

SALINAS REDEVELOPMENT AGENCY

BASIC FINANCIAL STATEMENTS **For the Fiscal Year Ended June 30, 2009**



PREPARED BY
THE FINANCE DEPARTMENT

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City of Salinas

Salinas Redevelopment Agency • 159 Main Street • Salinas, California 93901 • (831) 758-7387 • Fax (831) 771-0458

December 15, 2009

Honorable Chairperson and Members of the Salinas Redevelopment Agency Board of Directors:

We are pleased to submit the Salinas Redevelopment Agency (Agency) Annual Financial Report for the fiscal year ended June 30, 2009. State law requires that all redevelopment agencies publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) applied to governmental units. The financial statements are to be audited by a certified public accountant in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Pursuant to that requirement, we hereby issue this annual financial report.

This is the sixth consecutive year that the Agency has produced financial statements in accordance with the Governmental Accounting Standards Board (GASB) Statement 34 reporting model. This financial reporting model is intended to improve financial reporting by adding significant additional information not previously available in local government financial statements.

In addition to the fund-by-fund financial information the report includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net equity of the Agency including all capital assets and long-term debt, and the Statement of Activities that shows the cost of providing governmental services by function. These statements have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements. The modified accrual basis of accounting focuses on near-term inflows, outflows and balances of spendable financial resources. This report retains the short-term focus in the governmental fund financial statements while providing a long-term perspective on these same activities in the accrual based government-wide financial statements. A reconciliation report is provided as a key to understanding the differences between the two reporting methods. These new statements combined with other information are analyzed in the narrative section called Management's Discussion and Analysis (MD&A). The MD&A provides "financial highlights" and interprets the financial reports by analyzing trends and by explaining changes, fluctuations and variances in the financial data. In addition, the MD&A is intended to disclose any known significant events or decisions that affect the financial condition of the Agency.

This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Agency's MD&A can be found immediately following the report of the independent auditors.

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

McGilloway, Ray, Brown & Kaufman, a firm of licensed certified public accountants, has audited the Agency's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Agency for the fiscal year ended June 30, 2009, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Agency's financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Profile of the Salinas Redevelopment Agency

The City Council of the City of Salinas, acting pursuant to the provisions of the Community Redevelopment Law (California Health and Safety Code 33000, et seq.), activated the Agency on December 19, 1960. The Agency is charged with eliminating blight within designated geographic areas through the process of redevelopment. The Agency has broad authority to acquire, develop, administer, and sell or lease property, including the right of eminent domain and the right to issue long-term debt and expend proceeds.

Redevelopment activity is financed by secured and unsecured property taxes collected in designated project areas that would go to other taxing entities in the absence of redevelopment. This allocation, known as tax increment revenue, is pursuant to State law. The assessed valuation (base roll) of a project area prior to redevelopment is established. Thereafter, any increases in assessed valuation over the base roll are remitted to the Agency. Of that amount, 20 percent must be set-aside in a special fund to be used for the purposes of increasing, improving and preserving low- and moderate-income housing. The remaining funds (80%) are used to pay debt of the Agency for various capital projects, statutory pass-through under Assembly Bill (AB) 1290, and any agreements with other taxing entities prior to AB 1290, including the County and public schools within a project area.

The seven members of the City Council serve as the governing body of the Agency, and exercise all rights, powers, duties and privileges of the Agency in carrying out redevelopment activities. The City Manager serves as Executive Director, the City Attorney serves as Agency Counsel, the City Finance Director serves as Agency Treasurer and the City Clerk serves as Secretary of the Agency.

The budget serves as the foundation for the Agency's financial planning and control. The Agency, having adopted the City of Salinas' administrative policies and procedures, implements a budget based on the same cycle as the City. The Agency's fiscal year is from July 1 through the following June 30. The budget is submitted each May to the Agency's Board of Directors, who, depending on the budget cycle, by June 30, adopts a budget. The appropriated budget is prepared by fund (project area) and object classification (e.g., capital). The Executive Director may make transfers of appropriations within a division. Transfers of appropriations between divisions, however, require the special approval of the Board of Directors and must be permitted by Redevelopment Law.

Transfers of appropriations between funds are prohibited. Budget to actual comparisons are provided in this report for each individual fund for which an appropriated annual budget has been adopted. This comparison is presented in the required supplementary information section of this report, which starts following the notes to the financial statements.

Cash Management Policies and Practices

The Agency's funds are invested as part of the City's investments. The City invests all idle funds daily. In accordance with the provisions of California Government Code Section 53600 et. seq., the City is restricted to certain types of legal investments including U.S. Treasury bills, notes and bonds,

U.S. Government agency issues, the State Local Agency Investment Fund, banker's acceptances, certificates of deposits, repurchase agreements, corporate medium-term notes, mortgage pass-through securities and asset-backed securities, and money market mutual funds. An investment and cash management policy is adopted annually by the City Council of Salinas. Investment income includes changes in the fair value of investments. Calculation of gains and losses in fair value of investments is unrealized and only measures the fair value at a point in time. Decreases in fair value during the current year, however, do not necessarily represent trends that will continue. During the fiscal year ended June 30, 2009, the adjustment for changes in fair value of investments was an unrealized gain of \$7,738 while interest earnings from investments was \$224,109.

Risk Management

The Redevelopment Agency participates in the City of Salinas' self-insurance programs for general liability and workers compensation, which affect the Agency. These insurance activities are accounted for in the City of Salinas' Risk Management Fund, an internal service fund. The Salinas Redevelopment Agency is a component unit of the City of Salinas. Additional information on the Agency's risk management activity can be found in Note 12 of the financial statements.

Community Safety Initiative

During May 2004, the Salinas Redevelopment Agency amended its implementation plan adding a policy providing for redevelopment-funded community safety initiatives within the Sunset Avenue Redevelopment project area. In order to provide a positive force for economic development in the project area, during 2008-09 the Agency contributed \$312,830 to fund the cost of two police officers assigned to the project area. The Agency's 2009-10 budget includes \$314,700 to continue the community safety initiative.

The Gateway Apartments

During August 2005, the Agency made a \$910,000 loan from the Central City Low and Moderate Income Housing Fund to First Community Housing to acquire property on Lincoln Avenue and West Market Street for an affordable housing development. Additional amounts of \$68,553 in 2005-06, \$311,447 in 2007-08 and \$300,000 in 2008-09 were loaned. The Agency's 2009-10 budget includes \$200,000 to complete loans to First Community Housing bringing the total amount loaned to \$1,790,000.

Soledad Street Affordable Housing

The Agency set aside \$1,600,000 of Central City Low and Moderate Income Housing Funds to acquire and assemble land in Chinatown for affordable housing and/or a mixed use project. Of this amount \$569,205 has been spent to assemble 8 parcels into 4/5 of an acre on Soledad Street. Remaining funds included in the Agency's 2009-10 budget total \$1,030,795.

Division Street Development

During the fiscal year 2007-08, the Agency expended \$300,000 of Sunset Avenue Low and Moderate Income Housing Funds and \$850,000 in Sunset Avenue Project Funds to assemble land (approximately 5 acres) at Division Street for a future residential and multi-use development. During the fiscal year 2008-09, the Agency expended \$857,122 of Sunset Avenue Low and Moderate Income Housing Funds for additional land acquisition bringing the total project cost to \$2,007,122.

Tynan Village

During the fiscal year 2008-09, the Agency loaned \$1,275,000 of Central City Low and Moderate Income Housing Funds and \$725,000 of Sunset Avenue Low and Moderate Income Housing Funds to Tynan Affordable Housing LP which was sponsored by the Housing Authority of Monterey County. The loan funded construction costs related to the 171 unit mixed use Tynan Village development and was completed in December 2008. Loan repayment is scheduled to begin in 2018.

Sunflower Gardens

During the fiscal year 2008-09, the Agency agreed to loan \$1,000,000 from the Sunset Avenue Affordable Housing Fund to Interim Inc. to build the Sunflower Gardens Apartments. Of this amount, \$403,883 was disbursed during the fiscal year 2008-09 and the remaining \$596,117 is included in the Agency's 2009-10 budget.

Church of the Nazarene

On August 15, 2008, the Agency purchased the Salinas New Life Church of the Nazarene at 331 North Sanborn Road for \$2.6 million. The Agency is leasing the location to the Boys and Girls Clubs of Monterey County which plans to provide community services focusing on family and youth. The operating lease is for one dollar per year for a twenty five year term. During the fiscal year 2008-09, the Agency expended \$2.4 million dollars of Sunset Avenue Project Funds on this project. An additional \$200,000 is being funded by a loan from the Church to the Agency.

Monterey Street Parking Structure

The Monterey Street Parking Structure is a 5-level, 435-space parking garage adjacent to the Steinbeck Center and Maya Multiplex Theater. The parking structure provides parking for Maya Cinemas, National Steinbeck Center, surrounding business and future developments. The project was funded with tax-exempt financing and a \$2.0 million Federal grant. On December 17, 2003, the City sold Certificates of Participation (COPs) in the amount of \$16,630,000 at 4.68% interest for a term of thirty years.

Debt service payments during 2008-09 were made using \$1,050,000 of Central City Debt Service Funds. Beginning in 2007-08, maximum annual debt service payments are \$1,091,950. Pursuant to a reimbursement agreement the Salinas Redevelopment Agency (Central City Project) is responsible for debt service. The Agency's 2009-10 budget includes funds to make these debt service payments.

Commitments

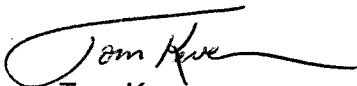
See Note 13, Commitments, for a discussion of Agency commitments relating to pass through tax obligations to other taxing agencies, the Steinbeck Center Foundation and Monterey Street parking structure financings. See Note 14, Subsequent Events, for a discussion of State of California FY 2009-10 shifting of property tax increments.

Acknowledgements

I would like to take this opportunity to thank the members of the Salinas Redevelopment Agency's Board of Directors for their interest and support in the financial operations of the Agency. It is the responsible and progressive manner in which business is conducted that makes the Agency successful. I would also like to recognize Alan Stumpf, Community Development Director and his staff for their day-to-day involvement in Agency operations without whom this presentation would not be possible.

In addition, I would like to extend a special thanks to the Finance Department staff, Miguel Gutierrez, Elizabeth Mariano, and James DeVincenzi, who are primarily responsible for the preparation of the financial report. I would also like to thank the Agency's auditors McGilloway, Ray, Brown & Kaufman. It is the combined effort of all participants that resulted in the issuance of this document.

