SALINAS VALLEY
SOLID WASTE AUTHORITY

Salinas, California

BASIC FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2009

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For the Fiscal Year Ended June 30, 2009

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
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Salinas, CA 93901

SALINAS VALLEY SOLID WASTE AUTHORITY
Annual Financial Report
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SALINAS VALLEY
SOLID WASTE AUTHORITY
"Promoting the environmental health of the Salinas Valley"

February 3, 2010

President and Board of the Salinas Valley Solid Waste Authority:

We are pleased to submit the Salinas Valley Solid Waste Authority (Authority) Basic Financial Statements for the fiscal year ended June 30, 2009. 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, 2009, 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, 2009, 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 an operating loss of $4,483,566 and a negative change in net assets of $5,942,469 for the fiscal year ended June 30, 2009.

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 recover the accrual of postclosure expenses in the current period.

The Authority's policy is to set aside funds for closure costs. Closure liabilities are fully funded at June 30, 2009.

Authority 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 tipping fees are not expected to recover depreciation expense.

The Statement of Cash Flows for the fiscal year ended June 30, 2009, provides a detailed reconciliation of the Authority's decrease in cash of $360,802.

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. Decreases in fair value during the current year, however, do not necessarily represent trends that will continue. During the fiscal year ended June 30, 2009, the Authority's investment earnings were $764,812.

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, 2008, the tipping fee was increased $5.00 per ton from $58.00 to $63.00. The tipping fees are expected to increase annually. Authority rates have been set to fund operating expenses, closure costs, post-closure maintenance costs for Lewis Road, Jolon Road and Crazy Horse landfills, and to provide for debt service on the Authority's 2002 Revenue Bonds.

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. On June 30, 2009, there was $4,055,358 in unspent bond proceeds to be used for Authority capital projects. All remaining bond proceeds are expected to be spent during fiscal year 2009-10.

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, 2009, the Expansion Fund had unrestricted net assets of $4,298,844.

Summary

With the closing of Crazy Horse Landfill on May 31, 2009, the Authority's projections indicate that the current tipping fee of $63.00 per ton as of July 1, 2008, including $1 to $2 per ton annual increases will be sufficient to provide for operations, closure costs, postclosure maintenance, capital requirements and debt service.

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.

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, 2009

Lou Calcagno, County of Monterey
President

Gloria De La Rosa, City of Salinas
Vice President

Richard Ortiz, City of Soledad
Alternate Vice President

Fernando Armenta, 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, 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Authority as of June 30, 2009, 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.

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, Nancy H. Rimberg, CPA

The accompanying required supplementary information, such as management's discussion and analysis and the retirement schedule of pension funding progress on pages 3 through 6 and 26, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information, such as the introductory section, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Salinas Valley Solid Waste Authority. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGilloway, Ray, Brown & Kaufman

February 3, 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, 2009. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

Financial Highlights

- The Authority’s net assets decreased $5,942,469 to a deficit of $11,551,970 due to extraordinary one-time expenses related to the closing of Crazy Horse Landfill on May 31, 2009 (increase of $5,139,328 in closure/postclosure expenses and $432,001 in depreciation).
- Operating revenues decreased $407,395 (2.6%). Charges for services remained constant as the result of a rate increase and a decrease in tonnage.
- Tons landfilled decreased 20,912 tons (7.1%) during the year from 292,720 tons in fiscal year 2007-08 to 271,808 tons in fiscal year 2008-09. On July 1, 2008, tipping fees increased $5.00 per ton (8.6%) from $58.00 per ton to $63.00 per ton.
- Operating expenses increased $5,558,760 (39.1%). The increased operating expenses were due primarily to an increase of $5,139,328 in closure/post-closure expenses and $432,001 in depreciation.
- At June 30, the Authority was still holding $4,055,358 in unspent bond proceeds to be used for capital projects by December 2009.
- The Authority’s total long term debt decreased by $898,247 to $40,174,220.

