

THE CITY OF **Solvang**



2010

Annual Financial Report

State of California

**Fiscal Year Ended
June 30, 2010**

CITY OF SOLVANG, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

CITY OF SOLVANG, CALIFORNIA
Basic Financial Statements
for the
Fiscal Year Ended June 30, 2010

Table of Contents

	<u>Page</u>
Table of Contents	i
 FINANCIAL SECTION	
Report of Independent Accountants	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet Governmental Funds	17
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	18
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	19
Statement of Net Assets - Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22
Notes to the Basic Financial Statements	24
 REQUIRED SUPPLEMENTAL INFORMATION SECTION	
Budgetary Comparison Schedule - General Fund	40
Note to RSI: Note A - Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	41
Schedule of Funding Progress - Other Post Employment Benefits	42

**CITY OF SOLVANG, CALIFORNIA
Basic Financial Statements
for the
Fiscal Year Ended June 30, 2010**

Table of Contents

SUPPLEMENTAL SECTION

Combining Statements and Individual Fund Schedules-Nonmajor Funds:

Combining Balance Sheet Nonmajor Governmental Funds	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds	44
Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual (Budgetary Basis) - Nonmajor Governmental Funds	
Traffic Safety Fund	45
Gas Tax Fund	46
Local Transportation Fund	47
Measure D Fund	48

Capital Assets Used In Governmental Activities

Comparative Schedule of General Capital Assets By Source	49
Schedule of Changes in General Capital Assets By Source	50
Schedule of General Capital Assets By Function and Activity	51
Schedule of Changes in General Capital Assets By Function and Activity	52

FINANCIAL SECTION
MANAGEMENT'S DISCUSSION AND ANALYSIS,
BASIC FINANCIAL STATEMENTS
AND
NOTES TO THE FINANCIAL STATEMENTS



Terry E. Krieg, CPA

Certified Public Accountant

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
City of Solvang
Solvang, California

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Solvang, California, (the City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Solvang's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

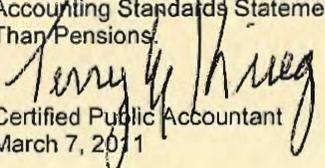
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Solvang, California, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis, Budgetary Comparison Information, and Schedule of Funding Progress on pages 2 through 14 and pages 40 through 42 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. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Solvang's basic financial statements. The accompanying combining nonmajor fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated March 7, 2011 on my consideration of the City of Solvang's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

As discussed in Note 5G to these financial statements, the City in fiscal 2010 implemented the provisions of Governmental Accounting Standards Statement Number 45, titled, Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions.


Certified Public Accountant
March 7, 2011

Management's Discussion and Analysis

This section of the City of Solvang's annual financial report provides a narrative overview and analysis of the financial activities of the City. It should be read in conjunction with the accompanying transmittal memorandum and the City's audited financial statements, which follow this section.

Financial Highlights

The following information is intended to highlight the financial information for the year:

- Citywide, the total net assets decreased by \$84.3 thousand or 0.22% less than 2008-2009 after conducting all operations and programs. The net assets totaled \$38.6 million dollars at year end. Of that amount, \$14.4 million (the unrestricted net assets) may be used to meet the City's ongoing obligations and operating expenses for the next fiscal year.
- The City's Governmental activities reported net assets of \$21.6 million dollars. Of the \$21.6 million dollars, \$6.5 million remains unrestricted and available.
- Overall, Citywide revenues from all governmental and business-type activities, grants and taxes decreased by about \$1.4 million or 16% compared to the 2009 fiscal year. This net decrease is primarily due to a decrease in property tax revenues, Public Works Grants and charges for services relating to recreation, community development and public works.
- The general fund reported a fund balance of \$5.6 million at the end of the 2010 fiscal year; an increase of \$222,987 or 4.1% over fiscal 2009. This minor increase is primarily the result of unspent funds allocated for several small projects.
- Impact Fees ended 2010 with a fund balance of \$2.1 million; a decrease of \$226,611 or 9.8% from 2009. The decrease is the result the return of a deposit for public improvements associated with the Old Mill Subdivision which was denied approval of a grading permit by the County of Santa Barbara.
- Enterprise or proprietary funds ended the fiscal year with \$16.9 million in net assets (the amount of net assets available for use both restricted and unrestricted including the investment in capital assets net of related debt); a \$426,850 or 2.5% decrease from fiscal year 2009. This decrease is due in part to a reduction in water and wastewater revenue and increased operating costs.
- The City's other non-major governmental funds ended 2010 with a \$757,039 fund balance. The decrease of just over \$900 thousand or 55% is mainly due to decreases in the debt service funds and Local Transportation Fund. At year end \$247,150 is designated for Local transportation projects.

Management's Discussion and Analysis

Overview of the Financial Statements

This annual report consists of four parts – a Management's Discussion and Analysis (this section), the Basic Financial Statements and Notes to the Financial Statements, Required Supplementary Information, and an optional section that presents Combining Statements for non-major Governmental Funds and Schedules of Capital Assets used in Governmental Activities.

The Basic Financial Statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-side statements.
 - The *governmental funds* statements tell how general government services such as public safety, general government, community services, public works and streets were financed in the short term as well as what remains for future spending.
 - *Proprietary fund* statements offer short and long-term financial information about the activities the government operates like businesses, such as the City's water, wastewater, and transit systems.

As required by U.S. generally accepted accounting principles, these financial statements present the City and its component units, entities for which the government is considered to be financially accountable. The Solvang Conference and Visitors Bureau is reported as a discretely presented component unit in these statements due to its financial interdependency on the City of Solvang who provides over 80% of its funding annually.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non-major funds, each of which are added together and presented in single columns in the basic financial statements.

Figure A-1 below, summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Management's Discussion and Analysis

Figure A-1
Major Features of City of Solvang's Government-Wide and Fund Financial Statements

	Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds
<u>Scope</u>	Entire City Government	The activities of the City that are not proprietary or fiduciary, such as police, fire, streets, general government, and community services	Activities the City operates similar to private businesses: the water, wastewater, and transit systems
<u>Required financial statements</u>	* Statement of Net Assets * Statement of Activities	* Balance Sheet * Statement of revenues, expenditures, and changes in fund balances	* Statement of Net Assets * Statement of revenues, expenses, and changes in net assets * Statement of cash flows
<u>Accounting Basis and measurement focus</u>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
<u>Type of asset/liability information</u>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<u>Type of inflow/outflow information</u>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) are one way to measure the City's financial health or position.

- Over time, an increase or decrease in the City's net assets can be an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are reported in two categories:

- *Governmental Activities* – All of the City's basic services are included here, such as general government, sheriff, fire, streets, public works, and community development. Property taxes, sales taxes, transient occupancy taxes, special and other taxes, user charges and fees and state, local and federal grants help to finance these activities.
- *Business-type activities* – The City charges fees to customers to help cover the costs of certain services. The City's water, wastewater, and transit enterprises are reported here.

Management's Discussion and Analysis

Government-wide Financial Statements-(Cont'd)

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Funds such as the State Gas Tax Fund and Traffic Mitigation Fee Funds are required by state law.
- The City Council establishes other funds to control and manage money for particular purposes (such as the City's Local Transportation Fund).
- Some funds are maintained to demonstrate that the City is properly using certain specific revenues for their intended purpose (such as the City's Measure A Fund).
- Other funds are maintained for similar purposes, but in addition, demonstrate the City's ability to repay its long-term debt obligations such as capital leases and special assessment bonds.

The City has two types of funds:

- **Governmental funds** – The City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term view* that helps you in determining whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary funds** - The City of Solvang maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements; the City's water, wastewater, and transit operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Solvang's various functions. The City of Solvang uses internal service funds to account for its fleet of vehicles. Because this fund's services predominantly benefit governmental, rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the City's water and sewer operations, both of which are considered to be major funds of the City of Solvang. The vehicle internal service fund is presented in a separate column alongside the totals for the City's proprietary enterprise funds.

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets:

The City's combined net assets decreased approximately \$84,000 between fiscal years 2009 and 2010. (See Table A-1)

Table A-1
City of Solvang's Net Assets
(in millions of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	<u>Total</u>	<u>Total Percent Change</u>
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	
Current and other Assets	\$ 10.7	\$ 10.9	\$ 7.7	\$ 7.5	\$ 18.4	\$ 18.4	0.0%
Capital Assets	\$ 11.5	\$ 11.4	\$ 12.2	\$ 11.6	\$ 23.7	\$ 23.0	-3.0%
Total Assets	\$ 22.2	\$ 22.3	\$ 19.9	\$ 19.1	\$ 42.1	\$ 41.4	-1.7%
Long-term debt outstanding	\$ 0.0	\$ 0.1	\$ 1.6	\$ 1.4	\$ 1.6	\$ 1.5	-6.3%
Other liabilities	\$ 0.9	\$ 0.6	\$ 0.9	\$ 0.7	\$ 1.8	\$ 1.3	-27.8
Total Liabilities	\$ 0.9	\$ 0.7	\$ 2.5	\$ 2.1	\$ 3.4	\$ 2.8	-17.6
Net Assets:							
Invested in capital assets	\$ 11.1	\$ 12.3	\$ 9.2	\$ 8.8	\$ 20.3	\$ 21.1	3.9%
Restricted	\$ 4.0	\$ 2.8	\$ 0.2	\$ 0.2	\$ 4.2	\$ 3.0	-28.6%
Unrestricted	\$ 6.2	\$ 6.5	\$ 8.0	\$ 8.0	\$ 14.2	\$ 14.5	2.1%
Total Net Assets	\$ 21.3	\$ 21.6	\$ 17.4	\$ 17.0	\$ 38.7	\$ 38.6	-0.3%

Net assets of the City's governmental and business-type activities decreased slightly to \$38.6 million. About 55% of the net assets of the City are represented by the City's net investment in its capital assets, such as buildings, land, equipment, street systems and facilities. Cash, investments and receivables essentially represent the remaining 45%. 53% of the City's total liabilities are represented by long-term obligations including assessment bonds, a capital lease, installment agreement, employee compensated absences, and self-insured portions of claims.