Respectfully submitted,



Tom Kever
Finance Director

SALINAS REDEVELOPMENT AGENCY



List of Principal Officials

Dennis Donohue
Chairperson

Sergio Sanchez
Board member

Gloria De La Rosa
Board member

Steven Villegas
Board member

Tony Barrera
Board member

Janet Barnes
Board member

Jyl Lutes
Board member

Artie Fields
Executive Director

Ann Camel
Secretary

Vanessa Vallarta
Agency Counsel

Tom Kever
Treasurer

Alan Stumpf
Community Development Director

McGILLOWAY, RAY, BROWN & KAUFMAN

Accountants & Consultants

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INDEPENDENT AUDITOR'S REPORT

The Governing Board of
Salinas Redevelopment Agency
Salinas, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Salinas Redevelopment Agency, (the Agency), a component unit of the City of Salinas, California as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Salinas Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Salinas Redevelopment Agency, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Rachelle F. Onishi, CPA, CFE, Reginald F. Pires, CPA, Sarita C. Shannon, CPA, Audrey M. Thorne, CPA

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison schedules – special revenue funds on pages 3 through 8 and 38 through 46, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We 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, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section and the budgetary comparison schedules – capital projects and debt service funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Mc Gilloway, Ray, Brown & Kaufman

December 7, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This analysis of the Salinas Redevelopment Agency's (Agency) financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

Financial Highlights

- The Agency's net assets increased 13.7% to \$15,470,613.
- The Agency's tax increment revenue decreased 0.7% over the prior fiscal year.
- The Agency's tax increments and other governmental revenues exceeded expenses by \$1,865,815.
- The Agency's funds reported combined ending fund balances of \$18,652,981 a decrease of \$1,334,482 (6.7%) over the previous year. The vast majority of the balance is reserved and unavailable.
- The Agency's total liabilities decreased by \$363,639 (3.6%) to \$9,703,822 primarily due to payments on its bonded debt.
- The Agency funded \$2,773,383 in additional housing and small business loans. The Agency received \$50,361 in principal repayments from loans and notes outstanding.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements that are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements for further information and analysis.

Government-Wide Financial Statements

The government-wide financial statements present the financial picture of the Agency and provide readers with a broad view of the Agency's finances. (Additionally, certain interfund receivables, payables and other interfund activity have been eliminated as prescribed by GASB Statement No. 34.) All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets report information about the Agency as a whole and about its activities. These statements include *all* assets and liabilities of the Agency using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies.

The Statement of Net Assets presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities presents information showing how the Agency's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving

rise to the change occurs, regardless of timing of related cash flows.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's major funds—not the Agency as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. Since all Agency funds but one, are considered major funds under GASB 34, management decided to report all six (6) funds as major funds.

The fund financial statements include statements for governmental funds only. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on current financial resources that emphasize near-term inflows and outflows of spendable resources as well as balances of spendable resources at the end of the fiscal year. This information is essential in evaluating the Agency's near-term financial requirements.

In order to better understand the Agency's long-term and short-term requirements, it is useful to compare the Agency's governmental fund statements with the governmental activities in the government-wide financial statements. Reconciliations are provided for both of the Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances to facilitate this comparison.

All governmental funds are considered major governmental funds and reported in detail in the governmental fund financial statements.

Notes to Basic Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements, this report also presents certain required supplementary information including the Agency's budgetary comparison schedules for the Central City Housing and Sunset Avenue Merged Housing special revenue funds.

Supplementary Information

Supplementary schedules concerning budgetary comparison schedules for all other funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide condensed statements provide a comparison with the prior fiscal year.

Statement of Net Assets

Net assets are a good indicator of the Agency's financial position. At the end of this fiscal year, net assets of the Agency were \$15,470,613, which is an increase of \$1,865,815 from the prior year.

The following is the condensed Statement of Net Assets for the fiscal year ended June 30, 2009.

| | Salinas Redevelopment Agency | | Condensed Statement of Net Assets | |
|--|------------------------------|----------------------|-----------------------------------|---------|
| | Fiscal Year Ended June 30, | | Change | |
| | 2009 | 2008 | Amount | Percent |
| Assets: | | | | |
| Current Assets | \$ 8,480,635 | \$ 11,395,484 | \$ (2,914,849) | -25.6% |
| Other Assets | 11,674,875 | 9,768,272 | 1,906,603 | 19.5% |
| Capital Assets, Net | <u>5,018,925</u> | <u>2,508,503</u> | <u>2,510,422</u> | 100.1% |
| Total Assets | <u>25,174,435</u> | <u>23,672,259</u> | <u>1,502,176</u> | 6.3% |
| Liabilities: | | | | |
| Current Liabilities | 1,700,918 | 1,422,081 | 278,837 | 19.6% |
| Long-term Liabilities | <u>8,002,904</u> | <u>8,645,380</u> | <u>(642,476)</u> | -7.4% |
| Total Liabilities | <u>9,703,822</u> | <u>10,067,461</u> | <u>(363,639)</u> | -3.6% |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | 2,989,744 | 495,759 | 2,493,985 | 503.1% |
| Restricted | 16,745,695 | 17,279,439 | (533,744) | -3.1% |
| Unrestricted | <u>(4,264,826)</u> | <u>(4,170,400)</u> | <u>(94,426)</u> | 2.3% |
| Total Net Assets | <u>\$ 15,470,613</u> | <u>\$ 13,604,798</u> | <u>\$ 1,865,815</u> | 13.7% |

Considering the fact that the Agency has \$9.7 million in debt it is noteworthy that the Agency still has Net Assets of \$15.5 million. Unrestricted Net Assets total a negative \$4.3 million. This is typical for most redevelopment agencies since a redevelopment agency can receive tax increments only if it has debt. The vast majority of the Agency's debt (and most other redevelopment agencies) is spent on infrastructure improvements that the Agency does not own.

The Agency has \$16.7 million in restricted net assets that it cannot spend at its discretion because these funds are restricted by redevelopment law for debt service and housing activities. Further information on these restricted assets is provided in the discussion of the fund financial statements.

Total assets increased \$1,502,176 while total liabilities decreased \$363,639 leading to an increase of \$1,865,815 in net assets.

Statement of Activities

The following is the condensed Statement of Activities for the fiscal year ended June 30, 2009.

| Salinas Redevelopment Agency Condensed Statement of Activities | | | | |
|---|----------------------------|----------------------|---------------------|--------------|
| | Fiscal Year Ended June 30, | | Change | |
| | 2009 | 2008 | Amount | Percent |
| Revenues | | | | |
| Program Revenues: | | | | |
| Charges for Services | \$ 79,205 | \$ 9,474 | \$ 69,731 | 736.0% |
| General Revenues: | | | | |
| Tax Increments | 6,382,888 | 6,427,993 | (45,105) | -0.7% |
| Investment Earnings | 376,705 | 587,195 | (210,490) | -35.8% |
| Miscellaneous | 15 | 180,336 | (180,321) | -100.0% |
| Total Revenues | 6,838,813 | 7,204,998 | (366,185) | -5.1% |
| Expenses | | | | |
| Administration | 1,166,606 | 1,154,693 | 11,913 | 1.0% |
| Housing | 18,702 | 16,095 | 2,607 | 16.2% |
| Public Works | 331,975 | 369,454 | (37,479) | -10.1% |
| Public Safety | 312,830 | 291,559 | 21,271 | 7.3% |
| Recreation | 79,274 | 29,562 | 49,712 | 168.2% |
| Contribution to SUBA | 50,000 | 50,000 | - | 0.0% |
| Pass-through Taxes | 1,040,812 | 963,417 | 77,395 | 8.0% |
| Interest on long-term debt | 1,936,799 | 1,826,161 | 110,638 | 6.1% |
| Total Expenditures | 4,936,998 | 4,700,941 | 236,057 | 5.0% |
| Other Financing Sources (Uses) | (36,000) | (36,000) | - | 0.0% |
| Change in Net Assets | 1,865,815 | 2,468,057 | (602,242) | -24.4% |
| Net Assets - Beginning | 13,604,798 | 11,136,741 | 2,468,057 | 22.2% |
| Net Assets - Ending | \$ 15,470,613 | \$ 13,604,798 | \$ 1,865,815 | 13.7% |

Tax increment revenues (93.3% of the Agency's revenues) decreased \$45,105 (0.7%) from a year ago. Charges for Services increased \$69,731 due to rental income on properties purchased. Investment earnings decreased \$210,490 (35.8%) from last year due to declining interest rates and investment yields. Miscellaneous revenues decreased \$180,336 due to a gain on the sale of land and land deeded to the Agency in the prior year. The increase in Recreation is due to the depreciation expense related to the building that was purchased and leased to the Boys and Girls Club in the current fiscal year. Interest on long-term debt increased due to the Agency's contribution of \$115,566 towards the Steinbeck Center debt service. The Agency's operations are primarily supported by tax increments. The Agency's operations do not generate revenue other than the housing loans interest.

FUND FINANCIAL STATEMENT ANALYSIS

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

At year-end the Agency's governmental funds reported combined fund balances of \$18.7 million. Approximately 89% of these funds (\$16.7 million) represent resources not available because they are:

- Reserved for long-term loans and note receivable - \$7,850,064
- Reserved for land held for resale - 3,448,830

- Reserved for long-term advance to other funds - 43,781

Additionally, the following fund balances can only be used for their specified purposes:

- Reserved for encumbrances - \$ 603,513
- Reserved for debt service payments - 2,981,363
- Reserved for Plaza Grande operations - 298,300
- Reserved for parking structure debt service - 1,135,000

The Agency Board has at its discretion \$2,290,985 for future budgets. Of this amount \$1,950,500 can be used only for low and moderate income housing including Soledad Street, Lincoln and Market Street, and Farm Worker Housing projects. The remainder of \$340,485 can be used for redevelopment projects and programs.

Fund Budgetary Highlights

The Agency does not have a general fund. By law, the Agency must set aside 20 percent (20%) of the tax increment revenue in a separate special revenue fund for low- and moderate-income housing. The other 80% of tax increments are deposited in the debt service funds to cover current debt obligations. Required budgetary comparison schedules – special revenue funds are on pages 39 through 41. Supplementary budgetary comparison schedules for all other funds can be found on pages 43 through 46.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009 the Agency had \$5.0 million invested primarily in land and buildings as summarized below. Additional information on the Agency's capital assets can be found in Note 8 on pages 28 and 29 of this report. The Agency has minimal capital assets because most Agency financed improvements are infrastructure improvements that are owned by the City.

Salinas Redevelopment Agency
Condensed Statement of Capital Assets

| | Fiscal Year Ended June 30, | | Change | |
|-----------------------------------|----------------------------|---------------------|---------------------|---------|
| | 2009 | 2008 | Amount | Percent |
| Land | \$ 2,299,628 | \$ 1,702,437 | \$ 597,191 | 35% |
| Buildings | 3,475,581 | 1,469,500 | 2,006,081 | 137% |
| Improvements other than buildings | 133,082 | 133,082 | - | 0% |
| Total Capital Assets | 5,908,291 | 3,305,019 | 2,603,272 | 79% |
| Accumulated Depreciation | (889,366) | (796,516) | (92,850) | 12% |
| Total Net Capital Assets | <u>\$ 5,018,925</u> | <u>\$ 2,508,503</u> | <u>\$ 2,510,422</u> | 100% |

Long-Term Debt

At June 30, 2009 the Agency had \$8.9 million in long-term debt as shown below. All debt was paid as scheduled. Additional information on the Agency's long-term debt can be found in Note 10 on page 30 of this report.