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 $11,551,970 which is a decrease of $5,942,469.

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2009 and 2008:

Salinas Valley Solid Waste Authority
Condensed Statement of Net Assets
June 30, 2009 and 2008

	2009	2008	Change	% Change
Assets:				
Current Assets	$ 9,710,494	$ 10,227,714	$ (517,220)	-5.1%
Other Assets	20,534,441	24,614,582	(4,080,141)	-16.6%
Capital Assets, Net	27,640,919	24,969,876	2,671,043	10.7%
Total Assets	57,885,854	59,812,172	(1,926,318)	-3.2%
Liabilities:				
Current Liabilities	5,187,595	4,875,740	311,855	6.4%
Long-term Liabilities	64,250,229	60,545,933	3,704,296	6.1%
Total Liabilities	69,437,824	65,421,673	4,016,151	6.1%
Net Assets (Deficit):				
Invested in Capital Assets Net of Related Debt	(12,533,301)	(16,102,591)	3,569,290	22.2%
Restricted	6,876,058	13,379,080	(6,503,022)	-48.6%
Unrestricted	(5,894,727)	(2,885,990)	(3,008,737)	104.3%
Total Net Assets/(Deficit)	$ (11,551,970)	$ (5,609,501)	$ (5,942,469)	-105.9%

The net deficit resulted from liabilities exceeding assets. The Authority has $6.88 million in restricted net assets that can be spent only for debt service and capital projects. Unrestricted net assets are a deficit of $5,894,727. The total net deficit is due primarily to a deficit of $12,533,301 in Invested in Capital Assets, Net of Related Debt. This is the result of capital assets decreasing at a faster rate than the related debt. Very little has been paid on the Authority's long-term debt while the capital assets purchased with the debt have depreciated at a much faster rate as explained in Note 6 - Capital Assets and Note 15 - Deficit Net Assets. $51,722,304 of the long-term debt is scheduled to be paid with future revenues over the next 22 years.

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, 2009 and 2008.

The Authority's activities decreased net assets by $5,942,469. 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, 2009 and 2008

	2009	2008	Change	% change
Operating Revenues	$ 15,298,739	$ 15,706,134	$ (407,395)	-2.6%
Operating Expenses	19,782,305	14,223,545	5,558,760	39.1%
Operating Income (Loss)	(4,483,566)	1,482,589	(5,966,155)	-402.4%
Non-operating Revenues	766,293	1,410,790	(644,497)	-45.7%
Non-operating Expenses	(2,225,196)	(2,947,138)	721,942	-24.5%
Change in Net Assets/(Deficit)	(5,942,469)	(53,759)	(5,888,710)	10,953.9%
Net Assets/(Deficit) - Beginning	(5,609,501)	(5,555,742)	(53,759)	1.0%
Net Assets/(Deficit) - Ending	$ (11,551,970)	$ (5,609,501)	$ (5,942,469)	105.9%

Operating revenues decreased $407,395 (2.6%) primarily due to the recession. Tonnage from the Authority's service area decreased 18,495 tons (9%) from 205,981 to 187,486. The tonnage decrease was offset by a $5.00 per ton rate increase from $58.00 to $63.00 effective July 1, 2008, resulting in the slight decrease of 2.6% in operating revenues.

Operating expenses increased $5,558,760 (39.1%). The reason for this increase is an increase of $5,139,328 in closure/post-closure expense and an increase of $432,001 in depreciation. The closure/post-closure expense increase was due to the closure of Crazy Horse Canyon Landfill.

Other than the increased expense for closure/post-closure and depreciation as stated above, all other expense categories actually decreased in total in comparison to the prior year.