Changes in Net Assets

The City's 2010 total revenues of \$12.6 million were approximately \$ 2.2 million less than in 2009; equating to a 14.6% decrease. (See Table A-2). This majority of this decrease is explained as follows:

- **Charges for services** saw an 11% decline due in large part to Governmental activity decline. Public Works and Community Development had declining revenues due to the economy continuing to spiral downward. This downward turn also had a large impact on our interest income as rates continued to decline. Culture and Recreation show lower revenues also as the City of Buelton now show their own revenue from joint City recreation programs. The City of Solvang showed this revenue in prior years. The enterprise funds also contributed to the decline in charges for services as customers continue to use less water. Citywide, charges for services declined \$808,715 from 2008/09.
- **Transient Occupancy Taxes** increased \$133,078 or 6% from 2008/09. One of our largest hotels that was closed for four months for a remodel in 2009 was open the full year in 2010.
- **Property Taxes** decreased \$643,290 or 37% due to the annexation of the City fire department to the County in exchange for property tax revenues

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE-(Cont'd)

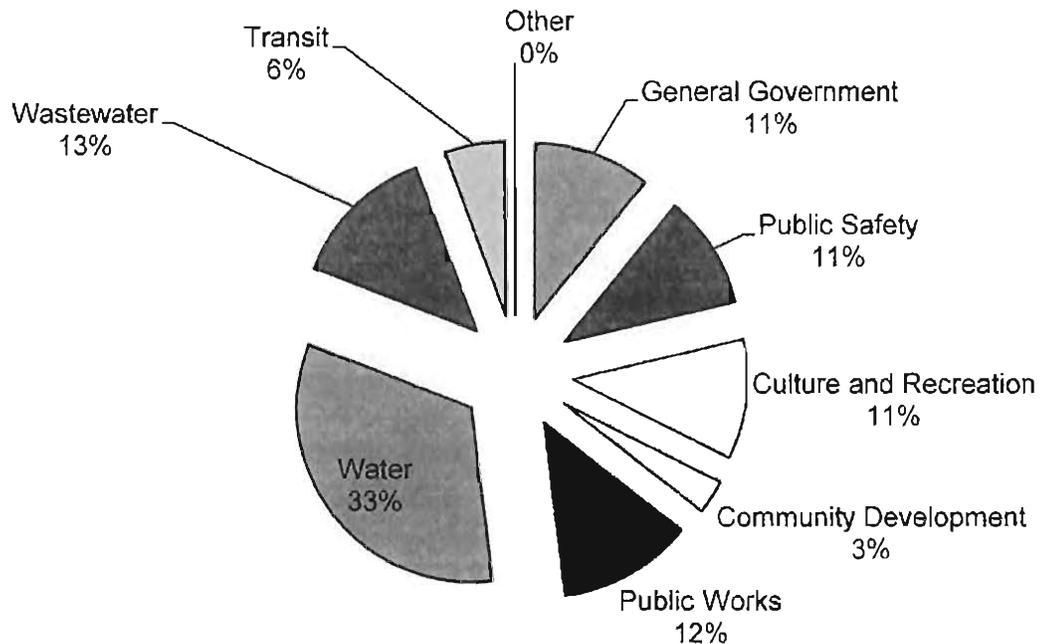
The City's most significant source of revenue was charges for services, accounting for 50% of the total. An additional 35% of revenue comes from some type of taxes, including property, sales, transient occupancy taxes (hotel tax) and other taxes. The remaining 15% comes from state, local and federal aid, and contributions.

The total cost of all programs and services in 2010 was approximately \$12.7 million and includes a wide range of services such as police and fire protection, streets, public works, general administration, community services, water, wastewater and transit operations.

The sources of the City's major types of revenue by source and expenses by function are below in summary graphic form:

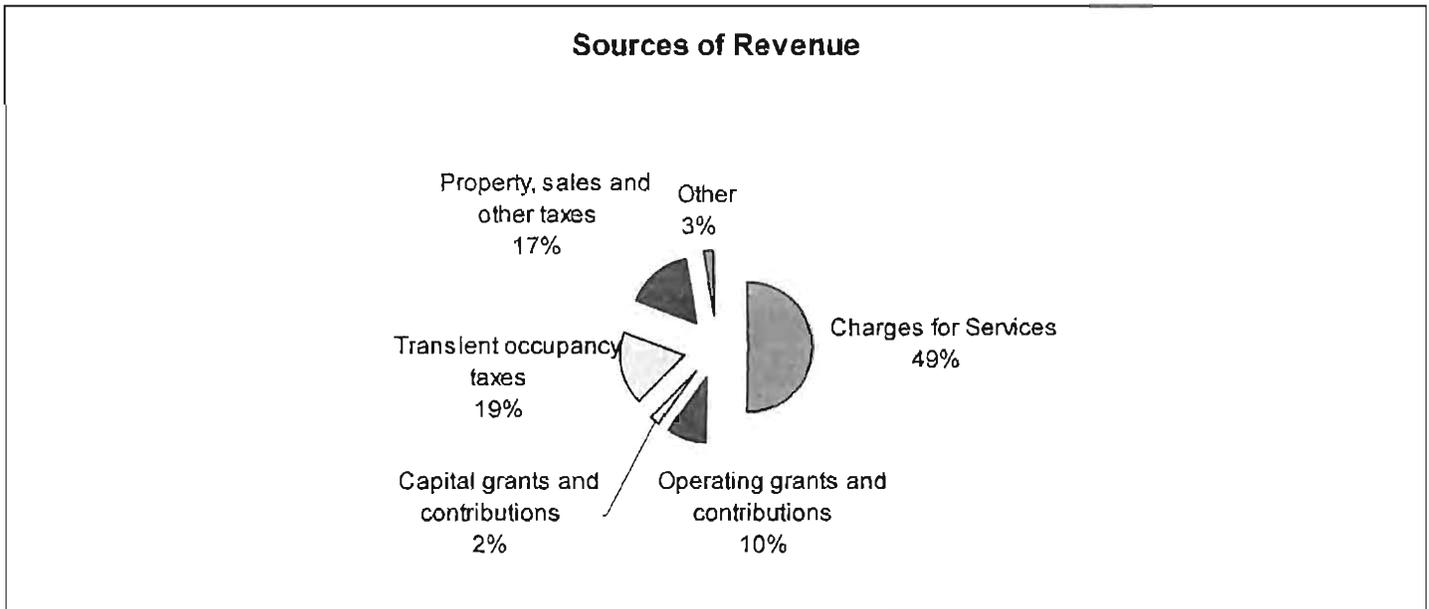
2009/2010

Functional Expenses



Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE-(Cont'd)



Governmental Activities

Taxes are the primary source of revenue for governmental activities and account for 69% of all these revenues. The tax category includes property tax, sales tax, transient occupancy tax and other taxes.

Solvang is a tourist community and the largest portion of its tax revenues come from local hotel tax. These taxes generate 37% of all governmental-type revenues. In 2010, hotel tax increased \$133,078 or 6% from 2008/09. Occupancy of rooms went up slightly to 62.22% from 62.16% in 2009. One of our largest hotels that was closed for four months for a remodel in 2009 was open the full year in 2010.

Sales tax decreased \$72,320 (6.74%) from the prior year which is not an accurate comparison to the prior year due to revised reporting by the State of California which equated to an extra month of sales tax revenue from the prior year. When compared on a twelve month basis sales tax was down \$142,121 or 13.25%

The majority of the City's governmental-type operating expenses were incurred to provide police protection services with this department accounting for 22% of the City's total 2010 governmental operating expenses. 23% of expenses were incurred from providing a variety of cultural and recreational services, and the remaining 55% was spent on general administration, public works and streets incurred expenses.

When all operations were concluded, the governmental activities function generated \$.343 million in net assets, a \$1.3 million decrease compared to \$1.6 million increase in 2009 as compared to 2008. The primary reason for the decreased additions to net assets from 2009 to 2010 was related to

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

decreased Property Tax revenues, declining interest income, lack of one-time Proposition 1B revenues compared to the previous year and a decline in planning and building operations.

Table A-2
Changes in the City of Solvang's Net Assets
(In millions of dollars)

	Governmental Activities		Business- type Activities		Total		% Change 2009-2010
	2009	2010	2009	2010	2009	2010	
Revenues:							
Program Revenues							
Charges for Services	\$ 1.10	\$ 0.75	\$ 5.98	\$ 5.53	\$ 7.08	\$6.28	-11%
Operating grants and contributions	1.00	0.73	0.69	0.51	1.69	1.24	-27%
Capital grants and contributions	0.35	0.16	0.09	0.11	0.44	0.27	-39%
General Revenues							
Transient occupancy taxes	2.24	2.37			2.24	2.37	6%
Property, sales and other taxes	3.01	2.09			3.01	2.09	-31%
Other	0.20	0.33			0.20	0.33	65%
Total Revenues	\$ 7.90	\$ 6.43	\$ 6.76	\$ 6.15	\$ 14.66	\$ 12.58	-14%
	Govern- mental Type Activities		Business- Type Activities		Total		% Change 2009-2010
	2009	2010	2009	2010	2009	2010	
Expenses							
General Government	\$ 1.16	\$ 1.37			\$ 1.16	\$ 1.37	18%
Public Safety	1.84	1.33			1.84	1.33	-28%
Culture and Recreation	1.55	1.41			1.55	1.41	-9%
Community Development	0.43	0.40			0.43	0.40	-7%
Public Works	1.25	1.58			1.25	1.58	26%
Water			3.99	4.16	3.99	4.16	4%
Wastewater			1.58	1.70	1.58	1.70	8%
Transit			0.64	0.70	0.64	0.70	9%
Other	0.07	0.02			0.07	0.02	-71%
Total Expenses	\$ 6.30	\$ 6.11	\$ 6.21	\$ 6.56	\$ 12.51	\$ 12.67	1%
Excess (deficiency) before transfers	\$ 1.60	\$ 0.32	\$ 0.55	\$ -0.41	\$ 2.15	\$ -0.09	-104%
Transfers	\$.07	\$ 0.02	\$ - .07	\$ -0.02			
Increase (decrease) in net assets	\$ 1.67	\$ 0.34	\$ 0.48	\$ -0.43	\$ 2.15	\$ 0.09	-104%

Table A-3 presents the cost of each of the City's governmental-activities largest programs-administration or general government, public safety, culture and recreation, public works, and community development.

* The cost of all governmental activities this year was 6.1 million, compared to 6.3 million in fiscal 2009.

- While users and contributors funded about \$1.6 million of the costs of the City's governmental activity programs through related program revenues, the City still had to make up the short fall from general revenues such as taxes. This short fall was \$4.5 million. Major sources of program revenues were:

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE-(Cont'd)

- Those who directly benefited from or used the programs \$.8 million), or
- Other governments and organizations that subsidized certain programs with grants and contributions (about \$.9 million).
- The City funded the \$4.5 million “public benefit” portion with the \$4.8 million in general revenues such as property taxes, transient occupancy taxes, sales taxes, and with other tax revenues and investment earnings.

Table A-3
Cost of City of Solvang's Programs
Total Cost of
Services

	Total Cost of Services		Percentage Change
	2009	2010	2009-2010
General Government	\$ 1.16	1.36	17%
Public Safety	1.84	1.33	-28%
Culture and Recreation	1.55	1.41	-9%
Community Development	0.43	0.40	-7%
Public Works	1.25	1.58	26%
Other	0.07	0.03	-57%
Total Expenses	\$ 6.30	\$ 6.11	-3%

Expenses in the General Government functions remained very similar to last year's total except for a minor increase in Public Works and the contracting out of the fire department. The Public Works increase was the result of road projects that were completed; including slurry seal, sidewalk improvements and new tree grates. Overall General Government functions decreased over last year by 3%.

BUSINESS TYPE ACTIVITIES

Water, Wastewater and Transit Funds were responsible for \$426,850 decrease in net assets of the business type activities of the City in 2010.

Water lost \$119,419 in 2010.

Sewer lost \$173,823 and

Transit lost \$118,513.

User fees were down slightly and operational costs were up slightly in all three funds in 2010 compared to 2009. Operating subsidies in the transit fund were also lower in 2010 from 2009. The City did not raise rates in 2010.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$8.5 million, \$913,192 less than the last fiscal year. The City's general fund operations reported an increase of \$222,987. These funds were authorized by the City Council to be carried into the 2010/11 fiscal budget for unfinished projects. Other governmental funds suffered a \$909,568 loss as a result of spending on street related projects. The Impact Fee Fund decreased by 226,611 due to

Management's Discussion and Analysis

less development taking place in the City.

At year-end, the City's general fund had a fund balance of \$5.6 million, of which \$4.1 million remains designated or reserved for future use such as capital projects, unanticipated emergencies or debt and \$1.5 million is left undesignated.

In addition, the City's non-major governmental funds ended the 2010 fiscal year with a combined fund balance of \$757,039. Of this \$247,150 is designated for local transportation projects. The

Impact Fee fund ended 2010 with \$2.1 million, with the entire amount designated for other developer impact purposes.

GENERAL FUND BUDGTARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These budget amendments fall into two categories: changes made at the midyear budget review for unanticipated revenues and costs; and increases in appropriations to prevent budget overruns. Even with these adjustments, actual general fund expenditures (exclusive of transfers out) were \$968,123 less than final budget amounts. 66% of this amount was due to our Mission and Alamo Pintado Intersection project not seeing completion. A detailed budgetary comparison schedule is presented for the year ended June 30, 2010 on page 38 of this report.