Salinas Redevelopment Agency Condensed Statement of Long-term Debt

| | Fiscal Year Ended June 30, | | Change | |
|--------------------------|----------------------------|--------------|--------------|---------|
| | 2009 | 2008 | Amount | Percent |
| Annual Leave | \$ 108,069 | \$ 112,082 | \$ (4,013) | -3.6% |
| Post Retirement Benefits | 22,829 | 10,329 | 12,500 | 121.0% |
| Loans and Notes | 471,184 | 319,529 | 151,655 | 47.5% |
| Tax Allocation Bonds | 8,403,470 | 9,159,468 | (755,998) | -8.3% |
| | 9,005,552 | 9,601,408 | (595,856) | -6.2% |
| Less Issuance Discount | (133,782) | (142,701) | 8,919 | -6.3% |
| Net Long-Term Debt | \$ 8,871,770 | \$ 9,458,707 | \$ (586,937) | -6.2% |

Standard & Poor's Corporation assigned both tax allocation bonds a rating of "AAA/Negative". Moody's Investors Service assigned both tax allocation bonds a rating of "Aa3".

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Agency's budget is dependent on tax increment revenues. Tax increments have decreased 0.7% over the past fiscal year. The overall tax base change is dependent upon construction and property sales. Tax increment revenue estimates for FY 2009-10 assumes a slow down of property sales and construction and is expected to decline about 2%.

The national and state economic crisis has significantly reduced the ability of the Agency to fight blight. Over the next two years, the State has planned to take away \$2.6 million from the Agency. All capital improvements are currently on hold until legal disputes have been resolved. The national economic downturn also prohibited the State from selling bonds that it had committed to the Gateway Apartment project. This has postponed the start of construction from September 2008 to an undetermined date and created an unexpected \$1.2 million funding gap. Lastly, the National Steinbeck Center (built on Agency property) has seen a significant drop in attendance creating a critical operational deficit requiring the Agency to pay its debt service of \$180,000 for two years.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our residents, taxpayers, customers, investors, and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Agency's Finance Department, at the Salinas Redevelopment Agency, 200 Lincoln Avenue, Salinas, California 93901.

SALINAS REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2009

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| Cash and Investments | \$ 6,313,307 |
| Interest Receivable | 415,594 |
| Accounts Receivable | 1,145 |
| Loans Receivable | 7,850,064 |
| Taxes Receivable | 195,450 |
| Deferred Charges | 375,981 |
| Restricted Cash and Investments | 1,555,139 |
| Land Held for Resale | 3,448,830 |
| Capital Assets: | |
| Land and Nondepreciable Assets | 2,299,628 |
| Depreciable Assets-Net | 2,719,297 |
| Total Assets | 25,174,435 |
| Liabilities | |
| Accounts Payable | 506,823 |
| Due to Capital Project Funds | 32,767 |
| Accrued Interest Payable | 292,462 |
| Debt Payable-Due Within One Year | 868,866 |
| Debt Payable-Due in More than One Year-Net of Discounts | 8,002,904 |
| Total Liabilities | 9,703,822 |
| Net Assets | |
| Invested in Capital Assets, Net of Related Debt | 2,989,744 |
| Restricted for: | |
| Debt Service | 4,116,363 |
| Housing | 12,629,332 |
| Unrestricted | (4,264,826) |
| Total Net Assets | \$ 15,470,613 |

The accompanying notes are an integral part of this statement.

SALINAS REDEVELOPMENT AGENCY
Statement of Activities
For Fiscal Year Ended June 30, 2009

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|--------------------------------------|---------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| Administration | \$ 1,166,606 | \$ | \$ | \$ (1,166,606) |
| Public Safety | 312,830 | | | (312,830) |
| Housing | 18,702 | 79,205 | | 60,503 |
| Public Works | 331,975 | | | (331,975) |
| Recreation | 79,274 | | | (79,274) |
| Contribution to SUBA | 50,000 | | | (50,000) |
| Pass-thru Taxes | 1,040,812 | | | (1,040,812) |
| Interest on long-term debt | 1,936,799 | | | (1,936,799) |
| Total Governmental Activities | \$ 4,936,998 | \$ 79,205 | \$ | (4,857,793) |
| | | General Revenues | | |
| | | | | 6,382,888 |
| | | | | 376,705 |
| | | | | (36,000) |
| | | | | 15 |
| | | | | <u>6,723,608</u> |
| | | | | 1,865,815 |
| | | | | <u>13,604,798</u> |
| | | | | <u>\$ 15,470,613</u> |

The accompanying notes are an integral part of this statement.

SALINAS REDEVELOPMENT AGENCY

Governmental Funds

Balance Sheet

June 30, 2009

| | Special Revenue | | Capital Projects | | Debt Service | | Totals |
|--|---------------------------|-----------------------------------|---------------------------|-----------------------------------|--------------------------------|--|----------------------|
| | Central City Housing Fund | Sunset Avenue Merged Housing Fund | Central City Project Fund | Sunset Avenue Merged Project Fund | Central City Debt Service Fund | Sunset Avenue Merged Debt Service Fund | |
| Assets | | | | | | | |
| Cash and Investments | \$ 1,812,863 | \$ 1,229,042 | \$ 394,416 | \$ 52,638 | \$ 1,642,504 | \$ 1,181,844 | \$ 6,313,307 |
| Interest Receivable | 94,917 | 305,966 | 8,918 | | | 5,793 | 415,594 |
| Accounts Receivable | | | | 1,145 | | | 1,145 |
| Advance to Other Funds | 43,781 | | | | | | 43,781 |
| Loans Receivable | 4,243,480 | 3,248,383 | 295,516 | 62,685 | | | 7,850,064 |
| Restricted Cash and Investments | | | | | 1,555,139 | | 1,555,139 |
| Land Held for Resale | 500,431 | 1,157,122 | 941,277 | 850,000 | | | 3,448,830 |
| Total Assets | \$ 6,695,472 | \$ 5,940,513 | \$ 1,640,127 | \$ 966,468 | \$ 3,197,643 | \$ 1,187,637 | \$ 19,627,860 |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts Payable | \$ 9,358 | \$ 192,019 | \$ 34,382 | \$ 45,928 | \$ | \$ 225,136 | \$ 506,823 |
| Deferred Revenues | 89,099 | 302,409 | | | | | 391,508 |
| Advance from Other Funds | | 726 | 28,562 | 3,479 | 43,781 | | 76,548 |
| Total Liabilities | 98,457 | 495,154 | 62,944 | 49,407 | 43,781 | 225,136 | 974,879 |
| Fund Balances: | | | | | | | |
| Reserved for: | | | | | | | |
| Encumbrances | 2,260 | 598,117 | | 3,136 | | | 603,513 |
| Accounts Receivable | | | | 1,145 | | | 1,145 |
| Loans & Notes Receivable | 4,243,480 | 3,248,383 | 295,516 | 62,685 | | | 7,850,064 |
| Advance to Other Funds | 43,781 | | | | | | 43,781 |
| Land Held for Resale | 500,431 | 1,157,122 | 941,277 | 850,000 | | | 3,448,830 |
| Debt Service | | | | | 2,018,862 | 962,501 | 2,981,363 |
| Plaza Grande Operations | 298,300 | | | | | | 298,300 |
| Parking Structure Debt Svc. | | | | | 1,135,000 | | 1,135,000 |
| Future Budgets | 1,508,763 | 441,737 | 340,390 | 95 | | | 2,290,985 |
| Total Fund Balances | 6,597,015 | 5,445,359 | 1,577,183 | 917,061 | 3,153,862 | 962,501 | 18,652,981 |
| Total Liabilities and Fund Balances | \$ 6,695,472 | \$ 5,940,513 | \$ 1,640,127 | \$ 966,468 | \$ 3,197,643 | \$ 1,187,637 | \$ 19,627,860 |

The accompanying notes are an integral part of this statement.

SALINAS REDEVELOPMENT AGENCY
 Reconciliation of the Governmental Funds Balance Sheet
 to the Government-Wide Statement of Net Assets
 June 30, 2009

| | |
|---|-----------------------------|
| Total Fund Balances - Total Governmental Funds | \$ 18,652,981 |
| Amounts reported in the Statement of Net Assets are different because: | |
| Deferred revenue for long-term interest receivable is not considered available resources and, therefore, not reported as part of Governmental Funds fund balance | 391,508 |
| Taxes receivable not collectible within sixty days | 195,450 |
| Deferred charges for bond issuance costs are not current financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet | 375,981 |
| Capital assets used in governmental funds are not current financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet | 5,018,925 |
| Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet | (292,462) |
| Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the Governmental Funds Balance Sheet | <u>(8,871,770)</u> |
| Net Assets of Governmental Activities | <u>\$ 15,470,613</u> |

The accompanying notes are an integral part of this statement.

SALINAS REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures
and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2009

| | Special Revenue | | Capital Projects | | Debt Service | | Totals |
|---|---------------------------|-----------------------------------|---------------------------|-----------------------------------|--------------------------------|--|----------------------|
| | Central City Housing Fund | Sunset Avenue Merged Housing Fund | Central City Project Fund | Sunset Avenue Merged Project Fund | Central City Debt Service Fund | Sunset Avenue Merged Debt Service Fund | |
| Revenues: | | | | | | | |
| Tax Increment | \$ | \$ | \$ | \$ | \$ 3,214,582 | \$ 3,188,221 | \$ 6,402,803 |
| Interest | 54,333 | 31,511 | 47,727 | 128 | 67,705 | 22,705 | 224,109 |
| Rental Income | | 25,000 | | 30,136 | | | 55,136 |
| Housing Loans | 9,069 | 15,000 | | | | | 24,069 |
| Miscellaneous | | | 15 | | | | 15 |
| Total Revenues | 63,402 | 71,511 | 47,742 | 30,264 | 3,282,287 | 3,210,926 | 6,706,132 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Administration | 197,684 | 120,698 | 343,076 | 470,757 | | | 1,132,215 |
| Public Works | | | | 64,408 | | | 64,408 |
| Contribution to Other Agency | | | | 50,000 | | | 50,000 |
| Public Safety | | | | 312,830 | | | 312,830 |
| Pass Through Taxes | | | | | 185,653 | 855,159 | 1,040,812 |
| Capital Outlay: | | | | | | | |
| Project Improvements | 22,102 | 42,252 | 87,373 | 2,524,238 | | | 2,675,965 |
| Debt Service: | | | | | | | |
| Principal Retirement | | | | 48,345 | 755,998 | 3,395,900 | 4,200,243 |
| Interest and Fiscal Charges | | | | 25,571 | 701,640 | 31,264 | 758,475 |
| Steinbeck Center Debt | | | | | 115,566 | | 115,566 |
| Parking Structure Debt | | | | | 1,050,000 | | 1,050,000 |
| Total Expenditures | 219,786 | 162,950 | 430,449 | 3,496,149 | 2,808,857 | 4,282,323 | 11,400,514 |
| Excess(Deficiency) of Revenues | | | | | | | |
| Over(Under) Expenditures | (156,384) | (91,439) | (382,707) | (3,465,885) | 473,430 | (1,071,397) | (4,694,382) |
| Other Financing Sources (Uses): | | | | | | | |
| Loan Proceeds-City | | | | 3,395,900 | | | 3,395,900 |
| Loans Receivable Forgiven | (36,000) | | | | | | (36,000) |
| Operating Transfers In | 642,916 | 637,644 | | | 240,009 | | 1,520,569 |
| Operating Transfers Out | (240,009) | | | | (642,916) | (637,644) | (1,520,569) |
| Total Other Financing Sources (Uses) | 366,907 | 637,644 | | 3,395,900 | (402,907) | (637,644) | 3,359,900 |
| Net Change in Fund Balances | 210,523 | 546,205 | (382,707) | (69,985) | 70,523 | (1,709,041) | (1,334,482) |
| Fund Balances at Beginning of Year | 6,386,492 | 4,899,154 | 1,959,890 | 987,046 | 3,083,339 | 2,671,542 | 19,987,463 |
| Fund Balances at End of Year | \$ 6,597,015 | \$ 5,445,359 | \$ 1,577,183 | \$ 917,061 | \$ 3,153,862 | \$ 962,501 | \$ 18,652,981 |

The accompanying notes are an integral part of this statement.