Operating contract expense of $5,539,953 decreased $367,440 (6.2%) from the previous year. The single biggest expense for the year was the $4,987,081 paid to Norcal Engineering Services for operation of the Crazy Horse and Johnson Canyon landfills, diversion services, excess tonnage and air space conservation adjustment.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year, the Authority had $27.6 million invested in capital assets, primarily in landfills as summarized below. During this fiscal year the Authority purchased $5,012,989 in capital assets, recorded depreciation expense of $2,341,946 in capital assets. 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, 2009 and 2008

	2009	2008
Land	$ 42,600	$ 42,600
Buildings	456,484	456,484
Improvements other than buildings	47,220,822	45,866,650
Equipment	1,941,878	1,677,169
Construction in progress	4,655,680	1,261,572
	54,317,464	49,304,475
Accumulated Depreciation	(26,676,545)	(24,334,599)
Totals	$ 27,640,919	$ 24,969,876

Long-Term Debt

At the end of this fiscal year, the Authority had $40,174,220 in long-term debt as shown below. No new debt was incurred during this fiscal year. Principal payments of $911,510 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, 2009 and 2008

	2009	2008
Revenue Bonds, Series 2002	$ 36,770,000	$ 37,595,000
Bond Discount	(305,054)	(318,317)
Installment Purchase Agreement	3,709,274	3,795,784
Total Long-Term Debt	$ 40,174,220	$ 41,072,467

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 2009-10 management is anticipating a 5% decrease in tonnage. Tipping fee is remaining at $63.00 per ton. The 2009-10 budget is balanced due to decreased operating expenses as a result of Crazy Horse Landfill closing on May 31, 2009.

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, 2009
With Comparative Totals as of June 30, 2008

	2009	2008
Assets:		
Current Assets:		
Cash and Investments	$ 8,134,014	$ 8,494,816
Accounts Receivable, Net	1,390,707	1,441,745
Interest Receivable	170,244	291,153
Prepaid Expenses	15,529	-
Total Current Assets	9,710,494	10,227,714
Noncurrent Assets:		
Deferred Charges	1,598,672	1,668,180
Restricted Cash	18,935,769	22,946,402
Capital Assets, Net	27,640,919	24,969,876
Total Noncurrent Assets	48,175,360	49,584,458
Total Assets	57,885,854	59,812,172
Liabilities:		
Current Liabilities:		
Accounts Payable	2,402,070	2,593,860
Wages Payable	127,619	77,459
Accrued Leave	245,567	178,328
Deferred Revenue	51,096	62,958
Interest Payable	884,554	901,125
Postclosure Payable	523,200	150,500
Installment Purchase Agreement	93,489	86,510
Bonds Payable	860,000	825,000
Total Current Liabilities	5,187,595	4,875,740
Long Term Liabilities:		
Closure Payable	12,376,496	9,567,322
Postclosure Payable	12,653,002	10,817,654
Installment Purchase Agreement	3,615,785	3,709,274
Bonds Payable, Net	35,604,946	36,451,683
Total Long Term Liabilities	64,250,229	60,545,933
Total Liabilities	69,437,824	65,421,673
Net Assets (Deficit):		
Invested in Capital Assets, Net of Related Debt	(12,533,301)	(16,102,591)
Restricted for Debt Service	2,820,700	2,821,862
Restricted for Capital Projects	4,055,358	8,149,009
Restricted for Closure Reserve	-	2,408,209
Unrestricted	(5,894,727)	(2,885,990)
Total Net Assets (Deficit)	$ (11,551,970)	$ (5,609,501)

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, 2009
With Comparative Totals for fiscal year ended June 30, 2008

