as a liability because while some releases are possible, they are not considered probable or if they are considered probable, they are not sufficiently measureable.

16. *Restricted Net Assets:*

At June 30, 2012, the statement of net assets reports restricted net assets of $2,933,606. None of the net assets are restricted by enabling legislation. This consists of $2,820,700 for the debt service reserve which cannot be used until the bonds are paid in full in 2031 and $112,906 of unspent grant monies.

17. *Net Deficit:*

Deficit Invested in Capital Assets, Net of Related Debt

The deficit of $8,493,008 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 $4,519,984 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 $13,585,632 in operating expenses has been accrued as a long term 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 CalRecyle.

18. *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. At June 30, 2012, the calculation is 123%.

19. *Subsequent Events:*

Refunding of Revenue Bonds, Series 2002

On August 16, 2012 the Authority Board of Directors authorized staff to pursue the refunding of the Revenue Bonds, Series 2002. It is expected to take place in the early part of 2013.

19. Subsequent Events (continued):

County of Monterey Notice of Intent to Withdraws from the Joint Powers Agreement

On August 16, 2012 the Authority Board of Directors received the County's Notice of Intent to Withdraw from the Authority and to terminate its Waste Delivery Agreement. The Notice begins a one-year period at the end of which the County could withdraw if the existing bonds and other Authority debts are paid off or alternative arrangements are made. The County would also continue to be responsible for its share of postclosure maintenance and corrective action plans for Authority facilities.

Date of Management Review

Management has evaluated subsequent events thru October 23, 2012, the date which these financial statements were available to be issued.

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	© 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%
6/30/2009	$ 3,104,798,222	$ 2,758,511,101	$ 346,287,121	88.8%	$ 742,981,488	46.6%
6/30/2010	$ 3,309,064,934	$ 2,946,408,106	$ 362,656,828	89.0%	$ 748,401,352	48.5%

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). There is no outstanding liability from that plan to the Authority.

SALINAS VALLEY SOLID WASTE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

Postemployment Health Insurance Benefits Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) - Entry Age (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
6/30/2009	$ 84,600	$ -	$ 84,600	0.00%	$ 2,096,000	4.04%
6/30/2010	-	-	-	-	-	-

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. The Authority is required to have a valuation triennially.