SALINAS REDEVELOPMENT AGENCY
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
 and Changes in Fund Balances
 to the Government-Wide Statement of Activities
 For the Fiscal Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (1,334,482)

Amounts reported in the Statement of Activities are different because:

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The following items do not require current financial resources:

| | |
|--|----------|
| Annual required contribution for post retirement benefits | (12,500) |
| (Increase)/decrease in compensated absences liability | 4,013 |
| Amortization of deferred charges for bond issuance costs | (25,904) |
| Amortization of original issuance discount on tax allocation bonds | (8,919) |

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (92,850)

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities but does not require the use of current financial resources. Therefore, this interest expense is not reported as expenditures in Governmental Funds. The following amount represents net (increase)/decrease in accrued interest payable. (3,839)

| | |
|------------------------------------|------------|
| Accrued Interest Payable @ 6/30/08 | \$288,623 |
| Accrued Interest Payable @ 6/30/09 | \$292,462 |
| Net (increase)/decrease | \$ (3,839) |

Interest receivable that is long-term in nature is not considered current financial resources and, therefore, not reported as revenue in Governmental Funds. 152,596

Taxes Receivable not collectible within sixty days. (19,915)

| | |
|----------------------------|-------------|
| Taxes Receivable @ 6/30/08 | \$(215,365) |
| Taxes Receivable @ 6/30/09 | \$ 195,450 |
| Net increase/(decrease) | \$ (19,915) |

Additions to Capital Assets recorded as expenditures in Governmental Funds. 2,403,272

Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in Governmental Funds, but reduces long-term liabilities in the Statement of Net Assets.

| | |
|--|-------------|
| This amount represents long-term debt repayments | 4,200,243 |
| This amount represents long-term debt incurred for loan from City of Salinas | (3,395,900) |

Change in Net Assets of Governmental Activities \$ 1,865,815

The accompanying notes are an integral part of this statement.

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies:

The basic financial statements of the Salinas Redevelopment Agency (Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Salinas Redevelopment Agency are described below.

A. Reporting Entity

The Salinas Redevelopment Agency (Agency) is an entity separate and distinct from the City of Salinas. However, the City of Salinas Council has appointed its members to serve as the governing Board of the Agency, and the City acts as fiscal agent for the Agency. Because of this close degree of control, the financial information of the Agency is also included as a component unit in the financial statements of the City of Salinas. Component units are legally separate entities for which the primary government is financially responsible.

The Agency was established on December 19, 1960 pursuant to the State of California Health and Safety code, Section 33000 entitled "Community Redevelopment Law." Current project areas are the Central City Revitalization Project established July 8, 1974 and the Sunset Avenue Redevelopment Project established July 5, 1973. The Sunset Avenue Redevelopment Project was amended and merged with the Buena Vista Redevelopment Project and became the Sunset Avenue Merged Redevelopment Project established April 9, 1991. On July 27, 1999, the Agency adopted an amendment to the Central City Redevelopment project extending the Agency's authority to acquire properties through eminent domain proceedings for an additional twelve years. On August 17, 2004, the Agency adopted ordinances amending redevelopment plans of the Buena Vista, Central City and Sunset Avenue project areas to delete the debt incurrence time limit from the plans and to extend the plans one year.

The Agency is financed by property tax increments according to the State "Community Redevelopment Law". The Agency's purpose is to eliminate blighted areas by encouraging the development of residential, including low and moderate-income housing, commercial and industrial facilities.

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

Government-Wide Financial Statements

The Agency government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental Activities for the Agency.

The basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transaction reported as program revenues for the Agency are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Certain elimination's have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances have been eliminated.

Governmental Funds Financial Statements

Governmental Funds financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net assets presented in the Government-Wide financial statements.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax, taxpayer-assessed tax revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Agency reports the following major governmental funds:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. The purpose of this fund is to account for that portion of tax increment revenue required to be used towards low and moderate-income housing.

The Capital Projects Funds were established to account for all revenues and costs of implementing the redevelopment projects in accordance with the California Redevelopment Law including acquisitions of properties, cost of site improvements, and other costs that benefit the projects.

The Debt Service Funds account for the accumulation of funds for interest and principal payments on general long-term obligations. The primary source of revenue for this fund is the incremental property tax revenues.

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

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

C. Use of Restricted/Unrestricted Net Assets

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

D. Budgeting

The budget is prepared by the Executive Director and adopted by the Agency Board. Formal budgetary integration was employed as a management control device during the fiscal year for the Special Revenue and Capital Projects funds.

The Executive Director may transfer budget appropriations between programs and accounts within their individual funds, but only the Agency Board by resolution may appropriate funds from reserves or fund balances.

Budgets for Special Revenue and Capital Projects funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Budget policy excludes Accounts Receivable assets, that are not currently available resources for budget purposes, and condemnation deposits which are returned upon right of way acquisition.

Expenditures may not legally exceed budgeted appropriations at the fund level. Budgeted amounts shown are as originally adopted and as finally amended by the Agency Board during the year.

Appropriations lapse at fiscal year end and then are rebudgeted for the coming year. Project-length financial plans are adopted for all capital projects funds and appropriations are carried forward until project completion.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year-end are recorded as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

E. Interest Earnings

Interest received on time deposits and investments is prorated to the following funds generally based on their month end cash balance:

- Central City Housing
- Central City Project
- Central City Debt Service
- Sunset Avenue Merged Housing
- Sunset Avenue Merged Project
- Sunset Avenue Merged Debt Service

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

F. Cash and Cash Equivalents

The Agency pools cash resources of its various funds to facilitate cash management. Cash in excess of current requirement is invested and reported as investments. It is the Agency's intent to hold investments until maturity. However, the Agency may, in response to market conditions, sell investments prior to maturity in order to improve the quality, liquidity, or yield of the portfolio.

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

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

The Agency participates in the Local Agency Investment Fund (LAIF), an investment pool managed by the State of California. LAIF has invested portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as a result of changes in interest rates.

G. Property Tax and Tax Increments

California State Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent (1%) of its assessed value unless an additional amount has been approved by the voters. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be increased by no more than 2 percent per year unless there is new construction on the property or the property is sold or transferred. The California State Legislature has determined the method of distribution of receipts from the one percent tax levy among the county, cities, school districts, and other districts.

The Agency receives tax increments, which are property taxes above the frozen base established for the various project areas.

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

The County of Monterey assesses properties, bills for, collects, and distributes property taxes per the following schedule:

| | <u>Secured</u> | <u>Unsecured</u> |
|------------------|--|------------------|
| Valuation dates | January 1 | January 1 |
| Lien/Levy dates | January 1 | January 1 |
| Due dates | 50% on November 1 50% on February 1 | July 1 |
| Delinquent as of | December 10, April 10 | August 31 |

The term "Unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on property being taxed.

Property tax (tax increment) revenue is recorded when it becomes measurable and available. Available means when due, or past due and receivable within the current period and collected no longer than sixty (60) days after the close of the current period.

H. *Restricted Assets*

Assets that are restricted for specified uses by bonded debt requirements, grant provisions or other requirements are classified as restricted because they are maintained in separate bank accounts or by fiscal agents, and their use is limited by applicable bond covenants or agreements. The Agency is required by California Law to set aside a portion of the property tax increments it receives to increase and improve the County's supply of Low and Moderate Income Housing, and therefore, such assets are restricted for that purpose.

I. *Interfund-fund Balances/Internal Balances*

Advances to and advances from other funds represent interfund loans in the fund financial statements. Advances to other funds are offset by a fund balance reservation in the applicable governmental funds to indicate that they are not expendable available financial resources.

All other outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year. All residual balances outstanding between the governmental activities are eliminated in the Government-Wide Financial Statements.

J. *Land Held for Resale*

Land held for resale is carried at the lower of cost or market, but not greater than the net realizable value. In the fund Financial Statements an amount equal to the carrying value of land is reserved in fund balance because such assets are not available to finance the Agency's current operations.

K. *Capital Assets*

Capital assets, which include land, buildings and improvements, are reported in the applicable governmental activities in the government-wide financial statements. Capital assets are

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. Capital assets are defined by the Agency as assets with a cost of more than \$5,000 and an estimated life of more than two years.

For all exhaustible capital assets depreciation is recorded on a straight-line method (with half-year convention applied to the first year of acquisition) over the useful lives of the assets as follows:

| | |
|--------------------|-------------|
| Buildings | 20-50 years |
| Other Improvements | 15-45 years |
| Equipment | 5-20 years |

The Governmental Accounting Standards Board (GASB) Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements.

Infrastructure improvements are automatically turned over to the City for maintenance, therefore, the Agency does not include the value of any infrastructure in its basic financial statements.

The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date was computed on a straight-line method using industry accepted life expectancies. The book value was then computed by deducting the accumulated depreciation from the original cost.

Interest accrued during capital assets construction, if any, is capitalized as part of the asset cost.

L. Compensated Absences

Accrued annual leave for all regular Agency employees is included as a liability in the governmental activities of the Government-Wide financial statements.

M. Personnel

The Agency has no employees. All personnel services are provided by the City of Salinas and reimbursed by the Agency.

N. Use of Estimates

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

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

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

O. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the appropriate activities.

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

Fund Financial Statements

The fund financial statements do not present long-term debt but long-term debt is shown in the reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

P. Net Assets and Fund Equity

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and is reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

Fund Financial Statements

Reserved Fund Balance - Reserved fund balance indicates that portion of fund equity, which has been segregated for specific purposes.

Designated Fund Balance – Designated fund balance indicates that portion of fund equity for which the Agency has made tentative plans.

Undesignated Fund Balance - Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

Q. Implementation of Governmental Accounting Standards Board Statements

In July of 2004, the GASB issued Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, with required implementation for the Agency during the 2007-2008 fiscal year. The new statement significantly changes the way state and local governments report their “other post employment benefits” to the public. As a result of GASB 45, state and local governments are required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer’s cash flow.

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

The Agency's payroll and related benefits are administered by the City of Salinas. The Agency reimburses the City for all payroll expenses. An actuarial valuation of the City's retiree health care plan has been completed as of June 30, 2006. City management is reviewing options for managing the unfunded portion of the City's retiree health care plan. The City's fiscal year 2008-09 financial statements address this liability.

The Agency's post retirement benefits are addressed in these financial statements in Note 10 on page 30 of this report.

2. Cash and Investments:

As fiscal agent for the Agency, the City of Salinas follows the practice of pooling cash and investments of all funds including Agency funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures. Earnings from these investments are allocated quarterly to each fund based on average monthly cash balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund. The City's investment policy also governs the investment of Agency funds. The City's investment policy conforms to state law (Government Code Sections 53601 through 53659). The investment of bond proceeds is governed by the specific Indenture of Trust. The investment policy is reviewed annually.