	2009	2008
Operating Revenues:		
Charges for Services	$ 15,038,687	$ 15,281,310
Sales of Materials	186,521	266,657
Operating Grants and Contributions	73,531	158,167
Total Operating Revenues	15,298,739	15,706,134
Operating Expenses:		
Personnel Services	2,704,352	2,217,099
Contractual Services	1,916,644	2,042,237
Operating Contracts	5,539,953	5,907,393
Supplies	230,557	176,589
Insurance	233,477	254,783
Building Rent	99,190	90,733
Taxes	735,705	772,394
Utilities	134,839	125,726
Depreciation	2,341,946	1,909,945
Amortization	69,508	69,508
Closure/Postclosure Maint.	5,435,843	296,515
Hazardous Waste	168,862	177,680
Other	171,429	182,943
Total Operating Expenses	19,782,305	14,223,545
Operating Income (Loss)	(4,483,566)	1,482,589
Non-Operating Revenues (Expenses):		
Investment Earnings	764,812	1,397,018
Other Non-Operating Revenue	1,481	13,772
Other Non-Operating Expense	-	(681,336)
Interest Expense	(2,225,196)	(2,265,802)
Total Non-Operating Revenues (Expenses)	(1,458,903)	(1,536,348)
Change in Net Assets/(Deficit)	(5,942,469)	(53,759)
Total Net Assets/(Deficit) - Beginning	(5,609,501)	(5,555,742)
Total Net Assets/(Deficit) - End of Year	$ (11,551,970)	$ (5,609,501)

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, 2009
With Comparative Totals for fiscal year ended June 30, 2008

	2009	2008
Cash Flows from Operating Activities:		
Receipts from Customer and Users	$ 15,349,777	$ 15,535,369
Payments to Suppliers	(9,856,596)	(12,024,703)
Payments to Employees	(2,586,953)	(2,172,299)
Net Cash Provided by Operating Activities	2,906,228	1,338,367
Cash Flows from Non-Capital Financing Activities:		
Other Non-Operating Revenue/(Expense)	(10,381)	141,548
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(5,012,989)	(1,507,406)
Principal paid on Capital Debt	(911,510)	(851,789)
Interest paid on Capital Debt	(2,228,504)	(2,269,848)
Net Cash Provided (Used) by Capital and Related Financing Activities	(8,153,003)	(4,629,043)
Cash Flows from Investing Activities:		
Interest Received	851,527	1,523,373
Increase (Decrease) in Fair Value of Investments	34,194	(1,415)
Transfer (to) from Restricted Cash	4,010,633	(561,700)
Net Cash Provided by Investing Activities	4,896,354	960,258
Net Increase (Decrease) in Cash and Cash Equivalents	(360,802)	(2,188,870)
Cash and Cash Equivalents at Beginning of Year	8,494,816	10,683,686
Cash and Cash Equivalents at End of Year	$ 8,134,014	$ 8,494,816

	2009	2008
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:		
Operating Income (Loss)	$ (4,483,566)	$ 1,482,589
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	2,341,946	1,909,945
Amortization	69,508	69,508
(Increase) Decrease in Accounts Receivable	51,038	(170,765)
(Increase) Decrease in Prepaid Expenses	(15,529)	-
Increase (Decrease) in Accounts Payable	(191,790)	(460,715)
Increase (Decrease) in Wages Payable	50,160	13,928
Increase (Decrease) in Accrued Leave	67,239	30,872
Increase (Decrease) in Closure/Postclosure Payable	5,017,222	(1,536,995)
Total Adjustments to Net Income	7,389,794	(144,222)
Net Cash Provided by Operating Activities	$ 2,906,228	$ 1,338,367

The accompanying notes are an integral part of this statement.

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.

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 Statement 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.

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.

K. Future GASB Implementation

In July of 2004, the GASB issued Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, with required implementation for the Authority during the 2009-2010 fiscal year. The new statement will significantly change the way state and local governments report their "other post employment benefits" to the public. As a result of GASB 45, state and local governments will be required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer's cash flow.

2. Cash and Investments:

The Authority's cash and investments at June 30, 2009, are included in the accompanying basic financial statements as follows:

Cash and Investments	$ 8,134,014
Restricted Cash	18,935,769
Total	$ 27,069,783

The Authority's cash and investments at June 30, 2009, were held as follows:

Cash managed by the Authority Treasurer	$ 187,853
Investments managed by the Authority Treasurer	20,005,329
Investments managed by the Fiscal Agent	6,876,601
Investments subtotal	26,881,930
Total	$ 27,069,783

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, 2009 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.