This budgetary comparison indicates the following:

Budgetary Comparison-General Fund Summary-Fiscal Year Ended June 30, 2010

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Fund Balance July 1	\$ 5,424,155	\$ 5,424,155	\$ 5,424,155	\$ -
Revenues	\$ 5,335,274	\$ 5,322,105	\$ 5,505,661	\$ 183,556
Expenditures	\$ 6,524,441	\$ 6,522,772	\$ 5,282,674	(\$ 1,240,098)
Fund Balance June 30	\$ 4,234,988	\$ 4,223,488	\$ 5,647,142	\$ 1,423,654

Revenue totals came in slightly higher than projections overall, however we saw the largest variances in transient occupancy taxes which came in \$146,738 higher than anticipated and charges for services were \$47,320 higher than estimated. We did not anticipate much activity in things such as community development and recreational activities so we budgeted conservatively in anticipation of a continued struggling economy but were pleasantly surprised to see numbers in excess of our estimates.

Expenditures came in considerably under budget almost entirely due to the fact that our Mission and Alamo Pintado Intersection project did not see completion and had \$637,134 remaining at year end, representing 66% of the unspent appropriations.

Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City had invested \$22.7 million in a broad range of capital assets, including land, buildings, vehicles, equipment, water and wastewater systems, streets, and other capital assets. (See Table A-4). This amount including net additions and deductions and depreciation is only slightly higher last year.

Table A-4
City of Solvang Capital Assets
Net of Depreciation, In millions of dollars

	Governmental Activities		Business-type Activities		Total		Total % Change 2009-2010
	2009	2010	2009	2010	2009	2010	
Land	\$ 1.94	\$ 1.94	\$ 0.11	\$ 0.11	\$ 2.05	\$ 2.05	0%
Construction in progress	0.70	1.48	0.15	0.10	\$ 0.85	\$ 1.58	85.9%
Buildings	3.36	3.36	7.56	7.56	\$ 10.92	\$ 10.92	0%
Machinery and equipment	0.64	0.62	1.53	1.57	\$ 2.17	\$ 2.19	0.9%
Vehicles	0.70	0.73	0.50	0.33	\$ 1.20	\$ 1.06	-11.7%
Improvements	3.67	3.74			\$ 3.67	\$ 3.74	1.9%
Pipelines\collection system			8.50	8.52	\$ 8.50	\$ 8.52	0.2%
Infrastructure	3.92	4.37	3.55	3.58	\$ 7.47	\$ 7.95	6.4%
Accumulated depreciation	(3.37)	(3.94)	(10.78)	(11.35)	\$(14.15)	\$(15.29)	8.1%
Net Capital Assets	\$ 11.56	\$ 12.30	\$ 11.12	\$10.42	\$ 22.68	\$ 22.72	0.2%

This Years Major Capital Asset Additions Included:

In fiscal year 2010, the City added about \$.74 million in net capital assets for governmental operational purposes and had a net decrease of \$.7 million in water, wastewater and transit improvements. The most significant additions citywide included:

Street Imp Projects	\$454,179	3 New Vehicles	\$53,924
First Street Project	\$619,284	Wastewater SCADA Upgrade	\$84,624
Copenhagen Tree Grates	\$ 10,500	Sunny Fields Landscaping	\$11,326
Old Mission/Alamo Pintado	\$107,866	Alisal Ranch Water Improvements	\$26,885
Fire Station Remodel	\$ 16,915	Various Water Activity Improvements	\$73,598

Additional information on capital assets of the City can be found starting on page 29 of the notes to the financial statements.

LONG TERM DEBT

At the end of fiscal year 2010, the City had \$1,576,944 in an installment agreement payable and a note payable for \$25,451 outstanding. Debt outstanding on these two issues was reduced by \$240,366 during the fiscal year. The capital lease and special assessment bond obligations shown in 2009 were both paid in full during 2010. Principal reductions for these issues were \$390,000 and \$40,000, respectively.

Additional information on the City's long-term debt can be found starting on page 31 of the notes to the financial statements.

Management's Discussion and Analysis

The City does have indirect long term debt through its contractual obligation with the Santa Ynez River Water Conservation District, Improvement District No. 1 for State Water Project water. The combination of fixed cost and debt service totals \$55.7 million and requires annual payments until 2035. Under insurance arrangements, the City is self-insured for the first \$50,000 for each workers compensation claim and \$20,000 for each general liability claim and \$5,000 for property damage. The statement of net assets also shows no liability for 2010 for estimated claim obligations and has no current obligation for 2010. This liability was fully funded and paid in 2010, and there were no pending claims at the end of the fiscal year. The City's general fund pays all insurance related costs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the 2011 fiscal year, general fund revenue projections were again conservative. Our top three general fund revenues remain as Sales Tax, Transient Occupancy Tax and Property Taxes. These three revenues make up approximately 78 percent of the general fund total revenues and are highly dependent on the economy and tourism, both of which are unpredictable. Due to the nature of their uncertainty, we have chosen to continue a conservative approach in our revenue projections.

Overall general fund revenues are projected to decrease by a net 12 percent or \$786,000 dollars over fiscal year 2010. This anticipated decrease is the result of a combination of things including a smaller amount of Capital Improvement Program funding being transferred from reserves for projects, continued decline in development in the city and conservative budgeting in the general fund due to the state of the economy. We remain hopeful that a portion of this overall decrease will be recovered by actual revenue receipts.

In June 2010 the City adopted a balanced budget with adequate resources available to fund proposed expenditures. We do not anticipate the reduction of any public services or staff in the coming year. We are meeting our reserve level and do not anticipate the need to utilize these resources to meet expenditures for the general fund.

Our local economy is rebounding from the impacts of the economic downturn. The hotel tax has been up compared to the prior year continually for the last 12 months. Sales tax continues to lag, but remains stable. Four new restaurants have opened in previously vacant locations which is anticipated to bring an increase in sales tax. Property tax remains strong as Solvang did not experience the high foreclosure rates of other local communities. Our general fund is highly reliant on these three taxes and has been very fortunate to have been able to address our operating needs with our current operating revenues thus far.

Our water and sewer funds will undergo a rate study in 2010/11, in an effort to evaluate our rate structure. The City wants to ensure that our citizens receive a fair rate and that our infrastructure will have the required funding to ensure maintenance and capital replacement costs, as well as adequate funding of reserves. It is anticipated that due to the continued increase in operating costs and the need for capital improvements a rate increase in both water and wastewater rates may be required.

The State's budget woes remain a source of concern as it is always surrounded by uncertainty. They often resolve their budget issues with loans, transfers or takeaways from City agencies. Most recently the target is redevelopment agencies, of which Solvang is fortunate in this case not to have established. We do not foresee this threat going away any time soon and will continue our goal to absorb any cutbacks without borrowing or the usage of reserves to the best of our ability.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director, City of Solvang, 1644 Oak Street, Solvang, California 93463. (805) 688-5575

CITY OF SOLVANG
Statement of Net Assets
June 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Solvang Conference & Visitors Bureau
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 10,177,320	\$ 6,647,306	\$ 16,824,626	\$ 69,547
Net receivables	735,216	835,891	1,571,107	-
Prepayments	14,556	6,165	20,721	-
Total current assets	<u>10,927,092</u>	<u>7,489,362</u>	<u>18,416,454</u>	<u>69,547</u>
Noncurrent assets:				
Restricted cash and cash equivalents	-	1,275	1,275	-
Internal balances	(1,138,095)	1,138,095	-	-
Debt issuance costs	-	21,756	21,756	-
Receivables-long-term	259,191	-	259,191	-
Capital assets not being depreciated	3,425,021	217,290	3,642,311	-
Capital assets being depreciated, net	8,875,975	10,209,213	19,085,188	-
Total noncurrent assets	<u>11,422,092</u>	<u>11,587,629</u>	<u>23,009,721</u>	<u>-</u>
Total assets	<u>\$ 22,349,184</u>	<u>\$ 19,076,991</u>	<u>\$ 41,426,175</u>	<u>\$ 69,547</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 301,266	\$ 89,904	\$ 391,170	\$ -
Accrued liabilities	70,876	36,372	107,248	5,471
Due to other governments	38,513	-	38,513	-
Compensated absences	60,933	29,619	90,552	-
Deposits	71,372	1,000	72,372	-
Accrued interest payable	-	13,242	13,242	-
Unearned revenue	-	388,198	388,198	-
Installment agreement and notes	25,451	210,612	236,063	-
Total current liabilities	<u>568,411</u>	<u>768,947</u>	<u>1,337,358</u>	<u>5,471</u>
Noncurrent liabilities:				
Compensated absences	20,000	5,107	25,107	-
Installment agreement	-	1,366,332	1,366,332	-
Net other post employment benefit obligation	125,338	-	125,338	-
Total noncurrent liabilities	<u>145,338</u>	<u>1,371,439</u>	<u>1,516,777</u>	<u>-</u>
Total liabilities	<u>713,749</u>	<u>2,140,386</u>	<u>2,854,135</u>	<u>5,471</u>
NET ASSETS				
Invested in capital assets, net of related debt	12,300,996	8,849,559	21,150,555	-
Restricted for:				
Highways and streets	2,844,598	-	2,844,598	-
Transit	-	200,498	200,498	-
Capital improvements	-	1,275	1,275	-
Unrestricted	6,489,841	7,885,273	14,375,114	64,076
Total net assets	<u>21,635,435</u>	<u>16,936,605</u>	<u>38,572,040</u>	<u>64,076</u>
Total liabilities and net assets	<u>\$ 22,349,184</u>	<u>\$ 19,076,991</u>	<u>\$ 41,426,175</u>	<u>\$ 69,547</u>

See accompanying notes to the basic financial statements

CITY OF SOLVANG
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets			Solvang Conference and Visitors Bureau
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
City government								
Governmental activities:								
General government	\$ 1,365,736	\$ 443,583	\$ -	\$ -	\$ (922,153)	\$ -	\$ (922,153)	\$ -
Public safety	1,331,385	26,241	-	115,900	(1,189,244)	-	(1,189,244)	-
Culture and recreation	1,408,087	164,675	13,326	46,735	(1,183,351)	-	(1,183,351)	-
Community development	397,297	86,313	-	-	(310,984)	-	(310,984)	-
Public works	1,582,810	32,719	720,266	-	(829,825)	-	(829,825)	-
Interest on long-term debt	25,657	-	-	-	(25,657)	-	(25,657)	-
Total governmental activities	6,110,972	753,531	733,592	162,635	(4,461,214)	-	(4,461,214)	-
Business-Type Activities:								
Water	4,162,536	3,998,259	-	44,858	-	(119,419)	(119,419)	-
Wastewater	1,701,547	1,464,254	-	63,470	-	(173,823)	(173,823)	-
Transit	695,584	65,578	511,493	-	-	(118,513)	(118,513)	-
Total business-type activities	6,559,667	5,528,091	511,493	108,328	-	(411,755)	(411,755)	-
Total Primary government	\$ 12,670,639	\$6,281,622	\$ 1,245,085	\$ 270,963	(4,461,214)	(411,755)	(4,872,969)	-
Component Unit:								
Solvang Conference & Visitors Bureau	\$ 480,610	\$ 61,040	\$ 410,000	\$ -	-	-	-	\$ (9,570)
General revenues and transfers:								
General revenues:								
Taxes:								
Property taxes					1,086,849	-	1,086,849	-
Sales taxes					1,000,325	-	1,000,325	-
Transient occupancy taxes					2,372,338	-	2,372,338	-
Other taxes					238,163	-	238,163	-
Interest					90,989	-	90,989	-
Transfers					15,095	(15,095)	-	-
Total general revenues and transfers					4,803,759	(15,095)	4,788,664	-
Change In net assets					342,545	(426,850)	(84,305)	(9,570)
Net assets, beginning					21,292,890	17,363,455	38,656,345	73,646
Net assets, ending					<u>\$ 21,635,435</u>	<u>\$ 16,936,605</u>	<u>\$ 38,572,040</u>	<u>\$ 64,076</u>