Investments are stated at cost or fair value as required by Government Accounting Standards Board Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Investments shown at fair value are for information only to assess the actual value if the Agency were to liquidate the investments before maturity. The Agency intends to hold all investments to maturity.

The Agency's investments with the State of California Local Agency Investment Fund (LAIF) at June 30, 2009 included a portion of the pool funds invested in Structured Notes and Asset-Backed securities.

As of June 30, 2009 the Agency had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | | | |
|------------------------------|---------------------|------------------------------|---------------------|------------------|-------------------|
| | | <u>0-6 mths</u> | <u>6-12 mths</u> | <u>1-5 years</u> | <u>over 5 yrs</u> |
| State of California | | | | | |
| Local Agency Investment Fund | \$ 6,313,307 | \$ - | \$ 6,313,307 | \$ - | \$ - |
| Wells Fargo Treasury Plus | | | | | |
| Money Market Fund | 579,672 | 579,672 | | | |
| Westdeutsche Landesbank | | | | | |
| Investment Agreement | 975,467 | | | | 975,467 |
| | <u>\$ 7,868,446</u> | <u>\$ 579,672</u> | <u>\$ 6,313,307</u> | <u>\$ -</u> | <u>\$ 975,467</u> |

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

2. Cash and Investments:(Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Agency's investments is provided in the table above.

As a means of limiting exposure to fair value losses arising from rising interest rates, the Agency's investment policy limits the maturity of investments in accordance with Government Code Sections 53601 (a)-(n) and 53636 (a)-(m). It is the City's policy to ladder investments so that there are always investments coming due to meet cash flow requirements. Because the Local Agency Investment Fund as of June 30, 2009 had an average life of 165 days, it was presented as an investment with a maturity of 6-12 months. However LAIF allows the Agency to make withdrawals of any amount within 24 hours. The Westdeutsche Landesbank Investment Agreement which represents the debt service reserve for the 1996 Tax Allocation Bonds matures on October 15, 2023 when the bond issue matures.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The actual ratings as of June 30, 2009 for the money market funds (Wells Fargo Treasury Plus) was rated A-1+ by Standard & Poor's Rating Group and P-1 by Moody's Investors Service, respectively. Westdeutsche Landesbank was rated BBB+ and A2 by Standard & Poor's Rating Group & Moody's Investors Service, respectively. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2009.

Concentration of Credit Risk

The Local Agency Investment Fund, representing 80.2% of the portfolio is not considered a concentrated risk. The Westdeutsche Landesbank Investment Agreement represents 12.4% of the investment portfolio. This investment agreement exceeds 5% of the Agency's investment portfolio and therefore does represent a concentration of credit risk. It was invested in accordance with the Indenture of Trust.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution or the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its deposits, investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits. The California Government Code requires that a financial institution secure deposits made by a state or local governmental unit by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

2. Cash and Investments:(Continued)

amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first deed mortgage notes having a face value of 150% of the secured public deposits.

See the financial statements of the City of Salinas for more information relating to custodial credit risk for amounts reported as cash and investments polled with the City.

3. Restricted Assets:

Cash and investments of \$1,555,139 are recorded as restricted assets at June 30, 2009.

Cash and investments held by fiscal agent and reported in the Debt Service Fund of \$1,555,139 are restricted to cover expenses of debt service.

4. Interfund Transactions:

Interfund Transfers

Interfund transfers from the debt service funds to the special revenue funds were for the required 20% of tax increments set aside for low/moderate income housing. The transfers from the special revenue funds to the debt service funds was for the portion of the debt service on the 1996 bond issue that was used for low/moderate income housing.

| <u>Fund</u> | <u>Operating Transfers In</u> | <u>Operating Transfers Out</u> |
|------------------------------------|-----------------------------------|------------------------------------|
| Special Revenue Funds: | | |
| Central City Housing Fund | \$ 642,916 | \$ 240,009 |
| Sunset Avenue Merged Housing Fund | <u>637,644</u> | <u>-</u> |
| | <u>1,280,560</u> | <u>240,009</u> |
| Debt Service Funds: | | |
| Central City Debt Service Fund | 240,009 | 642,916 |
| Sunset Avenue Merged Debt Svc Fund | <u>-</u> | <u>637,644</u> |
| | <u>240,009</u> | <u>1,280,560</u> |
| | <u>\$1,520,569</u> | <u>\$1,520,569</u> |

Advances to/from other funds

The Central City Debt Service Fund has a liability to the Central City Housing Fund of \$43,781 at June 30, 2009. The mandatory set-aside (20% of tax increment revenue) to the Low and Moderate Income Housing Fund was deferred from August 26, 1986 through June 30, 1992 for a total liability of \$1,299,637. The Agency adopted a plan that dedicates two percent of future tax increment revenue to pay this liability. The remaining balance of \$43,781 will be paid over the next year. The set-aside requirement was made for the fiscal year ended June 30, 2009 and future requirements cannot be deferred.

Annual debt service requirements to maturity for the housing set-aside payable for the fiscal year ending June 30, 2010 is \$43,781.

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

5. Loans Receivable:

At June 30, 2009, the government-wide and fund financial statements show the Agency had \$7,850,064 in long-term housing and unreinforced masonry loans receivable. Transactions for the year are summarized as follows:

| | |
|-------------------------------------|--------------------|
| Beginning balance | \$5,163,042 |
| Salinas Gateway LP | 300,000 |
| Tynan Village | 2,000,000 |
| Sunflower Gardens | 403,883 |
| Emergency Small Business Loans | 69,500 |
| Principal Repayments: Housing & URM | (50,361) |
| Loans Receivable Forgiven | <u>(36,000)</u> |
| Ending Balance | <u>\$7,850,064</u> |

Following are the individual loans receivable:

Central City Housing Fund

Six First Time Homebuyer Loans at 3% interest for 30 years due and payable upon transfer or sale of property. If owner occupies property for 30 years, the 3% interest is forgiven. \$ 95,000

Six First Time Homebuyer Loans at 6% interest for 10 years due and payable upon transfer or sale of property. No payments due if owner occupies property for 10 years. Beginning the sixth year, the Agency will forgive 20% of the full amount of principal and interest until the entire note is forgiven at the end of 10 years. 90,000

Housing Construction Loan at 6% for 30 years due and payable upon transfer or sale of property. 30,714

Housing Construction Loan at 5% for 20 years due and payable upon transfer or sale of property. 137,266

Loan to Community Housing Improvement Systems and Planning Association (CHISPA) to provide down payment assistance loans to farm worker families. Loans bear interest at 3.5% annually, are subordinate to the primary mortgage, and are due upon transfer of title. If owner occupies property for 45 years, the 3.5% interest is forgiven. 775,500

Loan made during May 2003 to the Plaza Grande for a 92-unit very low-income residential project. Loan bears no interest and requires no payments until due in forty years. 250,000

Loan to Salinas Gateway LP for land acquisition and construction of Gateway Apartments. The original loan of \$910,000 made in August 2005 was amended in June 2007. The amount authorized was increased to \$1,290,000 and an additional \$311,447 was loaned during the fiscal year

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

5. Loans Receivable: (Continued)

ended June 30, 2008. In October 2008, the amount authorized was increased to \$1,590,000 and an additional \$300,000 was loaned during the fiscal year ended June 30, 2009. The loan is secured by a deed of trust and bears interest at 3%. The terms of the loan call for annual repayments equal to 50% of the residual receipts (rents less operating expenses) commencing on the May 1 following the issuance of a certificate of occupancy. 1,590,000

Loan to Tynan Affordable Housing Limited Partnership for construction of Tynan Village. The loan is secured by a deed of trust and bears interest at 3%. The terms of the loan call for annual repayments equal to a 1/3 pro rata share of 50% of the residual receipts (rents less operating expenses) commencing in December 2018. 1,275,000

Total Central City Housing Fund Loans Receivable 4,243,480

Sunset Avenue Merged Housing Fund

Loan to KDF Communities, LLC to purchase, rehabilitate and convert the 219-unit Los Padres Apartment complex to affordable housing. Loan is at 3% interest for 55 years and was originated on June 1, 2003. No payments are due for first 10 years. The next 5 years require payments of \$10,000, \$20,000, \$30,000, and \$40,000. Years 15 through 30 require annual payment of \$50,000. Beginning in 2034 the remaining balance and any accrued interest is fully amortized in annual payments through the end of the loan. The loan is secured by a deed of trust in second lien position. 1,500,000

Five First Time Homebuyer Loans at 3% interest for 30 years due and payable upon transfer or sale of property. If owner occupies property for 30 years the 3% interest is forgiven. 95,000

Loan made during May 2005 to CHISPA for Los Abuelitos Senior Housing Project no interest for 55 years. 300,000

Loan to Tynan Affordable Housing Limited Partnership for construction of Tynan Village. The loan is secured by a deed of trust and bears interest at 3%. The terms of the loan call for annual repayments equal to a 1/3 pro rata share of 50% of the residual receipts (rents less operating expenses) commencing in December 2018. 725,000

Loan to Interim Inc. for the acquisition and reconstruction of Sunflower Gardens. The loan bears interest at 3%, is due in 55 years, and is secured by a deed of trust. The amount authorized was \$1,000,000 and \$403,883 was loaned during the fiscal year ended June 30, 2009. 403,883

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

5. **Loans Receivable: (Continued)**

Loan to Community Housing Improvement Systems and Planning Association (CHISPA) to provide down payment assistance loans to farm worker families. Loans bear interest at 3.5% annually, are subordinate to the primary mortgage, and are due upon transfer of title. If owner occupies property for 45 years, the 3.5% interest is forgiven.

224,500

Total Sunset Avenue Merged Housing Fund Loans Receivable

3,248,383

Central City Project Fund

26 Unreinforced Masonry Loans for engineering and retrofitting of downtown buildings to meet City code earthquake requirements. Loans are interest free for 25 years due and payable upon transfer or sale of property. 16 loans have no payments due until the end of the 25 year term. 10 loans have monthly payments amortized over 25 years.

295,516

Sunset Avenue Merged Project Fund

Sixteen Emergency Small Business Loans due in 10 years interest free.

62,685

Total Loans Receivable

\$7,850,064

Fund balance has been reserved for these long-term loans receivable.