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:

		Investment Maturities			
Investment Type	Fair Value	0-6 mths	6-12 mths	1-5 years	over 5 yrs
State of California					
Local Agency Investment Fun(	$ 20,005,329	$ -	$ 20,005,329	$ -	$ -
State of California					
Local Agency Investment Fun(	4,055,358	-	4,055,358	-	-
JP Morgan Treasury Plus					
Money Market Fund	543	543	-	-	-
AIG Matched Funding					
Investment Agreement	2,820,700	-	-	-	2,820,700
	$ 26,881,930	$ 543	$ 24,060,687	$ -	$ 2,820,700

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 89.5% 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. At June 30, 2009, the JP Morgan Treasury Plus money market fund used by the

Authority was rated AAA by Standard & Poor's Rating Group and Aaa by Moody's Investors Service. AIG Matched Funding was rated A- and A3 by Standard and Poor's Rating Group and Moody's Investor's Service, respectively.

Concentration of Credit Risk

The Local Agency Investment Fund, representing 89.5% of the portfolio is not considered a concentrated risk. The AIG Matched Funding Investment Agreement represents 10.5% 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 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 Treaurer 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, 2009 consists of the following:

Billed Receivables:	
Tipping Fees	$ 1,222,864
Franchise Contracts Management	35,250
Hazardous Waste Collections	2,259
Miscellaneous	58
Electronic Asset Recovery Receivables	10,028
Employees' Flexible Spending Account	6,493
Recology Shared Revenue	12,559
Norcal Contract Receivables	111,751
	1,401,262
Allowance for Doubtful Accounts	(10,555)
	$ 1,390,707

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, 2009, reported on the Statement of Net Assets as deferred charges:

	June 30, 2008	Increases	Decreases	June 30, 2009
Revenue Bonds, Series 2002	$ 1,668,180	$ -	$ 69,508	$ 1,598,672

5. ***Restricted Cash:***

Cash and investments of $18,935,769 are recorded as restricted assets at June 30, 2009.

Cash and investments of $12,059,711 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.

Cash and investments of $4,055,358 are bond proceeds restricted for capital improvement projects.

6. ***Capital Assets:***

Capital asset activity for the year ended June 30, 2009, is as shown:

Business-type activities	June 30, 2008	Increases	Adjustments	June 30, 2009
Nondepreciable Assets:				
Land	$ 42,600	$ -	$ -	$ 42,600
Construction in Progress	1,261,572	3,781,028	(386,920)	4,655,680
Total nondepreciable assets	1,304,172	3,781,028	(386,920)	4,698,280
Depreciable Assets:				
Buildings	456,484	-	-	456,484
Other Improvements	45,866,650	1,354,172	-	47,220,822
Machinery and Equipment	1,677,169	264,709	-	1,941,878
Total depreciable assets	48,000,303	1,618,881	-	49,619,184
Less Accumulated Depreciation	(24,334,599)	(2,341,946)	-	(26,676,545)
Total Depreciable Assets, Net	23,665,704	(723,065)	-	22,942,639
Total Capital Assets, Net	$ 24,969,876	$ 3,057,963	$ (386,920)	$ 27,640,919

Construction in progress at June 30, 2009, consists of $3,680,227 in costs associated with construction of Johnson Canyon Module 456B, $538,413 related to long-term expansion of the Authority's capacity and $437,040 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, 2009, the liability for this accrued leave is $245,567.