See accompanying notes to the basic financial statements

CITY OF SOLVANG
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Impact Fee Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 6,451,429	\$ 2,084,465	\$ 827,411	\$ 9,363,305
Taxes receivable	539,383	-	-	539,383
Accounts receivable	9,400	-	-	9,400
Due from other governments	1,690	-	169,825	171,515
Accrued Interest receivable	9,438	3,094	1,171	13,703
Prepayments	14,556	-	-	14,556
Internal balances-due from other funds	2,360	-	-	2,360
Notes receivable	-	99,522	-	99,522
Due from other governments- Proposition 1A	159,669	-	-	159,669
Total assets	\$ 7,187,925	\$ 2,187,081	\$ 998,407	\$ 10,373,413
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 100,771	\$ -	\$ 200,495	\$ 301,266
Due to other governments	-	-	38,513	38,513
Accrued liabilities	70,876	-	-	70,876
Internal balances-due to other funds	1,138,095	-	2,360	1,140,455
Deposits	71,372	-	-	71,372
Deferred revenue	159,669	99,522	-	259,191
Total liabilities	1,540,783	99,522	241,368	1,881,673
Fund balances:				
Reserved	14,558	-	-	14,558
Unreserved, designated for:				
Contingencies and capital projects	4,148,477	2,087,559	-	6,236,036
Unreserved, undesignated	1,484,109	-	-	1,484,109
Unreserved, undesignated and reported in nonmajor:				
Special revenue funds	-	-	757,039	757,039
Total fund balances	5,647,142	2,087,559	757,039	8,491,740
Total liabilities and fund balances	\$ 7,187,925	\$ 2,187,081	\$ 998,407	\$ 10,373,413
Total Governmental Fund Balances				\$ 8,491,740
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds				12,028,664
Long-term receivables used in governmental activities are not current financial resources and, therefore, are deferred in the funds				259,191
The assets and liabilities of the Internal service fund are included in the governmental activities in the statement of net assets				1,087,562
Some liabilities, including bonds, leases, compensated absences, claims and accrued interest are not due and payable in the current period and, therefore, are not reported in the funds				(231,722)
Net Assets of Governmental Activities				\$ 21,635,435

See accompanying notes to the basic financial statements

CITY OF SOLVANG
Statements of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30,2010

	<u>General Fund</u>	<u>Impact Fee Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 927,180	\$ -	\$ -	\$ 927,180
Sales taxes	1,000,325	-	-	1,000,325
Transient occupancy taxes	2,372,338	-	-	2,372,338
Other taxes	238,163	-	-	238,163
Special assessments	-	-	71,741	71,741
Licenses and permits	75,222	-	-	75,222
Fines and forfeits	-	-	26,241	26,241
Intergovernmental	167,636	-	709,441	877,077
Interest	90,989	14,904	6,843	112,736
Charges for services	599,237	29,426	-	628,663
Miscellaneous	25,149	-	-	25,149
	-	-	-	-
Total revenues	<u>5,496,239</u>	<u>44,330</u>	<u>814,266</u>	<u>6,354,835</u>
EXPENDITURES				
Current:				
General government	1,230,823	-	-	1,230,823
Public safety	1,305,403	-	-	1,305,403
Culture and recreation	1,273,194	-	-	1,273,194
Community development	397,297	-	-	397,297
Public works	882,400	269,441	252,267	1,404,108
Intergovernmental	-	-	38,513	38,513
Debt service:				
Principal	40,000	-	373,871	413,871
Interest	13,462	-	12,195	25,657
Capital outlay	124,780	1,500	1,067,976	1,194,256
	-	-	-	-
Total expenditures	<u>5,267,359</u>	<u>270,941</u>	<u>1,744,822</u>	<u>7,283,122</u>
Excess (deficiency) of revenues over expenditures	<u>228,880</u>	<u>(226,611)</u>	<u>(930,556)</u>	<u>(928,287)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	9,422	-	40,965	50,387
Transfers out	(15,315)	-	(19,977)	(35,292)
	-	-	-	-
Total other financing sources (uses)	<u>(5,893)</u>	<u>-</u>	<u>20,988</u>	<u>15,095</u>
Net change in fund balances	222,987	(226,611)	(909,568)	(913,192)
Fund balances, July 1	<u>5,424,155</u>	<u>2,314,170</u>	<u>1,666,607</u>	<u>9,404,932</u>
Fund balances, June 30	<u>\$ 5,647,142</u>	<u>\$ 2,087,559</u>	<u>\$ 757,039</u>	<u>\$ 8,491,740</u>

See accompanying notes to the basic financial statements

CITY of SOLVANG
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2010

Net Change In Fund Balances - Total Governmental Funds	<u>\$ (913,192)</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$1,297,010 exceed depreciation (\$531,532) in the current period.	
	765,478
Increases in liabilities for other post employment benefits (OPEB) do not require the use of current financial resources and are therefore not reported in the funds	
	(125,338)
Proceeds of long-term debt provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets. This is the amount of debt repayments during the period on the bonds and leases.	
	413,871
Some expenses in the statement of activities for noncurrent liabilities such as long-term compensated absences and accrued interest do not require the use of or provide current financial resources and, therefore, are not reported as expenditures or revenues in the governmental funds.	
	10,197
Internal service funds are closed by charging additional amounts or reducing charges to participating governmental activities to completely cover the internal service fund's costs for the year.	
	107,942
Certain revenues are deferred in the funds until collected and available, and are reported as revenues in the statement of activities when earned.	
	<u>83,587</u>
Net differences	<u>1,255,737</u>
Change in Net Assets of Governmental Activities	<u>\$ 342,545</u>

See accompanying notes to the basic financial statements

CITY OF SLOVANG
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Enterprise Funds				Governmental Activities- Internal Service Fund
	Water	Wastewater	Transit	Totals	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2,858,401	\$ 3,300,678	\$ 488,227	\$ 6,647,306	\$ 814,015
Receivables(net)	528,073	169,040	140,778	835,891	1,215
Prepayments	2,820	2,820	525	6,165	-
Total current assets	3,387,294	3,472,538	629,530	7,489,362	815,230
Noncurrent assets:					
Other assets:					
Internal balances	-	1,138,095	-	1,138,095	-
Restricted cash and cash equivalents	1,275	-	-	1,275	-
Debt issuance costs, net	21,756	-	-	21,756	-
Total other noncurrent assets	23,031	1,138,095	-	1,161,126	-
Capital assets:					
Capital assets not being depreciated:					
Land	64,099	48,720	-	112,819	-
Construction in progress	11,447	93,024	-	104,471	-
Total	75,546	141,744	-	217,290	-
Capital assets being depreciated:					
Buildings	784,721	6,694,013	85,098	7,563,832	-
Distribution and collection systems Infrastructure	4,845,910	3,671,644	-	8,517,554	-
	1,270,737	2,287,651	19,547	3,577,935	-
Vehicles	-	-	332,361	332,361	548,415
Equipment	231,160	1,336,954	-	1,568,114	176,345
Less accumulated depreciation	(3,263,423)	(7,893,785)	(193,375)	(11,350,583)	(452,428)
Net capital assets being depreciated	3,869,105	6,096,477	243,631	10,209,213	272,332
Net capital assets	3,944,651	6,238,221	243,631	10,426,503	272,332
Total noncurrent assets	3,967,682	7,376,316	243,631	11,587,629	272,332
Total assets	\$ 7,354,976	\$ 10,848,854	\$ 873,161	\$ 19,076,991	\$ 1,087,562
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 23,996	\$ 25,469	\$ 40,439	\$ 89,904	\$ -
Other current liabilities	14,390	21,587	395	36,372	-
Compensated absences	13,487	16,132	-	29,619	-
Accrued interest payable	13,242	-	-	13,242	-
Deposits	-	1,000	-	1,000	-
Deferred revenue	-	-	388,198	388,198	-
Capital lease and agreements	210,612	-	-	210,612	-
Total current liabilities	275,727	64,188	429,032	768,947	-
Noncurrent liabilities:					
Compensated absences	732	4,375	-	5,107	-
Installment agreement	1,366,332	-	-	1,366,332	-
Total noncurrent liabilities	1,367,064	4,375	-	1,371,439	-
Total liabilities	1,642,791	68,563	429,032	2,140,386	-
NET ASSETS					
Invested in capital assets, net of related debt	2,367,707	6,238,221	243,631	8,849,559	272,332
Restricted for transit system	-	-	200,498	200,498	-
Restricted for capital improvements	1,275	-	-	1,275	-
Unrestricted	3,343,203	4,542,070	-	7,885,273	815,230
Total net assets	\$ 5,712,185	\$ 10,780,291	\$ 444,129	\$ 16,936,605	\$ 1,087,562

See accompanying notes to the basic financial statements

CITY OF SOLVANG
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	Enterprise Funds				Governmental Activities Internal- Service Fund
	Water	Wastewater	Transit	Totals	
OPERATING REVENUES					
Sales of water	\$ 3,957,709	\$ -	\$ -	\$ 3,957,709	\$ -
Service fees	-	1,425,603	62,248	1,487,851	163,700
Miscellaneous	14,638	4,113	-	18,751	-
Total operating revenues	<u>3,972,347</u>	<u>1,429,716</u>	<u>62,248</u>	<u>5,464,311</u>	<u>163,700</u>
OPERATING EXPENSES					
Salaries and benefits	454,809	646,104	-	1,100,913	-
Purchased power	101,821	104,458	-	206,279	-
Transit operator	-	-	378,251	378,251	-
Services and supplies	399,100	513,403	208,929	1,121,432	-
Joint operating expenses	2,916,718	-	-	2,916,718	-
Depreciation and amortization	202,832	437,582	46,582	686,996	65,586
Total operating expenses	<u>4,075,280</u>	<u>1,701,547</u>	<u>633,762</u>	<u>6,410,589</u>	<u>65,586</u>
Operating income (loss)	<u>(102,933)</u>	<u>(271,831)</u>	<u>(571,514)</u>	<u>(946,278)</u>	<u>98,114</u>
NON-OPERATING REVENUES (EXPENSES)					
Operating subsidies	-	-	511,493	511,493	-
Gain on sale of capital assets	-	-	(61,822)	-	4,706
Interest and investment revenue	25,912	34,538	3,330	63,780	5,122
Interest expense	(87,256)	-	-	(87,256)	-
Net nonoperating revenues (expenses)	<u>(61,344)</u>	<u>34,538</u>	<u>453,001</u>	<u>426,195</u>	<u>9,828</u>
Income (loss) before contributions and transfers	<u>(164,277)</u>	<u>(237,293)</u>	<u>(118,513)</u>	<u>(520,083)</u>	<u>107,942</u>
Contributions and transfers:					
Capital contributions	44,858	63,470	-	108,328	-
Transfers out	(610)	(14,485)	-	(15,095)	-
Net contributions and transfers	<u>44,248</u>	<u>48,985</u>	<u>-</u>	<u>93,233</u>	<u>-</u>
Change in net assets	<u>(120,029)</u>	<u>(188,308)</u>	<u>(118,513)</u>	<u>(426,850)</u>	<u>107,942</u>
Total net assets, July 1	<u>5,832,214</u>	<u>10,968,599</u>	<u>562,642</u>	<u>17,363,455</u>	<u>979,620</u>
Total net assets, June 30	<u>\$ 5,712,185</u>	<u>\$ 10,780,291</u>	<u>\$ 444,129</u>	<u>\$ 16,936,605</u>	<u>\$ 1,087,562</u>