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

The Statement of Net Assets reports \$375,981 in deferred charges. The Agency incurred bond issuance costs of \$377,714 and \$372,789 in connection with the issuance of the 1992 and 1996 tax allocation bonds, respectively. The issuance costs are being amortized over the life of bonds - 30 and 28 years, respectively. The governmental funds balance sheet does not report deferred charges because they do not represent available spendable resources. Following is a summary of unamortized bond issuance costs that are reported as deferred charges:

| | June 30, 2008 | Increases | Decreases | June 30, 2009 |
|-------------------------------------|-------------------|-------------------|--------------------|-------------------|
| Tax Allocation Bonds, Series A-1992 | \$ 188,864 | \$ | \$ (12,590) | \$ 176,274 |
| Tax Allocation Bonds, Series A-1996 | <u>213,021</u> | <u> </u> | <u>(13,314)</u> | <u>199,707</u> |
| | <u>\$ 401,885</u> | <u>\$ -</u> | <u>\$ (25,904)</u> | <u>\$ 375,981</u> |

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

7. Land Held for Resale:

The Salinas Redevelopment Agency is holding for resale land and buildings. The properties are recorded at the lower of cost or appraised market value, as follows:

| | |
|--|-------------------------|
| <u>Central City Project Fund</u> | |
| 111 Main St – Parking lot – future hotel site | \$ 393,560 |
| 117 Main St – Alley by Steinbeck | 24,445 |
| 150 Main St – Vacant lot – future hotel site | <u>523,272</u> |
| | <u>941,277</u> |
| <u>Central City Low and Moderate Income Housing Fund</u> | |
| 17 & 19 Soledad Street | 370,693 |
| 9 & 11 Soledad Street | <u>129,738</u> |
| | <u>500,431</u> |
| <u>Sunset Avenue Merged Project Fund</u> | |
| 137, 145 & 151 Division Street | <u>850,000</u> |
| <u>Sunset Avenue Merged Low and Moderate Income Housing Fund</u> | |
| 115 Division Street | 335,947 |
| 123 Division Street | 300,000 |
| 923 E. Market Street | <u>521,175</u> |
| | <u>1,157,122</u> |
| Total land held for resale | <u>\$ 3,448,830</u> |

8. Capital Assets:

A. Government-Wide Financial Statements

At June 30, 2009, the Agency's capital assets consisted of the following:

| | |
|-------------------------------|------------------------------------|
| | <u>Governmental Activities</u> |
| Nondepreciable Assets: | |
| Land | <u>\$2,299,628</u> |
| Depreciable Assets: | |
| Buildings | 3,475,581 |
| Improvements | <u>133,082</u> |
| Total Depreciable Assets | 3,608,663 |
| Less Accumulated Depreciation | <u>(889,366)</u> |
| Total Depreciable Assets, Net | <u>2,719,297</u> |
| Total Capital Assets | <u>\$5,018,925</u> |

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

8. Capital Assets:(Continued)

The following is a summary of capital assets for governmental activities:

| | Balance | Additions | Retirements | Balance |
|-------------------------------|---------------------|---------------------|-------------|---------------------|
| | June 30, 2008 | | | June 30, 2009 |
| Land | \$ 1,702,437 | \$ 597,191 | \$ - | \$ 2,299,628 |
| Buildings | 1,469,500 | 2,006,081 | | 3,475,581 |
| Other Improvements | 133,082 | | | 133,082 |
| Total assets | <u>3,305,019</u> | <u>2,603,272</u> | <u>-</u> | <u>5,908,291</u> |
| Less Accumulated Depreciation | <u>(796,516)</u> | <u>(92,850)</u> | | <u>(889,366)</u> |
| Total Capital Assets Net | <u>\$ 2,508,503</u> | <u>\$ 2,510,422</u> | <u>\$ -</u> | <u>\$ 5,018,925</u> |

Governmental activities depreciation expense for capital assets for the year ended June 30, 2009 is as follows:

| | |
|--------------|------------------|
| Public Works | \$ 13,282 |
| Recreation | <u>79,568</u> |
| Total | <u>\$ 92,850</u> |

In March of 2009, the Agency leased the land and building at 331 N. Sanborn Street known as the Church of the Nazarene to the Boys and Girls Club. The Church was purchased in August 2008 at a cost of \$2,603,272. The terms of the lease call for annual payments of \$1 for twenty-five years with five options to extend the lease for five years.

B. Fund Financial Statements

The fund financial statements do not present General Government Capital Assets but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

9. Lease Obligations:

Operating Leases

The Agency leases office facilities at 159 Main Street under a five-year lease. Total cost for the lease was \$47,334 for the year ended June 30, 2009. The future minimum lease payments for this lease are as follows:

| Fiscal Year Ending | Amount |
|--------------------|------------------|
| <u>June 30,</u> | |
| 2010 | \$ 48,635 |
| 2011 | <u>49,974</u> |
| | <u>\$ 98,609</u> |

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

10. Long Term Debt:

The following is a summary of governmental activities General Long Term Debt transactions for the fiscal year ended June 30, 2009:

| | Balance | | | Balance June 30, 2009 | Due Within One Year |
|-------------------------------------|---------------------|---------------------|-----------------------|--------------------------|------------------------|
| | June 30, 2008 | Additions | Retirements | | |
| Annual Leave | \$ 112,082 | \$ | \$ (4,013) | \$ 108,069 | \$ 21,612 |
| Post Retirement Benefits | 10,329 | 12,500 | | 22,829 | |
| | <u>122,411</u> | <u>12,500</u> | <u>(4,013)</u> | <u>130,898</u> | <u>21,612</u> |
| Loans and Notes Payable | | | | | |
| City Loan-Sunset Ave Project | | 3,395,900 | (3,395,900) | - | |
| City Loan-Homeless Shelter | 157,500 | | | 157,500 | |
| Breadbox Gym Note Payable | 162,029 | | (34,912) | 127,117 | 38,404 |
| Church Purchase Note Payable | | 200,000 | (13,433) | 186,567 | 37,054 |
| Total Loans & Notes Payable | <u>319,529</u> | <u>3,595,900</u> | <u>(3,444,245)</u> | <u>471,184</u> | <u>75,458</u> |
| Tax Allocation Bonds Payable | | | | | |
| Series A-1996 | 6,345,000 | | (580,000) | 5,765,000 | 610,000 |
| Series A-1992 | 2,814,468 | | (175,998) | 2,638,470 | 161,796 |
| Less Issue Discount | (142,701) | | 8,919 | (133,782) | |
| Total Bonds Payable | <u>9,016,767</u> | <u>-</u> | <u>(747,079)</u> | <u>8,269,688</u> | <u>771,796</u> |
| | <u>\$ 9,458,707</u> | <u>\$ 3,608,400</u> | <u>\$ (4,195,337)</u> | <u>\$ 8,871,770</u> | <u>\$ 868,866</u> |

Annual Leave Liability

Employees are eligible to receive their entire unused annual leave balance upon termination, or can elect to be paid annually for a maximum of fifteen days of annual leave, depending on years of service. At June 30, 2009, the liability for this accrued leave is \$108,069.

Post Retirement Benefits

The City provides postretirement healthcare benefits to eligible employees who retire directly from the City. For non-safety employees, the cost was \$38.80 per month for each retiree. The Agency's portion of the Annual Required Contribution to fund future costs was \$12,500 for the fiscal year ended June 30, 2009. The Agency's portion of the Unfunded Accrued Liability for these costs was \$60,344 as of June 30, 2008. Details of the plan are disclosed in City's financial statements.

Loan from City of Salinas – Sunset Avenue Merged Project

During fiscal year ended June 30, 2009, the City of Salinas loaned the Salinas Redevelopment Agency's Sunset Avenue Merged Project \$3,395,900 to complete project improvements. This loan was repaid at June 30, 2009.

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

10. Long Term Debt: (Continued)

The Cooperation Agreement with the City for the Sunset Avenue Merged Redevelopment Project provides that the Agency will repay any City loans, bearing interest at a rate equal to the rate earned in the Local Agency Investment Fund (2.31% for 2008-09) per annum, from proceeds of the sale of surplus land in the project area and from tax increment revenue received by the Agency from the increased assessed valuations on properties in the project area.

Homeless Shelter Loan - Green Gold Inn

On March 7, 1995, the Salinas Redevelopment Agency - Central Agency Revitalization Project entered into a funding agreement and received a loan from the City of Salinas Community Development Block Grant Fund for the acquisition of property, Green Gold Inn at 28-32 Soledad Street, to establish a homeless center/shelter. The Agency agreed that the property will be used solely for a homeless center/shelter for a period not less than ten years. If the Agency or the organization holding title to the property disposes of the property or alters the use of the property prior to expiration of the ten year period, the Agency will reimburse the City the full amount of the current fair market value less improvement costs. Upon completion of the ten-year period one half of the debt, \$157,500, was forgiven. Upon cessation of the homeless center/shelter operations the City will be reimbursed the fair market value of the property less the portion of the loan paid and improvement cost. Debt service requirements for Green Gold Inn homeless center/shelter no interest loan are as follows:

| Fiscal Year Ending June 30, | |
|--------------------------------|------------------|
| Later years | <u>\$157,500</u> |

Breadbox Gym Note Payable

On August 9, 1991 the Agency entered into an installment purchase agreement with Franklin C. & Dorothy G. Walt Trust for the purchase of property at 745 N. Sanborn Rd. The property is used for the Breadbox recreation facility. The property was purchased for \$487,200 with \$52,024 down and a promissory note of \$435,176 secured by a first deed of trust with annual payments of \$51,116, at an annual rate of 10.0% for 20 years, expiring August 9, 2011. In the event the Agency chooses to pay off the note in any year subsequent to the 10th year, the pay off amount will be calculated as the remaining annual cash flow (\$51,116) discounted by the average S.F. area CPI for the three years prior to executing the pay off. Debt service payments are made from the Sunset Avenue Merged Project tax increments.

The annual debt service requirements for the Breadbox Gym note payable are as follows:

| Fiscal Year Ending June 30, | Principal | Interest |
|--------------------------------|------------------|-----------------|
| 2010 | \$ 8,404 | \$12,712 |
| 2011 | 42,244 | 8,872 |
| 2012 | 46,469 | 4,647 |
| | <u>\$127,117</u> | <u>\$26,231</u> |

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

10. Long Term Debt: (Continued)

Church of the Nazarene Note Payable

On August 15, 2008, the Agency purchased the Church of the Nazarene located at 331 N. Sanborn Street. The property is leased to the Boys and Girls Clubs of Monterey County and will be used to operate such clubs. The property was purchased for \$2,603,272 down and a promissory note of \$200,000 with semi-annual payments of \$22,851 with an interest rate of 5% for five years.

The annual debt service requirements for the Church note payable are as follows:

| Fiscal Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------------|------------------|-----------------|
| 2010 | \$ 42,007 | \$ 8,650 |
| 2011 | 38,952 | 7,724 |
| 2012 | 40,900 | 4,803 |
| 2013 | 42,971 | 2,732 |
| 2014 | <u>21,737</u> | <u>557</u> |
| | <u>\$186,567</u> | <u>\$24,466</u> |

Tax Allocation Bonds

On August 28, 1996, the Agency issued \$11,145,000 of Tax Allocation Bonds Series A- 1996. On October 27, 1992, the Agency issued \$6,541,178 of Refunding Tax Allocation Bonds Series A-1992. The bonds were issued to complete project improvements in the Central Agency Revitalization Project area. The bonds will be repaid from property taxes levied within the Salinas Redevelopment Agency Central City Revitalization Project.

The annual debt service requirements for the bonds at June 30, 2009 are as follows:

| Fiscal Year Ending <u>June 30,</u> | <u>Series A – 1996</u> | | <u>Series A – 1992</u> | |
|--|------------------------|--------------------|------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2010 | \$ 610,000 | \$ 299,996 | \$ 161,796 | \$ 346,451 |
| 2011 | 645,000 | 265,788 | 151,187 | 356,822 |
| 2012 | 680,000 | 229,350 | 141,240 | 366,413 |
| 2013 | 715,000 | 190,988 | 131,957 | 375,374 |
| 2014 | 755,000 | 150,563 | 123,337 | 383,891 |
| 2015-2019 | 495,000 | 583,416 | 1,213,473 | 4,866,613 |
| 2020-2024 | <u>1,865,000</u> | <u>393,940</u> | <u>715,480</u> | <u>4,146,883</u> |
| | <u>\$5,765,000</u> | <u>\$2,114,041</u> | <u>\$2,638,470</u> | <u>\$10,842,447</u> |

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

10. Long Term Debt: (Continued)

The Series A-1996 bond issue has a term bond of \$4,510,000 that matures on November 1, 2023. Debt service payments beginning in fiscal year 2011-2012 are deposits into a sinking fund. The term bonds are subject to redemption prior to maturity from the sinking fund installments on each November 1 on and after November 1, 2011 without premium according to a specified schedule, which is used in these debt service requirements.