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

The following is a summary of long term liabilities for the fiscal year ended June 30, 2009:

	June 30, 2008	Increases	Decreases	June 30, 2009	Due Within One Year
Long Term Debt:					
2002 Revenue Bonds	$ 37,595,000	$ -	$ 825,000	$ 36,770,000	$ 860,000
Bond Discount	(318,317)	-	(13,263)	(305,054)	-
Installment Purchase Agreement	3,795,784	-	86,510	3,709,274	93,489
Long Term Debt Subtotal	41,072,467	-	898,247	40,174,220	953,489
Other Long Term Liabilities:					
Closure Payable	9,567,322	3,008,941	199,767	12,376,496	-
Post Closure Payable	10,968,154	2,400,249	192,201	13,176,202	523,200
Total Long Term Liabilities	$ 61,607,943	$ 5,409,190	$ 1,290,215	$ 65,726,918	$ 1,476,689

<u>Revenue Bonds, Series 2002</u>

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
2010	$ 860,000	$ 1,893,154	$ 2,753,154
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
2015-2019	6,095,000	7,670,016	13,765,016
2020-2024	7,975,000	5,793,756	13,768,756
2025-2029	10,340,000	3,419,325	13,759,325
2030-2031	7,640,000	615,563	8,255,563
	$ 36,770,000	$ 26,550,937	$ 63,320,937

<u>Installment Purchase Agreement</u>

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, 2009, the remaining balance due was $3,709,274. The annual debt service requirements are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2010	$ 93,489	$ 291,609	$ 385,098
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
2015-2019	809,447	1,116,038	1,925,485
2020-2024	1,193,033	732,452	1,925,485
2025-2028	1,157,601	190,239	1,347,840
	$ 3,709,274	$ 3,415,022	$ 7,124,296

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, 2009:

	June 30, 2008	Increases	Decreases	June 30, 2009
Revenue Bonds, Series 2002	$ 318,317	$ -	$ (13,263)	$ 305,054

Total bonded debt outstanding at June 30, 2009 net of the unamortized bond discount is as follows:

Bonds payable	$ 36,770,000
Less unamortized bond discount	(305,054)
Net bonds payable	$ 36,464,946

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 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, 2009 is presented as follows:

	Crazy Horse		Johnson Canyon	
Permitted Capacity (cu. yd.)	5,280,000	100%	10,512,140	100%
Cumulative Capacity Used (cu. yd.)	(5,280,000)	100%	(934,584)	9%
Remaining Capacity (cu. yd.)	-	0%	9,577,556	91%

<u>System Capacity</u>

As of June 30, 2009, the Authority has 91% 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, 2009, the Authority landfilled a total of 271,808 tons of solid waste. Crazy Horse Landfill was closed during fiscal year 2008-09. Johnson Canyon Landfill is now accepting all refuse.

In summary, as of June 30, 2009 the Authority has 31 years remaining landfill capacity.

<u>Johnson Canyon Landfill</u>

Johnson Canyon Landfill received 67,915 tons this fiscal year. On February 1, 2008 Johnson Canyon was granted a revised permit by the California Integrated Waste Management Board increasing its landfill capacity. It now 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.

<u>Closed Landfills</u>

<u>Crazy Horse Landfill</u> received 203,893 tons this fiscal year. It closed on May 31, 2009. It is at full capacity and 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.

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, 2009, are presented as follows:

		June 30, 2009			
	Total	Crazy Horse	Johnson Canyon	Lewis Road	Jolon Road
Estimated:					
Closure Cost	$ 19,978,703	$ 11,634,668	$ 8,344,035	$ -	$ -
Postclosure Maintenance Cost	$ 15,872,237	$ 10,319,642	$ 2,959,116	$ 1,358,523	$ 1,234,956
Expense (Income):					
Closure	$ 3,035,594	$ 2,907,737	$ 101,204	$ -	$ 26,653
Postclosure Maintenance	2,400,249	2,308,273	32,010	32,562	27,404
Total Expense (Income)	$ 5,435,843	$ 5,216,010	$ 133,214	$ 32,562	$ 54,057
Outstanding Liability:					
Closure	$ 12,376,496	$ 11,634,668	$ 741,828	$ -	$ -
Postclosure Maintenance	13,176,202	10,319,642	263,081	1,358,523	1,234,956
Total Liability	$ 25,552,698	$ 21,954,310	$ 1,004,909	$ 1,358,523	$ 1,234,956
Assets Set-Aside for Closure-Cash	$ 12,059,711	$ 9,552,619	$ 2,182,865	$ 91,498	$ 232,729
Cash over/(under) Closure Liability	$ (316,785)	$ (2,082,049)	$ 1,441,037	$ 91,498	$ 232,729