See accompanying notes to the basic financial statements

CITY OF SOLVANG
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	Enterprise Funds				Governmental Activities- Internal Service Fund
	Water	Wastewater	Transit	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 4,010,393	\$ 1,453,343	\$ 62,248	\$ 5,525,984	\$ -
Payments to suppliers	(3,228,779)	(464,424)	(559,305)	(4,252,508)	-
Payments to other funds for services	(222,493)	(116,379)	(46,850)	(385,722)	-
Payments from other funds for services	-	-	-	-	163,700
Payments to employees	(449,503)	(647,535)	-	(1,097,038)	-
Net cash provided by (used for) operating activities	<u>109,618</u>	<u>225,005</u>	<u>(543,907)</u>	<u>(209,284)</u>	<u>163,700</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating subsidies	-	-	451,776	451,776	-
Transfers to other funds	(610)	(14,485)	-	(15,095)	-
Receipt of internal balances	-	162,585	-	162,585	-
Net cash provided by (used for) noncapital financing activities	<u>(610)</u>	<u>148,100</u>	<u>451,776</u>	<u>599,266</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	44,858	63,470	-	108,328	-
Payments on long-term debt principal	(203,672)	(77,823)	-	(281,495)	-
Interest paid on long-term debt	(87,256)	-	-	(87,256)	-
Proceeds from sale capital assets	-	1,077	13,438	14,515	4,706
Purchases of capital assets	(64,257)	(120,838)	-	(185,095)	(53,924)
Net cash provided by (used for) capital and related financing activities	<u>(310,327)</u>	<u>(134,114)</u>	<u>13,438</u>	<u>(431,003)</u>	<u>(49,218)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest receipts	34,600	41,547	4,893	81,040	6,592
Net cash provided by investing activities	<u>34,600</u>	<u>41,547</u>	<u>4,893</u>	<u>81,040</u>	<u>6,592</u>
Net increase (decrease) in cash and cash equivalents	(166,719)	280,538	(73,800)	40,019	121,074
Balances-beginning of the year	<u>3,026,395</u>	<u>3,020,140</u>	<u>562,027</u>	<u>6,608,562</u>	<u>692,941</u>
Balances-end of the year	<u>\$ 2,859,676</u>	<u>\$ 3,300,678</u>	<u>\$ 488,227</u>	<u>\$ 6,648,581</u>	<u>\$ 814,015</u>

See accompanying notes to the basic financial statements

CITY OF SOLVANG
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	Enterprise Funds				Governmental Activities- Internal Service Fund
	Water	Wastewater	Transit	Totals	
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (102,933)	\$ (271,831)	\$ (571,514)	\$ (946,278)	\$ 98,114
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	202,832	437,582	46,582	686,996	65,586
Change in assets and liabilities:					
Decrease (increase) in prepayments	14,180	41,180	-	55,360	-
Decrease (increase) in accounts receivable	38,046	22,347	-	60,393	-
Increase (decrease) in other liabilities	5,306	(151)	-	5,155	-
Increase (decrease) in accounts payable	(47,813)	(4,122)	(18,975)	(70,910)	-
Net cash provided by (used for) operating activities	<u>\$ 109,618</u>	<u>\$ 225,005</u>	<u>\$ (543,907)</u>	<u>\$ (209,284)</u>	<u>\$ 163,700</u>

Noncash capital financing activities:

During the fiscal year, there were none.

See accompanying notes to the basic financial statements

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Solvang is a municipal corporation governed by an elected five-member City Council. The accompanying financial statements present the government, its component units, entities for which the government is considered to be financially accountable. The Solvang Joint Powers Financing Authority is a legally separate corporate entity for which the City is financially accountable and is governed by the elected City Council. The Authority was formed to provide a method of financing public improvements. The financial activities of the Authority are blended with those of the City and are reported in the City's governmental funds, and as capital assets of the City and debt obligations of the City. The Solvang Conference and Visitors Bureau is a nonprofit benefit corporation established to promote tourism within the city; and it is reported as a discretely presented component unit because of its financial interdependency with the City of Solvang. The City provides over 80 percent of the financial resources of the Conference and Visitors Bureau, and the City Council appoints all members of the governing body of the Bureau. Separate financial statements are not available for these component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and Intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the *proprietary fund financial statements*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims are recorded only when payment is due.

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

Property taxes, sales taxes, transient occupancy taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period are considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government. The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The *Impact Fee Fund* is a special revenue fund used to account for impact fees restricted by law to use only for traffic and street related purposes.

The City reports the following major proprietary funds:

The *water fund* accounts for the operations of the City's water treatment and distribution system.

The *wastewater fund* accounts for the operation of the City's wastewater treatment plant and collection facilities.

Additionally, the City reports the following fund type:

The internal service fund is used to account for the City's vehicle fleet, major equipment and services provided to other City departments on a cost reimbursement basis.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and wastewater function and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for the enterprise and internal service funds include the costs of sales and services, administration costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, U.S. Treasury bonds, bills, and notes, obligations issued by U.S. Government agencies, bankers acceptances, repurchase agreements, commercial paper, money market funds, time deposits and demand accounts.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

Investments for the City are reported at fair value. The State Local Agency Investment Fund is operated in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Santa Barbara collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The City receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City. The City recognizes property tax revenues in the fiscal year in which they are due to the City.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when used or consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Such prepayments are accounted for using the consumption method in the governmental funds.

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). They are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (\$100,000 for infrastructure type assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the City is a Phase 3 entity and was not required to record infrastructure assets existing or acquired prior to July 1, 2002 at the date these new financial reporting standards were implemented. The City has not recorded such assets. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	7 - 50
Public domain infrastructure	50
System infrastructure	50
Vehicles and equipment	5 - 10

5. Compensated Absences and Other Post Employment Benefits

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for a portion of unpaid accumulated sick leave since the City does have a policy to pay certain amounts when employees separate from service with the City. All vacation pay and applicable sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The City accrues each year as a liability in the government-wide financial statements a liability for the difference between the actuarially determined annual required contribution to its OPEB Plan and the amounts actually contributed by the City for each fiscal year.

6. Long-term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

8. Comparative Data

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in net assets. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current years' presentation.

2. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this \$12,028,664 difference are as follows:

Capital assets	\$ 15,516,849
Less: Accumulated depreciation	<u>(3,488,185)</u>

Net adjustment to increase *fund balance – total governmental funds* to arrive at *net assets – governmental activities* \$ 12,028,664

Another element of the reconciliation explains that "long-term liabilities" are not due and payable in the current period and, therefore, are not reported in the funds. The details of this \$231,722 difference are as follows:

Long-Term Obligations:	
Notes	\$ (25,451)
Net OPEB Obligation	(125,338)
Compensated absences payable	<u>(80,933)</u>

Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities \$ (231,722)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$ 1,255,737 difference and other significant components of the difference are as follows:

Capital outlay	\$ 1,297,010
Depreciation expense	(531,532)
Repayment of long-term debt principal	413,871
Other post employment benefit expense	(125,338)
Other items	<u>201,726</u>

Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities* \$ 1,255,737

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except budgets are not adopted for the debt service funds, traffic congestion, impact fees or street lighting funds. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers between departments and other changes require City Council approval. The legal level of control is the department and fund level. The Council made supplemental appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments at June 30, 2010 consisted of the following:

Pooled demand deposits	\$ 215,211
Pooled investments	<u>16,610,690</u>
 Total deposits and investments	 <u>\$ 16,825,901</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than three years. At June 30, 2010, \$99,186 of the City's bank balances of \$ 350,186 was exposed to credit risk as follows:

Uninsured and collateral held by pledging banks agent but not in the City's name:	<u>\$ 99,186</u>
--	------------------

Of the discretely presented component unit's bank balance of \$112,331, \$112,331 was insured and not exposed to credit risk.

Investments - At June 30, 2010, the City had the following investments.

Type Investment	Average Maturity	Fair Value
State Investment Pool (LAIF)	203 Days	\$ <u>16,610,690</u>
		<u>\$ 16,610,690</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities of five years or less.

Credit Risk - State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the City's policy to comply with State law as regards securities ratings. The City's investment in the State Investment Pool is unrated.

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

A. Deposits and Investments(Continued)

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy specifies that securities are to be held by a third party, other than the counterparty, in the City's name, whenever possible. The investment in the LAIF is not subject to custodial credit risk.

B. Receivables

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows:

	General Fund and Internal Service	Impact Fee Fund	Nonmajor Funds	Total Governmental	Water Wastewater	Nonmajor Proprietary
Accounts	\$ 9,400	\$ -	\$ -	\$ 9,400	\$ 664,260	\$ -
Taxes	539,383	-	-	539,383	-	-
Interest	10,653	3,094	1,171	14,918	30,853	685
Governments	1,890	-	169,825	171,515	-	140,093
Notes	159,669	99,522	-	259,191	-	-
Totals	\$ 512,974	\$119,665	\$ 535,598	\$ 994,407	\$ 695,113	\$ 140,778

C. Interfund Transfers, Receivables and Payables

1. The composition of interfund transfers of June 30, 2010 is as follows:

	General Fund	Non-Major Funds	Impact Fee Fund	Water Enterprise Fund	Wastewater Enterprise Fund	Total Transfers
Transfers In:						
Transfers Out:						
General fund	\$ -	\$ 15,315	\$ -	\$ -	\$ -	\$ 15,315
Nonmajor funds	9,422	10,555	-	-	-	19,977
Water/wastewater	-	15,095	-	-	-	15,095
Totals	\$ 9,422	\$ 40,965	\$ -	\$ -	\$ -	\$ 50,387

The primary purpose of the transfers out of the general fund were to provide \$279,587 for debt service.

2. The composition of internal balances was:

Receivable Fund	Payable Fund	Amount
General:		
For cash flow needs:	Traffic safety fund	\$ 2,360
Wastewater enterprise:		
Loan to general fund for capital project financing	General fund	1,138,095
	Total	\$ 1,140,455

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

D. Capital Assets

Capital asset activity relating to governmental activities for the year ended June 30, 2010 was as follows:

Governmental activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 1,943,104	\$ -	\$ -	\$ 1,943,104
Construction in progress	<u>704,988</u>	<u>776,929</u>	<u>-</u>	<u>1,481,917</u>
Total capital assets, not being depreciated	<u>2,648,092</u>	<u>776,929</u>	<u>-</u>	<u>3,425,021</u>
Capital assets, being depreciated:				
Buildings	3,357,816	-	-	3,357,816
Machinery and equipment	635,363	-	(12,294)	623,069
Internal service fund – vehicles/equipment	697,931	53,924	(27,096)	724,760
Improvements	3,663,119	78,198	-	3,741,317
Infrastructure-street system	<u>3,915,447</u>	<u>454,179</u>	<u>-</u>	<u>4,369,626</u>
Total capital assets being depreciated	<u>12,269,676</u>	<u>586,301</u>	<u>(39,390)</u>	<u>12,816,588</u>
Less accumulated depreciation for:				
Buildings	(969,018)	(85,107)	-	(1,054,125)
Machinery and equipment	(420,148)	(51,383)	12,294	(459,237)
Internal service fund	(413,938)	(65,586)	27,096	(452,428)
Improvements	(1,308,329)	(176,227)	-	(1,484,556)
Infrastructure-street system	<u>(259,156)</u>	<u>(231,111)</u>	<u>-</u>	<u>(490,267)</u>
Total accumulated depreciation	<u>(3,370,589)</u>	<u>(609,414)</u>	<u>39,390</u>	<u>(3,940,613)</u>
Total capital assets, being depreciated, net	<u>8,899,087</u>	<u>(23,113)</u>	<u>-</u>	<u>8,875,975</u>
Governmental activities capital assets, net	<u>\$ 11,547,179</u>	<u>\$ 753,816</u>	<u>\$ -</u>	<u>\$ 12,300,996</u>