The Series A-1992 bond issue has a term bond of \$2,638,475 that matures on November 1, 2022. Debt service payments beginning in fiscal year 2009-2010 are deposits into a sinking fund. The term bonds are subject to redemption prior to maturity from the sinking fund installments on each November 1 on and after November 1, 2009 without premium according to a specified schedule that is used in these debt service requirements.

11. Unamortized Bond Discount:

The Statement of Net Assets includes an unamortized bond discount of \$133,782 in Debt Payable-Due in More than One Year-Net of Discounts. The bond discount is not reported on the governmental funds because it does not represent available spendable resources. The 1996 Tax Allocation Revenue Bonds were sold at a discount of \$249,729. The discount is being amortized over the life of the bond issue (28 years) at an annual rate of \$8,919. The following is a summary of the 1996 Tax Allocation Revenue Bonds unamortized discount at June 30, 2009:

| | June 30, 2008 | Increase | Decreases | June 30 2009 |
|------------------------------------|------------------|----------|------------|-----------------|
| Tax Allocation Revenue Bonds, 1996 | \$ 142,701 | \$ | \$ (8,919) | \$ 133,782 |

12. Risk Management:

The Agency is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency participates in the City's self-insurance programs. The City administers self-insurance programs for property and general liability which affect the Agency. These insurance activities are accounted for in the City's Internal Service Funds. The Agency is a component unit of the City. In accordance with GASB 10, a component unit is not required to include a reconciliation of changes in the aggregate liabilities if it is covered by the primary government.

The City's self-insurance program carries excess insurance for catastrophic losses. Markel America Insurance Company and Interstate Fire and Casualty Insurance Company provide general liability coverage up to a maximum of \$10,000,000 after the self-insured retention of \$1,000,000 per occurrence is met. ACE USA provides Worker's Compensation excess coverage with statutory limits after the self-insurance retention of \$1,000,000 is met.

City management has determined the desired reserve level for each self-insurance program and believes the estimates are adequate to cover such losses.

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

12. Risk Management:(Continued)

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

13. Commitments:

Construction Projects

The Agency is committed to ongoing capital projects including Streetscape Improvements, Façade Improvements, Farmworker Housing and Soledad Street Affordable Housing.

Commitment to Other Taxing Agencies

The Salinas Redevelopment Agency settled legal action with other taxing agencies over division of incremental tax revenue resulting from amendment of Buena Vista and Sunset Avenue Redevelopment Projects. Under the amended and restated terms of the agreement, Amended Plans adopted by Ordinance No. 2130 on April 9, 1991, payments due are contingent upon the amount of tax increment moneys available and the cumulative amounts expended by the merged redevelopment project. Statutory pass through payments for the Sunset Avenue Project totaled \$855,159 for fiscal year ending June 30, 2009.

Pass through tax payments per agreements from the original project plan and amended project plan are estimated according to the following schedule:

| <u>Due in the year ended June 30,</u> | <u>Amount</u> | <u>Due in the year ended June 30,</u> | <u>Amount</u> |
|---|---------------|---|---------------|
| 2010 | \$ 880,676 | 2015 | \$ 1,016,167 |
| 2011 | 906,676 | 2016 | 1,044,940 |
| 2012 | 933,239 | 2017 | 1,074,405 |
| 2013 | 960,472 | 2018 | 1,104,268 |
| 2014 | 988,080 | 2019 | 1,134,732 |

Adoption of Debt Incurrence Time Limit Deletion On August 17, 2004, the City Council approved an ordinance deleting the debt incurrence time limit from the Redevelopment Plan, thus allowing the Agency to incur debt past the current time limits of January 1, 2004 in the Central City and Buena Vista Plan area and past July 7, 2007 in the Sunset Avenue Plan Area. This action requires the Agency to make statutory pass-through payments pursuant to Health and Safety Code Section 33607.7 to each affected taxing entity with which the Agency does not already have a pre-1994 pass-through agreement required pursuant to this amendment. Statutory pass-through payments for the Central City Debt Service Fund totaled \$185,653 for fiscal year ending June 30, 2009.

Commitment to Monterey Street Parking Structure In November 2001, the City Council and the Agency entered into a Disposition and Development Agreement (DDA) with Maya Cinema Holding Company LLC for the development of a 14-screen, 2,916-seat multiplex movie theater complex in the 100 block of Main Street. To serve this and other developments within the 100 block, the DDA committed the City/Agency to construct a five-level, 452-space public parking

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

13. Commitments: (Continued)

structure on the corner of Monterey Street and Market Street adjacent to the National Steinbeck Center and the Maya Cineplex Theater. The public parking garage opened in June 2005, while the Maya Cinemas multiplex was completed and opened in July 2005.

On December 17, 2003, the Salinas Public Financing Authority issued \$16,630,000 in City of Salinas Certificates of Participation (COP), Series A of 2004, to finance the acquisition and construction of the public parking garage known as the Monterey Street Parking Structure. The City anticipates making lease payments from parking fee revenues generated from the project and other general fund revenues. To the extent parking fee revenue is insufficient, the Agency has, pursuant to a reimbursement agreement by and between the Agency and the City, agreed to reimburse the City for any debt service shortfalls with respect to the Certificates. The City anticipates that tax increment revenues contributed by the Agency, together with parking revenues, will be sufficient to pay for the debt service with respect to the Certificates, however, such revenues are not pledged to the payment of debt service, and no assurance can be given that parking revenues will be sufficient to pay for debt service with respect to the Certificates.

Debt service payments were made during fiscal year 2008-09 using the balance of capitalized interest, investment earnings and \$1,050,000 of Agency funds. Beginning in fiscal year 2007-08, maximum annual debt service payments are \$1,091,950. At June 30, 2009, the Agency has reserved \$1,135,000 of fund balance for the purpose of making debt service payments.

The Certificates have an insured rating of "AAA/Negative" from Standard and Poors (S&P) and an insured rating of "Aa3" from Moody's Investors Service.

14. Subsequent Events:

During July of 2009, the following loans were authorized:

\$830,000 was authorized to be loaned to CHISPA for development of La Gloria Apartments.

\$400,000 was authorized to be loaned to Salinas Pacific Associates LP for development of Tresor Apartments.

An additional \$200,000 was authorized to be loaned to Salinas Gateway LP, increasing the total loan to \$1,790,000.

During October of 2009, an additional \$582,863 was loaned to Interim Inc., increasing the total loan to \$986,745.

The State of California 2009-2010 fiscal year budget included an Educational Revenue Augmentation Fund (ERAF) shift of property tax increments to schools. An estimated payment of \$2,230,576 is due in the fiscal year ended June 30, 2010.

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

15. Related Party Disclosures:

The Agency reimburses the City of Salinas for all payroll expenses. The Agency paid City of Salinas' payroll costs of \$1,096,975 for the year ended June 30, 2009.

In addition, the City provided administrative services to the Agency for \$64,408 for the year ended June 30, 2009.

16. Classification of Net Assets:

Governmental-Wide Financial Statements

In the Government-Wide Financial Statements, net assets are classified in the following categories:

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

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2009, the Agency's Statement of Net Assets reported restricted net assets of \$16,745,695, of which \$0 was restricted by enabling legislation.

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

Fund Financial Statements

In the Fund Financial Statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Agency Board and Management and can be increased, reduced or eliminated by similar actions.

Fund reservations shown in the Governmental Funds Balance sheet are described as follows:

Reserve for Encumbrances represents Purchase Orders that have been issued.

Reserve for Loans and Notes Receivable represents the balance of loans and notes that are long-term in nature and, therefore, not available for appropriation.

Reserved for Advances to other Funds reflect the balances due from other funds that are long-term in nature and do not represent available expendable resources of the Agency.

Reserved for Land Held for Resale represents the carrying value of downtown properties acquired and represents resources unavailable for appropriations.

SALINAS REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

16. Classification of Net Assets: (Continued)

Reserved for Debt Service represents the portion of fund balance that is legally restricted as per the bond covenants and redevelopment law for debt service only.

Reserve for Plaza Grande operations represents funds set-aside per Agency resolution for operating deficits in the Plaza Grande housing project.

Reserve for Parking Structure Debt Service represents funds set-aside to build up a sinking fund for debt service on the 2004 COP for the parking structure.

Reserve for Future Budgets represents funds set aside for future use.

17. Deficit Net Assets and Fund Equity:

Government-Wide Financial Statements

The deficit of \$4,264,826 in Unrestricted Net Assets is the result of the Agency issuing debt for infrastructure improvements, which are automatically turned over to the City of Salinas because the Agency cannot spend funds on maintenance items. The Agency has to report the debt but has no asset to show for that debt. The debt is secured by future tax increments.

Fund Financial Statements

No funds had a deficit fund equity as of June 30, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

SALINAS REDEVELOPMENT AGENCY
Required Supplementary Information
Budgetary Comparison Schedule
Central City Housing Fund
Fiscal Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|---------------------------------------|---------------------|---------------------|---------------------|---|
| Budgetary Fund Balance, July 1, 2008 | \$ 6,386,492 | \$ 6,386,492 | \$ 6,386,492 | \$ - |
| Resources (inflows): | | | | |
| Investment Earnings | 50,000 | 50,000 | 54,333 | 4,333 |
| Housing Loans | 20,000 | 20,000 | 9,069 | (10,931) |
| Transfers In | <u>689,000</u> | <u>689,000</u> | <u>642,916</u> | <u>(46,084)</u> |
| Amounts available for appropriation | <u>7,145,492</u> | <u>7,145,492</u> | <u>7,092,810</u> | <u>(52,682)</u> |
| Charges to Appropriations (outflows): | | | | |
| Administration | 236,200 | 236,200 | 197,684 | 38,516 |
| Housing-Tynan Village | 1,275,000 | 1,275,000 | | 1,275,000 |
| Housing-Salinas Gateway | | 458,224 | | 458,224 |
| Loans Receivable Forgiven | | | 36,000 | (36,000) |
| Transfers Out | | | | |
| Debt Service Fund | 240,000 | 240,000 | 240,009 | (9) |
| Soledad Street Planning | 3,400 | 4,700 | 3,400 | 1,300 |
| Soledad Street Housing | 1,030,795 | 1,030,795 | | 1,030,795 |
| Farm Worker Housing | <u>146,393</u> | <u>26,393</u> | <u>18,702</u> | <u>7,691</u> |
| Total Charges to Appropriations | <u>2,931,788</u> | <u>3,271,312</u> | <u>495,795</u> | <u>2,775,517</u> |
| Budgetary Fund Balance, June 30, 2009 | <u>\$ 4,213,704</u> | <u>\$ 3,874,180</u> | <u>\$ 6,597,015</u> | <u>\$ 2,722,835</u> |