Crazy Horse Landfill estimated closure costs increased $2,003,877 as a result of preparing a new closure plan. Due to Crazy Horse closing on May 31, 2009, all closure costs had to be fully recognized, leading to a one-time closure expense of $2,907,737. This resulted in a shortage of $2,082,049 which was funded in FY 2009-10 from excess closure liability funds in the other landfills.

Johnson Canyon Landfill estimated closure costs increased $179,617 as a result of the CIWMB inflation factor of 2.2%. After taking into account the capacity used at the landfill, the Authority recognized a closure expense of $101,204 for Johnson Canyon.

Jolon Road Landfill recognized a closure expense of $26,653 due to some additional closure requirements imposed by the CIWMB. Jolon Road closed on October 2007.

Estimated postclosure maintenance costs for Crazy Horse Landfill increased $1,665,767 as the result of preparing a new postclosure maintenance plan. Due to Crazy Horse closing on May 31, 2009, all postclosure maintenance costs had to be fully recognized, leading to a one-time postclosure expense of $2,308,273.

Johnson Canyon Landfill estimated postclosure costs increased $63,699 as a result of the CIWMB inflation factor of 2.2%. After taking into account the remaining capacity of the landfill, the Authority recognized a postclosure expense of $32,010.

Lewis Road Landfill is closed and currently under postclosure maintenance.

The $316,785 shortage in restricted funds for closure liability was covered in FY 2009-10. The postclosure maintenance liability of $13,176,202 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 $201,292 as of June 30, 2009. 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 $267,131 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 P Street – Sacramento, CA 95814.

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, 2009 the Authority began contributing 6% 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 2008-09 was 9.563% 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 2008-09, the Authority's annual pension cost of $267,131 was equal to the Authority's required and actual contributions of $167,804 and $99,327 as Employer Paid Member Contributions. In addition, the employees contributed $79,178 from their earnings on a pre-tax basis. The required contribution for fiscal year 2008-09 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:

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/07	$ 110,421	100%	$ -
6/30/08	131,531	100%	-
6/30/09	167,804	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. *Commitments and Contingencies:*

Norcal 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. Norcal 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, 2009, were as follows:

Contract Ending Date	Service	Basic Annual Fee	Future Minimum Contractual Amount
12/31/2013	Johnson Canyon Landfill Basic Facility Fee	$ 1,902,996	$ 8,563,482
5/1/2010	Diversion Assistance Fees-all landfills	93,624	85,822

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, 2009, the Authority paid Norcal Engineering $4,987,081 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, 2009 USA Waste's base compensation decreased to $51,807 per month from $53,704. The base compensation consists of a fuel component of $1,673 and a non-fuel component of $50,134. 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, 2009, were as follows:

Ending Date	Service	Annual Fee	Contractual Amount
9/1/2016	Jolon Road Transfer Station	$ 621,684	$ 4,455,361

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
2010	$ 78,478
2011	78,478
2012	82,402
2013	86,328
2014	86,328
2015-2017	215,820
	$ 627,834

<u>Vernon Dower et al. v. Bridgestone Firestone North America Tire, L.L.C. et al (Federal Court, San Jose).</u>

The Salinas Valley Solid Waste Authority ("SVSWA"), and the City of Salinas, a member agency of the SVSWA, have been 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 is 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 have been brought into the lawsuit through a third party complaint filed by Bridgestone Firestone North America, 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 has in turn have filed a similar third party complaint against the SVWMA and the City of Salinas. These two cases have been consolidated for trial.