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

D. Capital Assets (Continued)

Capital asset activity relating to business-type activities for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 112,819	\$ -	\$ -	\$ 112,819
Construction in progress	19,847	84,624	-	104,471
Total capital assets, not being depreciated	132,666	84,624	-	217,290
Capital assets, being depreciated:				
Buildings	7,563,832	-	-	7,563,832
Distribution and collection systems	8,497,749	19,805	-	8,517,554
Infrastructure	3,551,049	26,886	-	3,577,935
Vehicles	505,146	-	(172,785)	332,361
Equipment	1,534,375	53,792	(20,053)	1,568,114
Total capital assets being depreciated	21,652,151	100,483	(192,838)	21,559,796
Less accumulated depreciation for:				
Buildings	(4,298,350)	(238,828)	-	(4,537,178)
Distribution and collection systems	(4,924,410)	(197,842)	-	(5,122,252)
Infrastructure	(354,035)	(120,719)	-	(474,754)
Vehicles	(244,317)	(46,582)	97,524	(193,375)
Equipment	(955,030)	(83,025)	15,031	(1,023,024)
Total accumulated depreciation	(10,776,142)	(686,996)	112,555	(11,350,583)
Total capital assets, being depreciated, net	10,876,009	(586,513)	(80,283)	10,209,213
Business-type activities capital assets, net	\$ 11,008,675	\$ (501,889)	\$ (80,283)	\$ 10,426,503

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

D. Capital Assets (Continued)

Depreciation and amortization expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	\$ 127,714
Public safety	9,068
Culture and recreation	175,935
Infrastructure streets	231,111
Vehicles- internal service fund	<u>65,586</u>
Total depreciation expense-governmental activities	<u>\$ 609,414</u>
Business-type activities:	
Water	\$ 202,832
Wastewater	437,582
Transit	<u>46,582</u>
Total depreciation expense-governmental activities	<u>\$ 686,996</u>

E Long-Term Debt

Installment Agreement

The City has pledged future water system revenues, net of specified operating expenses, to repay \$3 million borrowed in 2001 under an installment agreement. The proceeds from the agreement provided financing for the construction of system improvements related to transporting State water to the City of Solvang. The agreement is payable solely from water system net revenues and repayments continue through 2017, bear interest at 5.05 percent, and are payable in semi-annual installments of \$143,811 each May and November. Annual principal and interest payments on the agreement are expected to require less than 55 percent of net system revenues. The total principal and interest remaining to be paid on the agreement is \$1,869,546. Principal and interest paid for the current year and total system net revenues as defined were \$287,622 and \$170,669 respectively. Future debt service is:

Fiscal Year	Principal	Interest	Total
2011	\$ 210,612	\$ 77,010	\$ 287,622
2012	221,382	66,240	287,622
2013	232,704	54,918	287,622
2014	244,603	43,019	287,622
2015	257,111	30,511	287,622
2016-2017	<u>410,532</u>	<u>20,904</u>	<u>431,436</u>
Totals	<u>\$ 1,576,944</u>	<u>\$ 292,602</u>	<u>\$ 1,869,546</u>

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

4. Detailed Notes on All Funds (Continued)

F. Long-Term Debt (Continued)

Note Payable – Property Taxes

The City of Solvang was over allocated \$585,451 in property taxes by Santa Barbara County. The City is to make annual repayments of \$40,000 with no interest through 2011. Future repayments are:

Fiscal Year	Principal	Total Repayment
2011	\$ 25,451	\$ 25,451
Totals	\$ 25,451	\$ 25,451

Changes in Long-term liabilities

Long-term debt activity for the 2010 fiscal year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental					
Activities:					
Capital lease	\$ 308,871	\$ -	\$ 308,871	\$ -	\$ -
Note	65,451	-	40,000	25,451	25,451
Special assessment bonds	65,000	-	65,000	-	-
Compensated absences	83,811	80,933	83,811	80,933	60,933
	<u>\$ 523,133</u>	<u>\$ 80,933</u>	<u>\$ 497,682</u>	<u>\$ 106,384</u>	<u>\$ 86,384</u>
Total	<u>\$ 523,133</u>	<u>\$ 80,933</u>	<u>\$ 497,682</u>	<u>\$ 106,384</u>	<u>\$ 86,384</u>
Business-type					
Activities:					
Installment agreement	\$ 1,777,310	\$ -	\$ 200,366	\$ 1,576,944	\$ 210,612
Capital lease	81,129	-	81,129	-	-
Compensated absences	29,674	34,726	29,674	34,726	29,619
	<u>\$ 1,888,113</u>	<u>\$ 34,726</u>	<u>\$ 411,169</u>	<u>\$ 1,611,670</u>	<u>\$ 240,231</u>
Total	<u>\$ 1,888,113</u>	<u>\$ 34,726</u>	<u>\$ 411,169</u>	<u>\$ 1,611,670</u>	<u>\$ 240,231</u>

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

5. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City is a member of the California Joint Powers Insurance Authority (California JPIA). The California JPIA provides general liability insurance to the City with a \$50 million per occurrence and \$50 million per year aggregate limit. The City also participates in the Insurance Authority's workers compensation insurance program. The risk of loss is transferred to the California JPIA. The City is subject to retrospective premium adjustments under the arrangement.

The uninsured risk retained by the City is \$50,000 per incident for workers compensation claims, \$20,000 per incident for general liability claims, and \$ 5,000 per property damage claim. The Insurance Authority purchases commercial insurance for claims in excess of its deductible amounts which is \$5 million for liability and \$500,000 for workers compensation. Insurance transactions are accounted for in the general fund.

Liabilities of the City are reported in the statement of net assets for the governmental activities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Settlements have not exceeded coverage for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>Year Ended 6/30/2010</u>	<u>Year Ended 6/30/2009</u>
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims (including IBNRs)	-	-
Claim payments	-	-
Unpaid claims, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>

B. Contingencies and Commitments

Litigation. The City is involved in litigation incurred in the normal course of conducting City business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Grants and allocations. Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

5. Other Information (Continued)

C. Operating Agreements

Water Supply Agreement. The City has an agreement with the Santa Ynez River Water Conservation District, Improvement District One, wherein the District and The Central Coast Water Authority constructed and operate a joint water treatment facility and water conveyance system. The Authority financed the plant and system by selling revenue bonds, and in 1997, issued \$ 198 million in refunding revenue bonds. The agreement is a take-or-pay obligation, and the City is obligated to pay amounts specified in the agreement whether or not water is treated or delivered. The amounts paid by the City are pledged by the Authority for repayment of the Authority's debt obligations. The City records these payments as operating expenses in its water enterprise fund.

Museum Agreement. The City has an agreement to provide financial support for a now privately owned non-profit museum. The City's commitment is to provide \$200,000 for operating cost from 2007 through 2015. The maximum support in any one year is \$25,000.

D. Public Employees Retirement System

Plan Description. The City of Solvang contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer, public employee, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by the State statute and City ordinance. The PERS issues publicly available financial report that includes the financial statements and required supplementary information for the PERS. Copies of the PERS annual financial report may be obtained from their executive office, 400 "P" Street, Sacramento, California 95814.

Funding Policy and Annual Pension Cost. The contribution requirements of plan members and the City are established by and may be amended by PERS. Regular plan members are required to contribute 7.0 percent of their annual covered salary and safety members are required to contribute 9.0 percent. The City is required to contribute at an actuarially determined rate. The current rate for regular employees is 13.139 percent of covered payroll.

The City's annual pension cost for the most recent year three fiscal years for each plan is as follows

Three-Year Trend Information

Plan	Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
<i>Regular employees</i>	6/30/08	\$ 223,456	100%	\$ -
	6/30/09	\$ 206,974	100%	\$ -
	6/30/10	\$ 261,697	100%	\$ -
<i>Safety employees</i>	6/30/08	\$ -	100%	\$ -
	6/30/09	\$ -	100%	\$ -
	6/30/10	\$ -	100%	\$ -

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

5. Other Information (Continued)

E. Restricted Net Assets and Designated Fund Balances

The \$ 2,844,598 restricted amount in the governmental activities and the \$201,773 in the business-type activities statement net assets represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments.

Reserved fund balances consisted of the following:

Purpose	General Fund	Nonmajor Funds
Prepayments (primarily insurance)	\$ 14,556	\$ -
Internal balances due from other funds	-	-
	<u>\$ 14,556</u>	<u>\$ -</u>

Portions of unreserved fund balances in the fund financial statements may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change, have not been legally authorized, and may not result in expenditures. Unreserved designated fund balances were:

Purpose	General Fund	Impact Fee Fund	Nonmajor Funds
Museum funding	\$ 100,000	\$ -	\$ -
Future capital projects	1,348,477	2,087,559	-
Emergencies and contingencies	2,700,000	-	-
Totals	<u>\$ 4,148,477</u>	<u>\$ 2,087,559</u>	<u>\$ -</u>

F. Other Post Employment Benefits

Plan Description. The city administers the City's retired employee's healthcare plan, a single employer defined benefit health care plan. The plan provides medical benefits to eligible retired employees and their beneficiaries. The City's plan is affiliated with the State of California PERS in so far as the City's health insurance premium payments are paid to the PERS. The PERS through an aggregation of single employer plans pools administrative functions in regard to purchases of commercial health insurance policies and coverage. City resolutions and regulations assign the authority to establish and amend benefit provisions to the City. A separate OPEB trust fund has not been established by the City.

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City. The required contribution is based on a projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the City Council. For the fiscal year ended June 30, 2010, the City contributed \$71,976 of current year premiums (100% of total premiums) and zero to prefund benefits. Plan members receiving benefits contributed no amounts of the total premiums.

Annual OPEB Costs and the NET OPEB Obligation. The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement Number 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amounts actually contributed to the plan, and changes in the City's net OPEB obligation to the Plan:

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

5. Other Information (Continued)

F. Other Post Employment Benefits (Continued)

Annual required contribution (ARC)	\$197,314
Interest on net OPEB obligation	-
Adjustments to the ARC	-
	-
Annual OPEB expense	197,314
Contributions made	(71,976)
Change in net OPEB obligation	125,338
Net OPEB Obligation, beginning of year	-
	-
Net OPEB Obligation, end of year	\$125,338

The City's annual OPEB Cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 (the first year of implementation) was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
June 30, 2010	\$197,314	36.5%	\$125,338

Funding Status and Funding Progress. As of June 1, 2009, the most recent actuarial valuation date, the plan was zero funded. The actuarial accrued liability for benefits was \$1,918,713. And the actuarial value of plan assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$1, 918,713. The covered payroll (annual payroll of active employees covered by the plan) was \$2,175,329 and the ratio of the UAAL to the covered payroll was 88.2 percent.

Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and health care trends. 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 made about the future.

The schedule of funding progress, presented as required supplemental information, following the notes to these financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) includes the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits 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 liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations. In the June 1, 2009 valuation, the entry age normal actuarial cost method was used. The actuarial assumptions include a 5 percent investment rate of return based on assumed long-term return on plan assets or employer assets, as appropriate. This is based on the long-term historical returns for surplus funds invested pursuant to the California Government Code. An annual health care trend rate of 4 percent was also used in the valuation. There were no plan assets at the valuation date. The UAAL is being amortized as a level percentage of payroll over 30 years, the remaining amortization period at June 30, 2010.