SALINAS REDEVELOPMENT AGENCY
 Required Supplementary Information
 Budgetary Comparison Schedule
 Sunset Avenue Merged Housing Fund
 Fiscal Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|---------------------------------------|---------------------|---------------------|---------------------|---|
| Budgetary Fund Balance, July 1, 2008 | \$ 4,899,154 | \$ 4,899,154 | \$ 4,899,154 | \$ - |
| Resources (inflows): | | | | |
| Investment Earnings | 25,000 | 25,000 | 31,511 | 6,511 |
| Housing Loans | 1,000 | 1,000 | 15,000 | 14,000 |
| Rental Income | | | 25,000 | 25,000 |
| Transfers In | <u>598,000</u> | <u>598,000</u> | <u>637,644</u> | <u>39,644</u> |
| Amounts available for appropriation | <u>5,523,154</u> | <u>5,523,154</u> | <u>5,608,309</u> | <u>85,155</u> |
| Charges to Appropriations (outflows): | | | | |
| Administration | 183,500 | 183,500 | 120,698 | 62,802 |
| Housing-Sunflower Gardens | 1,000,000 | 1,000,000 | | 1,000,000 |
| Housing-Tynan Village | 725,000 | 725,000 | | 725,000 |
| Transfers Out | | | | |
| Division Street Acquisition | 1,072,122 | 872,122 | 42,252 | 829,870 |
| Farm Worker Housing | <u>45,000</u> | <u>5,000</u> | | <u>5,000</u> |
| Total Charges to Appropriations | <u>3,025,622</u> | <u>2,785,622</u> | <u>162,950</u> | <u>2,622,672</u> |
| Budgetary Fund Balance, June 30, 2009 | <u>\$ 2,497,532</u> | <u>\$ 2,737,532</u> | <u>\$ 5,445,359</u> | <u>\$ 2,707,827</u> |

SALINAS REDEVELOPMENT AGENCY
Notes to Required Supplementary Information
June 30, 2009

Budgetary Highlights

The Central City Housing Fund original appropriations (outflows) were increased \$458,224 to provide for an additional loan to Salinas Gateway LP. In addition, the outflows were increased \$1,300 for Soledad Street Planning and decreased \$120,000 for Farm Worker Housing. The estimated resources (inflows) were not changed.

The Sunset Avenue Merged Housing Fund original appropriations (outflows) were decreased \$40,000 for Farm Worker Housing and \$200,000 for the Division Street Project. The estimated resources (inflows) were not changed.

The Agency Board approves changes to the appropriations by adoption of a supplemental appropriations resolution. The Agency Board approves changes to the revenue estimates by adoption of a supplemental revenue resolution. The budgetary data presented in the accompanying budget to actual schedules includes all revisions approved by the Agency Board.

SUPPLEMENTARY INFORMATION

SALINAS REDEVELOPMENT AGENCY

Budgetary Comparison Schedule
 Central City Project Fund
 Fiscal Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|--|--------------------|------------------|------------------|---|
| Budgetary Fund Balance, July 1, 2008 | \$ 1,959,890 | \$ 1,959,890 | \$ 1,959,890 | \$ - |
| Resources (inflows): | | | | |
| Investment Earnings | 60,000 | 60,000 | 47,727 | (12,273) |
| Miscellaneous | 1,000 | 1,000 | 15 | (985) |
| Loan Payments | 10,000 | 10,000 | | (10,000) |
| Loan Proceeds | 351,000 | 351,000 | | (351,000) |
| Amounts available for appropriation | 2,381,890 | 2,381,890 | 2,007,632 | (374,258) |
| Charges to Appropriations (outflows): | | | | |
| Administration | 366,042 | 366,042 | 343,076 | 22,966 |
| Capital Outlay | 20,000 | 20,000 | 16,210 | 3,790 |
| Transfers Out | | | | |
| Downtown Parking Plan | 20,000 | 20,000 | | 20,000 |
| Contamination Mitigation | 16,500 | 27,100 | 27,030 | 70 |
| Facade Improvements | 69,360 | 63,360 | 40,182 | 23,178 |
| Purchase 10 Soledad Street | 19,942 | 19,942 | | 19,942 |
| Chinatown Cameras | 60,000 | 60,000 | | 60,000 |
| Central City Project Expansion | 100,000 | 100,000 | | 100,000 |
| Reroof REA Building | 30,000 | | | |
| Freight Terminal Rehab | 40,000 | 40,000 | | 40,000 |
| Salinas Train Station Improvements | 8,000 | 4,049 | 3,951 | 98 |
| Total Charges to Appropriations | 749,844 | 720,493 | 430,449 | 290,044 |
| Budgetary Fund Balance, June 30, 2009 | \$ 1,632,046 | \$ 1,661,397 | \$ 1,577,183 | \$ (84,214) |

SALINAS REDEVELOPMENT AGENCY

Budgetary Comparison Schedule
Sunset Avenue Merged Project Fund
Fiscal Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|---------------------------------------|--------------------|-----------------|------------|---|
| Budgetary Fund Balance, July 1, 2008 | \$ 987,046 | \$ 987,046 | \$ 987,046 | \$ - |
| Resources (inflows): | | | | |
| Investment Earnings | | | 128 | 128 |
| Miscellaneous Receipts | 500 | 500 | | (500) |
| Rental Income | 16,000 | 16,000 | 30,136 | 14,136 |
| City Loan Proceeds | 3,536,800 | 3,536,800 | 3,395,900 | (140,900) |
| Amounts available for appropriation | 4,540,346 | 4,540,346 | 4,413,210 | (127,136) |
| Charges to Appropriations (outflows): | | | | |
| Administration | 470,760 | 470,760 | 470,757 | 3 |
| Public Safety | 315,400 | 315,400 | 312,830 | 2,570 |
| Gaffitti Abatement | 15,000 | 15,000 | 4,660 | 10,340 |
| Jazz Up Program | 57,800 | 59,750 | 59,748 | 2 |
| Contribution to SUBA | 50,000 | 50,000 | 50,000 | |
| Debt Service: | | | | |
| Principal Retirement | 34,912 | 34,912 | 48,345 | (13,433) |
| Interest and Fiscal Charges | 16,288 | 16,288 | 25,571 | (9,283) |
| Transfers Out | | | | |
| SRA Clean Sweep | 22,000 | 22,000 | | 22,000 |
| Streetscape Improvements | 828,009 | 658,009 | 71,841 | 586,168 |
| Emergency Small Business Loans | 85,000 | 85,000 | | 85,000 |
| Church of the Nazarene | 2,422,900 | 2,445,200 | 2,430,018 | 15,182 |
| Façade Improvements | 75,020 | 75,020 | 22,379 | 52,641 |
| Total Charges to Appropriations | 4,393,089 | 4,247,339 | 3,496,149 | 751,190 |
| Budgetary Fund Balance, June 30, 2009 | \$ 147,257 | \$ 293,007 | \$ 917,061 | \$ 624,054 |

SALINAS REDEVELOPMENT AGENCY

Budgetary Comparison Schedule
 Central City Debt Service Fund
 Fiscal Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|---------------------------------------|---------------------|---------------------|---------------------|---|
| Budgetary Fund Balance, July 1, 2008 | \$ 3,083,339 | \$ 3,083,339 | \$ 3,083,339 | \$ |
| Resources (inflows): | | | | |
| Tax Increment | 3,065,000 | 3,065,000 | 3,214,582 | 149,582 |
| Investment Earnings | 75,000 | 75,000 | 67,705 | (7,295) |
| Transfers In | 240,000 | 240,000 | 240,009 | 9 |
| Amounts available for appropriation | <u>6,463,339</u> | <u>6,463,339</u> | <u>6,605,635</u> | <u>142,296</u> |
| Charges to Appropriations (outflows): | | | | |
| Pass Through Taxes | | | 185,653 | (185,653) |
| Debt Service: | | | | |
| Principal Retirement | 756,000 | 756,000 | 755,998 | 2 |
| Interest and Fiscal Charges | 675,900 | 675,900 | 701,640 | (25,740) |
| Transfers Out | | | | |
| To Housing Fund | 689,900 | 627,200 | 642,916 | (15,716) |
| Parking Structure Debt Service | 1,050,000 | 1,050,000 | 1,050,000 | |
| Steinbeck Center Debt Service | | | 115,566 | (115,566) |
| City Loan Repayment | 557,800 | 557,800 | | 557,800 |
| Total Charges to Appropriations | <u>3,729,600</u> | <u>3,666,900</u> | <u>3,451,773</u> | <u>215,127</u> |
| Budgetary Fund Balance, June 30, 2009 | <u>\$ 2,733,739</u> | <u>\$ 2,796,439</u> | <u>\$ 3,153,862</u> | <u>\$ 357,423</u> |

SALINAS REDEVELOPMENT AGENCY

Budgetary Comparison Schedule
 Sunset Avenue Merged Debt Service Fund
 Fiscal Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Variance with Final Budget- Positive (Negative) |
|---------------------------------------|--------------------|-------------------|-------------------|---|
| Budgetary Fund Balance, July 1, 2008 | \$ 2,671,542 | \$ 2,671,542 | \$ 2,671,542 | \$ - |
| Resources (inflows): | | | | |
| Tax Increment | 2,450,000 | 2,450,000 | 3,188,221 | 738,221 |
| Investment Earnings | <u>60,000</u> | <u>60,000</u> | <u>22,705</u> | <u>(37,295)</u> |
| Amounts available for appropriation | <u>5,181,542</u> | <u>5,181,542</u> | <u>5,882,468</u> | <u>700,926</u> |
| Charges to Appropriations (outflows): | | | | |
| Pass Through Taxes | 225,200 | 225,200 | 855,159 | (629,959) |
| Interest and Fiscal Charges | | | 31,264 | (31,264) |
| ERAF Payment | 218,500 | 218,500 | | 218,500 |
| Transfers Out | | | | |
| To Housing Fund | 598,000 | 598,000 | 637,644 | (39,644) |
| City Loan Repayment | <u>3,536,800</u> | <u>3,536,800</u> | <u>3,395,900</u> | <u>140,900</u> |
| Total Charges to Appropriations | <u>4,578,500</u> | <u>4,578,500</u> | <u>4,919,967</u> | <u>(341,467)</u> |
| Budgetary Fund Balance, June 30, 2009 | <u>\$ 603,042</u> | <u>\$ 603,042</u> | <u>\$ 962,501</u> | <u>\$ 359,459</u> |

McGILLOWAY, RAY, BROWN & KAUFMAN

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Governing Board of
Salinas Redevelopment Agency
Salinas, California

We have audited the financial statements of the governmental activities and each major fund of the Salinas Redevelopment Agency, (the Agency), a component unit of the City of Salinas, California as of and for the fiscal year ended June 30, 2009, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

Daniel M. McGilloway, Jr., CPA, CVA, Gerald C. Ray, CPA, Clyde⁴⁷ W. Brown, CPA, Patricia M. Kaufman, CPA, Larry W. Rollins, CPA

Rachelle F. Onishi, CPA, CFE, Reginald F. Pires, CPA, Sarita C. Shannon, CPA, Audrey M. Thorne, CPA

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 Agency'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 Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency'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 Agency's internal control.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the management, Board of Directors, City Council, and the State Controller's Office and is not intended to be and should not be used by anyone other than these parties.

McGilloway, Ray, Brown & Kaufman

December 7, 2009