The plaintiffs, who have sued Bridgestone, claim they live or have lived down gradient of the Crazy Horse Landfill. These twenty four plaintiffs in both cases are suing Bridgestone for personal injuries (including various types of cancer and other injuries), property damage and/or wrongful death damages, allegedly caused by contamination in the drinking water wells and of the properties used by the plaintiffs and their family members. The plaintiffs allege this contamination was caused by liquid hazardous substances that the Firestone Tire and Rubber Company (Bridgestone's predecessor) disposed of in an unlined portion of the Crazy Horse Landfill in the 1960s and 1970s, and that these substances leached from the landfill into groundwater that fed the plaintiffs' wells.

Bridgestone in its third party complaints asserts that the SVSWA as current owner and operator of the Crazy Horse Landfill, and the City as the prior owner and operator, are responsible to Bridgestone under a theory of equitable indemnity and/or contribution to pay for all or a part of any damages that might be awarded the plaintiffs as against Bridgestone.

The amount of damages being sought by plaintiffs is not presently known, nor is it possible to predict with reasonable certainty what the outcome of the litigation might be. However, the SVSWA and the City deny the allegations of the plaintiffs and of Bridgestone, and are vigorously defending the lawsuit.

Recently, one of the insurance carriers for the SVSWA and the City has agreed to pay for their joint defense costs from and after March 2009. Also, counsel for Bridgestone reports that Bridgestone and the plaintiffs in both lawsuits have reached a tentative settlement, although a formal settlement agreement has not been finalized. Bridgestone has made a demand for $250,000 from the SVSWA and the City to settle the third party complaints, which the SVSWA and the City have rejected.

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.

<u>Risk Management</u>

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, 2004 the Authority has purchased worker's compensation insurance through the State Compensation Insurance Fund for its employees. The Authority has the following commercial insurance policies:

Coverage	Limits	Deductible
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.

14. ***Restricted Net Assets:***

At June 30, 2009, the statement of net assets reports the following restricted net assets:

Restricted for:	
Debt Service	$ 2,820,700
Capital Projects	4,055,358
Total restricted net assets	$ 6,876,058

None of the net assets are restricted by enabling legislation.

15. ***Net Deficit:***

Deficit Invested in Capital Assets, Net of Related Debt

The deficit of $12,533,301 in 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. The Authority expects future annual debt repayments of approximately $950,000 and future annual depreciation expense of approximately $450,000. Management believes that as a result of this, the Deficit Invested in Capital Assets will decrease in future years.

Unrestricted Net Deficit

The deficit of $5,894,727 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 $13,176,202 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 the CIWMB.

16. ***Change in Net Deficit:***

In accordance with Board policy, the Authority 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 tipping fees are not set at a level that will recover depreciation expense of $2,341,946 nor the postclosure expense accrual of $2,400,249.

The change in net deficit of $5,942,469 is primarily due to a one-time increase of $5,139,328 in closure/postclosure maintenance expense and $432,001 in depreciation. Both of these one-time increases are due to the accrual of expenses related to the closing of Crazy Horse Landfill on May 31, 2009. In order to close the landfill, the closure and postclosure maintenance plans had to be updated. As part of this update, the estimated closure costs increased $2,003,877 (20.8%) and the estimated postclosure maintenance costs increased $1,665,767 (19.2%). These numbers were not available until after the end of the fiscal year. Under Governmental Accounting Standards the full amount of the increases had to be accrued at June 30, 2009.

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 29%. However, when the $2,408,209 of excess closure funds from fiscal year ended June 30, 2008, which were used to fund the increase in closure costs, is taken into account, then the debt service coverage ratio is 116%.

At June 30, 2008 the Authority was holding $2,408,209 in surplus closure funds.

The Authority met all obligations for fiscal year 2008-09, including closure, post-closure and debt service. For fiscal year 2009-10 the debt service coverage ratio has been calculated at 170%.

SALINAS VALLEY SOLID WASTE AUTHORITY
Required Supplementary Information

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%

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.