CITY OF SOLVANG
Notes to the Basic Financial Statements
June 30, 2010

5. Other Information (Continued)

G. Change in Accounting Principle

The City, as required by Governmental Accounting Standards Board Statement 45, titled, Accounting and Financial reporting by Employers for Post Employment benefits Other Than Pensions, implemented in fiscal 2010 the provisions of the standard that requires financial reporting about retiree medical benefit plans, the employer's annual required contribution (ARC), contributions made, and other information. The implementation of the standard had no effect on the beginning net assets of the City because the City reported a zero net other post employment benefit obligation at the beginning of the 2010 fiscal year.

H. Proposition 1A Property Tax Receivable.

Under the provision of Proposition 1A and as part of the 2009-10 budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in lieu motor license fee, the triple flip in lieu sales tax, and the supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 20, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the City was \$159,669

The borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal 2012-2013). In the government wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
CITY OF SOLVANG
Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2010

	<u>Budgetary Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Charges to appropriations:				
<i>General Government:</i>				
Nondepartmental:				
City council	18,000	18,000	18,000	-
Other	124,300	108,510	102,404	6,106
Community resources	82,650	82,650	82,650	-
Debt service	40,000	40,000	40,000	-
Administration:				
Legal	90,000	84,000	65,269	18,731
General administration	956,422	1,061,203	962,500	98,703
<i>Public Safety:</i>				
Sheriff contract	1,272,829	1,272,829	1,271,517	1,312
Fire	-	-	-	-
Animal control	35,411	35,411	33,886	1,525
MHAT	1,744	1,744	-	1,744
<i>Culture and Recreation:</i>				
Conference and Visitors Bureau	410,000	410,000	410,000	-
Other tourism	91,684	91,684	81,014	10,670
Parks	457,379	462,079	458,144	3,935
Recreation	278,813	254,263	248,694	5,569
Buelton recreation	32,000	32,000	57,349	(25,349)
Capital outlay	6,000	6,000	-	6,000
Founders Square project	103,000	103,000	17,941	85,059
Amgen event	32,850	32,850	52	32,798
<i>Community Development:</i>				
City planning	445,087	428,382	397,297	31,085
<i>Public works:</i>				
Maintenance and engineering	883,699	890,294	857,400	32,894
Projects - Mission AP intersection	745,000	745,000	107,866	637,134
Projects - Museum subsidies	25,000	25,000	25,000	-
Projects - Fire station remodel	37,083	37,083	16,914	20,169
Debt service:				
Interest	68,200	13,500	13,462	38
<i>Transfers out</i>	287,290	287,290	15,315	271,975
Total charges to appropriations	<u>6,524,441</u>	<u>6,522,772</u>	<u>5,282,674</u>	<u>1,240,098</u>
Fund Balance, June 30	<u>\$ 4,234,988</u>	<u>\$ 4,223,488</u>	<u>\$ 5,647,142</u>	<u>\$ 1,423,654</u>

CITY OF SOLVANG

**Budgetary Comparison Schedule - General Fund
Note to RSI
For the Fiscal Year Ended June 30, 2010**

Note A. Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows resources:

Actual amounts "available for appropriation" from budgetary comparison schedule:	\$ 10,929,816
Differences - budget to GAAP:	
Transfers in are a budgetary resource, but are not revenues for financial reporting purposes	(9,422)
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	<u>(5,424,155)</u>
 Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	 <u><u>\$ 5,496,239</u></u>

Uses/outflows of resources:

Actual amounts "total charges to appropriations" from the budgetary comparison schedule	\$ 5,282,674
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(15,315)</u>
 Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	 <u><u>\$ 5,267,359</u></u>

The City adopts revenue and expenditure budgets for all governmental funds except that no budgets are adopted for the two debt service funds, the traffic congestion fund, and the Skytt Mesa landscaping and lighting, and the impact fee fund.

Required Supplementary Information
City of Solvang
Other Post Employment Benefits (OPEB)
Schedule of Funding Progress
June 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/1/2009	\$ -	\$ 1,918,713	\$ 1,918,713	0.00%	\$ 2,175,329	88.20%

OPTIONAL SUPPLEMENTARY INFORMATION

***NONMAJOR FUNDS' COMBINING FINANCIAL STATEMENTS AND SCHEDULES
AND SCHEDULES OF CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES***

CITY OF SOLVANG
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	Special Revenue					Debt Service			Totals
	Traffic Safety	Gas Tax	Local Transportation	Measure D	Traffic Congestion	Skytt Mesa Landscape and Lighting	Special Assessment Bonds	Capital Lease	
Assets									
Cash and investments	\$ 1,752	\$ 3,740	\$ 297,608	\$ 403,746	\$ 35,689	\$ 84,876	\$ -	\$ -	\$ 827,411
Receivables:									
Interest	-	-	478	516	50	127	-	-	1,171
Intergovernmental	2,131	9,965	143,988	-	13,741	-	-	-	169,825
Total assets	<u>\$ 3,883</u>	<u>\$ 13,705</u>	<u>\$ 442,074</u>	<u>\$ 404,262</u>	<u>\$ 49,480</u>	<u>\$ 85,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 998,407</u>
Liabilities and Fund Balances									
Liabilities:									
Accounts payable	\$ 1,523	\$ 3,740	\$ 194,924	\$ 110	\$ -	\$ 198	\$ -	\$ -	\$ 200,495
Due to other governments	-	-	-	-	38,513	-	-	-	38,513
Due to other funds	2,360	-	-	-	-	-	-	-	2,360
Total liabilities	<u>3,883</u>	<u>3,740</u>	<u>194,924</u>	<u>110</u>	<u>38,513</u>	<u>198</u>	<u>-</u>	<u>-</u>	<u>241,368</u>
Fund balances:									
Unreserved:									
Undesignated	-	9,965	247,150	404,152	10,967	84,805	-	-	757,039
Total fund balances	<u>-</u>	<u>9,965</u>	<u>247,150</u>	<u>404,152</u>	<u>10,967</u>	<u>84,805</u>	<u>-</u>	<u>-</u>	<u>757,039</u>
Total liabilities and fund balances	<u>\$ 3,883</u>	<u>\$ 13,705</u>	<u>\$ 442,074</u>	<u>\$ 404,262</u>	<u>\$ 49,480</u>	<u>\$ 85,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 998,407</u>

CITY OF SOLVANG
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2010

	Special Revenue						Debt Service		Totals
	Traffic Safety	Gas Tax	Local Transportation	Measure D	Traffic Congestion	Skytt Mesa Landscape and Lighting	Special Assessment Bonds	Capital Lease	
Revenues:									
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,283	\$ 52,458	\$ -	\$ 71,741
Intergovernmental	-	93,895	138,293	427,902	49,351	-	-	-	709,441
Fines and forfeitures	26,241	-	-	-	-	-	-	-	26,241
Interest	-	-	3,708	1,975	142	604	-	414	6,843
Total revenues	26,241	93,895	142,001	429,877	49,493	19,887	52,458	414	814,266
Expenditures:									
Current:									
Public works:									
Highways and streets	22,351	40,199	67,747	-	23,495	53,693	-	-	207,485
Street lighting	-	44,782	-	-	-	-	-	-	44,782
Intergovernmental	-	-	-	-	38,513	-	-	-	38,513
Capital outlay	-	-	787,264	280,712	-	-	-	-	1,067,976
Debt service:									
Principal	-	-	-	-	-	-	65,000	308,871	373,871
Interest	-	-	-	-	-	-	2,773	9,422	12,195
Total expenditures	22,351	84,981	855,011	280,712	62,008	53,693	67,773	318,293	1,744,822
Excess (deficiency) of revenues over expenditures	3,890	8,914	(713,010)	149,165	(12,515)	(33,806)	(15,315)	(317,879)	(930,556)
Other financing sources (uses):									
Transfers in	-	1,051	-	-	-	-	15,315	24,599	40,965
Transfers out	(5,483)	-	-	(9,504)	-	-	(4,990)	-	(19,977)
Total other financing sources (uses)	(5,483)	1,051	-	(9,504)	-	-	10,325	24,599	20,988
Net change in fund balances	(1,593)	9,965	(713,010)	139,661	(12,515)	(33,806)	(4,990)	(293,280)	(909,568)
Fund balances, July 1	1,593	-	960,160	264,491	23,482	118,611	4,990	293,280	1,666,607
Fund balances, June 30	\$ -	\$ 9,965	\$ 247,150	\$ 404,152	\$ 10,967	\$ 84,805	\$ -	\$ -	\$ 757,039

CITY OF SOLVANG
Traffic Safety Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive(Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Fines and forfeitures	\$ 28,000	\$ 28,000	\$ 26,241	\$ (1,759)
Interest	-	-	-	-
Total revenues	<u>28,000</u>	<u>28,000</u>	<u>26,241</u>	<u>(1,759)</u>
Expenditures:				
Current:				
Highways and streets:				
Repairs and maintenance	28,000	28,000	22,351	5,649
Total expenditures	<u>28,000</u>	<u>28,000</u>	<u>22,351</u>	<u>5,649</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	3,890	3,890
Other financing uses:				
Transfers out	-	-	(5,483)	(5,483)
Net change in fund balances	-	-	(1,593)	(1,593)
Fund balance, July 1	<u>1,593</u>	<u>1,593</u>	<u>1,593</u>	<u>-</u>
Fund balance, June 30	<u>\$ 1,593</u>	<u>\$ 1,593</u>	<u>\$ -</u>	<u>\$ (1,593)</u>

CITY OF SOLVANG
Gas Tax Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 92,000	\$ 92,000	\$ 93,895	\$ 1,895
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>92,000</u>	<u>92,000</u>	<u>93,895</u>	<u>1,895</u>
Expenditures:				
Current:				
Highways and streets:				
Street light utilities	45,000	45,000	44,782	218
Street sweeping	38,000	38,000	36,000	2,000
Street maintenance	9,000	9,000	4,199	4,801
Capital outlay	-	-	-	-
Total expenditures	<u>92,000</u>	<u>92,000</u>	<u>84,981</u>	<u>7,019</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>8,914</u>	<u>8,914</u>
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>1,051</u>	<u>1,051</u>
Net change in fund balances	-	-	9,965	9,965
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,965</u>	<u>\$ 9,965</u>

CITY OF SOLVANG
Local Transportation Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive(Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental:				
TDA bike path allocation	\$ 3,446	\$ 3,446	\$ 3,271	\$ (175)
LSTP allocation	-	-	15	15
RSTP allocation	-	-	(8,981)	(8,981)
AARA grant	143,000	143,000	143,988	988
Interest	20,000	5,000	3,708	-1,292
Total revenues	<u>166,446</u>	<u>151,446</u>	<u>142,001</u>	<u>(9,445)</u>
Expenditures:				
Current:				
Highways and streets:				
Repairs and maintenance	5,446	4,446	1,968	2,478
Sidewalks	30,000	30,000	16,915	13,085
Road overlay	-	1,000	1,040	(40)
Professional services	100,000	100,000	47,824	52,176
Capital outlay	<u>882,000</u>	<u>882,000</u>	<u>787,264</u>	<u>94,736</u>
Total expenditures	<u>1,017,446</u>	<u>1,017,446</u>	<u>855,011</u>	<u>162,435</u>
Excess(deficiency) of revenues over expenditures	<u>(851,000)</u>	<u>(866,000)</u>	<u>(713,010)</u>	<u>152,990</u>
Other financing sources:				
Transfers out	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(851,000)	(866,000)	(713,010)	152,990
Fund balance, July 1	<u>960,160</u>	<u>960,160</u>	<u>960,160</u>	<u>-</u>
Fund balance, June 30	<u>\$ 109,160</u>	<u>\$ 94,160</u>	<u>\$ 247,150</u>	<u>\$ 152,990</u>

CITY OF SOLVANG
MEASURE D Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental:				
Allocations from Santa Barbara County	\$ 418,233	\$ 418,233	\$ 427,902	\$ 9,669
Interest earnings	6,000	4,000	1,975	(2,025)
Total revenues	<u>424,233</u>	<u>422,233</u>	<u>429,877</u>	<u>7,644</u>
Expenditures:				
Current:				
Highways and streets:				
Street overlays	442,000	442,000	302,609	139,391
Village collection rehabilitation	200,000	200,000	(21,897)	221,897
Total expenditures	<u>642,000</u>	<u>642,000</u>	<u>280,712</u>	<u>361,288</u>
Excess(deficiency) of revenues over expenditures	<u>(217,767)</u>	<u>(219,767)</u>	<u>149,165</u>	<u>368,932</u>
Other financing sources:				
Transfers out to debt service	(42,888)	(42,888)	(9,504)	-
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources(uses)	<u>(42,888)</u>	<u>(42,888)</u>	<u>(9,504)</u>	<u>-</u>
Net change in fund balances	(260,655)	(262,655)	139,661	368,932
Fund balance, July 1	<u>264,491</u>	<u>264,491</u>	<u>264,491</u>	<u>-</u>
Fund balance, June 30	<u>\$ 3,836</u>	<u>\$ 1,836</u>	<u>\$ 404,152</u>	<u>\$ 368,932</u>

CITY OF SOLVANG
Comparative Schedule of Capital Assets Used In Governmental Activities
By Source

	June 30	
	2010	2009
Capital assets used in governmental activities:		
Land	\$ 1,943,104	\$ 1,943,104
Buildings	3,357,816	3,357,816
Improvements	3,741,317	3,663,119
Infrastructure - street system	4,369,626	3,915,447
Equipment	623,069	635,363
Construction in progress	1,481,917	704,988
Equipment-internal service operations	724,760	697,931
	<u>\$ 16,241,609</u>	<u>\$ 14,917,768</u>
Investment in capital assets from:		
General fund	\$ 10,883,562	\$ 10,775,696
Contributions from developers	710,214	710,214
Special revenue funds	3,923,073	2,733,927
Internal service	724,760	697,931
	<u>\$ 16,241,609</u>	<u>\$ 14,917,768</u>
	<u>\$ 16,241,609</u>	<u>\$ 14,917,768</u>

CITY OF SOLVANG
Schedule of Changes in Capital Assets Used In Governmental Activities
By Source
For the Fiscal Year Ended June 30, 2010

	Land	Buildings	Improvements and Infrastructure	Equipment	Construction in Progress	Total Cost
General capital assets June 30, 2009	\$ 1,943,104	\$ 3,357,816	\$ 7,578,566	\$ 1,333,294	\$ 704,988	\$ 14,917,768
Add:						
Expenditures from:						
General fund	-	-	107,866	-	-	107,866
Special revenue funds	-	-	424,511	-	776,929	1,201,440
Internal service	-	-	-	53,924	-	53,924
Deduct:						
Transfers	-	-	-	-	-	-
Retirements and contributions	-	-	-	(39,389)	-	(39,389)
General capital assets June 30, 2010	<u>\$ 1,943,104</u>	<u>\$ 3,357,816</u>	<u>\$ 8,110,943</u>	<u>\$ 1,347,829</u>	<u>\$ 1,481,917</u>	<u>\$ 16,241,609</u>

CITY OF SOLVANG
Schedule of Capital Assets Used in Governmental Activities
By Function and Activity
June 30, 2010

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements and Infrastructure</u>	<u>Equipment</u>	<u>Construction in Progress</u>	<u>Total Cost</u>
General government:						
Parks	\$ 708,021	\$ 80,336	\$ 1,875,206	\$ 59,504	\$ 48,700	\$ 2,771,767
Roads	-	-	4,827,816	80,093	1,433,217	6,341,126
Recreation	-	1,265,098	57,065	2,602	-	1,324,765
Administration	89,850	599,174	724,063	420,537	-	1,833,624
Total general government	797,871	1,944,608	7,484,150	562,736	1,481,917	12,271,282
Internal Service:						
Vehicle operations	-	-	-	724,760	-	724,760
Public safety:						
Emergency services	-	-	-	28,158	-	28,158
Fire protection	-	195,802	215,544	26,175	-	437,521
Total public safety	-	195,802	215,544	54,333	-	465,679
Veterans building	63,483	1,193,406	352,109	6,000	-	1,614,998
Parking district	1,081,750	24,000	59,140	-	-	1,164,890
Total general fixed assets	\$ 1,943,104	\$ 3,357,816	\$ 8,110,943	\$ 1,347,829	\$ 1,481,917	\$ 16,241,609

CITY OF SOLVANG
Schedule of Changes in Capital Assets Used In Governmental Activities
By Function and Activity
For the Fiscal Year Ended June 30, 2010

<u>Function and Activity</u>	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
General government:				
Parks	\$ 2,771,767	\$ -	\$ -	\$ 2,771,767
Roads	5,031,820	1,309,306	-	6,341,126
Recreation	1,324,765	-	-	1,324,765
Administration	1,845,918	-	(12,294)	1,833,624
Total general government	<u>10,974,270</u>	<u>1,309,306</u>	<u>(12,294)</u>	<u>12,271,282</u>
Internal service:				
Vehicle operations	<u>697,931</u>	<u>53,924</u>	<u>(27,095)</u>	<u>724,760</u>
Public safety:				
Emergency services	28,158	-	-	28,158
Fire protection	437,521	-	-	437,521
Total public safety	<u>465,679</u>	<u>-</u>	<u>-</u>	<u>465,679</u>
Museums	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Veterans building	<u>1,614,998</u>	<u>-</u>	<u>-</u>	<u>1,614,998</u>
Parking district	<u>1,164,890</u>	<u>-</u>	<u>-</u>	<u>1,164,890</u>
Total general capital assets	<u>\$ 14,917,768</u>	<u>\$ 1,363,230</u>	<u>\$ (39,389)</u>	<u>\$ 16,241,609</u>

City of Solvang, California
Report on Internal Control Over Financial Reporting and Compliance
in Connection With a Financial
Statement Audit Performed in Accordance with
Government Auditing Standards
June 30, 2010



Terry E. Krieg, CPA
Certified Public Accountant

Honorable Mayor and Members of
the City Council
City of Solvang
Solvang, California

I have audited the basic financial statements of the City of Solvang, California, as of and for the year ended June 30, 2010, and have issued my report thereon dated March 7, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Solvang, California's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Solvang's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Solvang's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

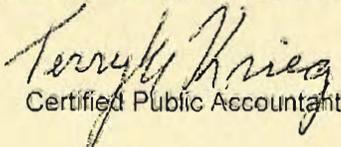
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Solvang, California's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

March 7, 2011


Certified Public Accountant

*Communication to Those Charged With Governance
City of Solvang
Fiscal Year Ended June 30, 2010*



Terry E. Krieg, CPA
Certified Public Accountant

March 7, 2011

Honorable Mayor and Members of the City Council
City of Solvang
Solvang, California

I have audited the basic financial statements of the governmental- type activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Solvang for the year ended June 30, 2010, and have issued my report thereon dated March 7, 2011. Professional standards require that I provide you with the following information related to my audit.

1. My Responsibility under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

As part of my audit, I considered the internal control of the City of Solvang. Such considerations were solely for the purpose of determining my audit procedures and not to provide assurance concerning such internal control. My responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. I am responsible for communicating significant matters related to the audit that are, in my professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, I am not required to design procedures specifically to identify such matters.

2. Other Information in Documents Containing Audited Financial Statements and Electronic Dissemination of Audited Financial Statements

My responsibility for other information in documents containing the City of Solvang's financial statements and my auditor's report, such as an official statement for a bond or debt offering, does not extend beyond the financial information identified in the report. I do not have an obligation to perform any procedures to corroborate other information contained in such other documents. To my knowledge, the City of Solvang's audited financial statements were not incorporated into other documents.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, I am not required to read the information in any such sites or to consider the consistency of other information in the electronic site with the original documents.

3. Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to the City's Finance Director in the audit engagement letter and discussed with the City's Finance Director. My understanding is that the Finance Director has the responsibility for coordinating the audit process with my firm and for communicating to you significant audit matters.

4. Significant Audit Findings

A. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Solvang are described in Note one to the financial statements.

B. Changes in Accounting Policies

No new accounting policies were adopted and the application of existing policies were not changed in the 2010 fiscal year except that the City implemented the Governmental Accounting Standards Board Statement Number 45 titled Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions.

The provisions of the standard required additional disclosures in the notes to the City's financial statements *and* the reporting of a liability in the government wide statement of net assets for the difference between any actuarially determined annual required contribution (ARC) to the Retiree Medical Plan and the amount funded or premiums paid by the City. The amount of the liability reported in this implementation year was \$125,338. In addition, the City reported an unfunded actuarially determined liability of \$1,918,713 applicable to its OPEB Plan.

C. Significant and Unusual Transactions

There were no significant and unusual transactions reported in fiscal 2010 in the City's statement of net assets and fund statements other than:

1. Reporting a \$125,338 OPEB liability in the government-wide statement of net assets
2. Reporting in the city's general fund the \$1.1 million liability payable to the City's wastewater fund as an inter-fund loan.
3. Reporting a \$159,669 Proposition 1A receivable in its general fund for property tax revenues borrowed by the State of California and scheduled to be repaid by 2013.
4. Reporting operating income losses in both the water and wastewater enterprise funds.

D. Transactions Having a Lack of Authoritative Guidance

No significant dollar value transactions came to my attention where there was a lack of authoritative guidance regarding the application of accounting principles to the transactions.

E. Accounting Estimates

Accounting estimates are an integral part of financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimate affecting the financial statements was management's estimate of depreciation expense which estimates were based upon subsidiary schedules of capital assets and depreciation calculations using the straight-line method of depreciation and the OPEB annual required contributions and unfunded actuarial accrued liability based upon actuarial estimates and reports.

F. Sensitive Financial Statement Disclosures

The disclosures in the financial statements are to be neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The most sensitive disclosures affecting the financial statements were the \$1,138,095 inter-fund loan from the wastewater enterprise to the City's general fund shown as internal balances in the financial statements and notes and the information about post-employment benefits other than pensions.

5. Difficulties Encountered in Performing the Audit

I experienced no significant difficulties in dealing with management in performing and completing my audit.

6. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements and they consisted of:

There were 10 proposed adjusting and correcting entries with an aggregate dollar value impact of about \$1.7 million. The more significant entries related to reclassification entries for gains and losses on capital asset disposals, assistance in recording the Proposition 1A receivable, and entries related to the implementation of GASB 45 OPEB liabilities. The need for these corrections were, in my judgment, the result of implementing new accounting standards and the application of accounting methods for financial reporting purposes.

7. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of the audit.

8. Management Representations

I have requested certain representations from management that are included in the management representation letter.

9. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To my knowledge, there were no such consultations with other accountants

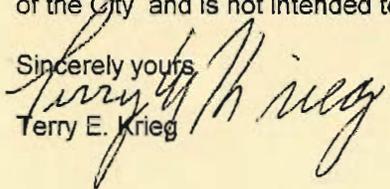
10. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention as the City's auditors or prior to commencement of the financial statement audit. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention as the City's independent auditor.

Completion of the fiscal 2010 financial statement audit was delayed this fiscal year pending the return of the City Finance Director from extended medical leave. Management decided to not publish a fiscal 2010 Comprehensive Annual Financial Report (CAFR) as had been the practice of the City in previous fiscal year. This decision was not a result of any deficiencies or material weaknesses in the City's internal accounting controls over financial reporting, but was rather a decision based upon the unavailability of the City's Finance Director and other staff not having the technical knowledge or the time available to devote to the task of compiling and completing the CAFR as had been the City's past practice.

This information is intended solely for the use of the City Council of the City of Solvang and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely yours


Terry E. Krieg