

# **SALINAS REDEVELOPMENT AGENCY**

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



PREPARED BY

THE FINANCE DEPARTMENT

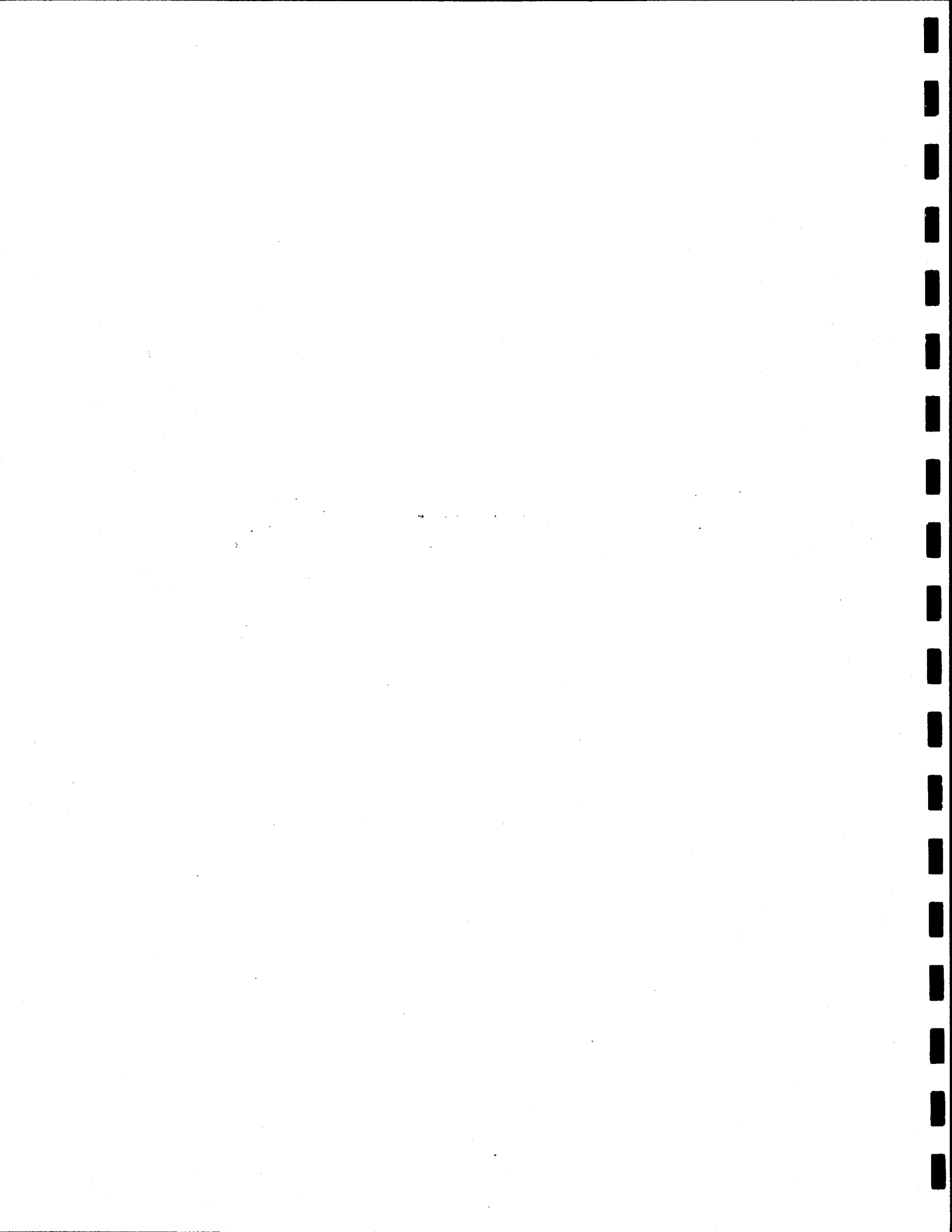
Tom L. Kever  
Finance Director

Miguel Gutierrez, Accounting Officer  
Elizabeth Mariano, Supervising Accountant

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AUDITORS

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



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Annual Financial Report  
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# City of Salinas

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

December 14, 2010

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, 2010. 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 seventh 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, 2010, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Agency's financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

### **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, 2010, the adjustment for changes in fair value of investments was an unrealized gain of \$7,205 while interest earnings from investments was \$130,082.

### **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.

### **State Takeaway**

On May 10, 2010 the Agency paid \$2,230,576 to the Supplemental Educational Revenue Augmentation Fund (SERAF) as required by state legislation (ABX4 26) enacted to balance the State of California budget. In order to make this payment the Agency suspended \$940,000 of its FY 2009-10 Low and Moderate Income Housing Funds set-aside pursuant to Health & Safety Code Section 33334.2 (k). The Agency is required to repay the suspended deposits no later than June 30, 2015, otherwise an additional 5% of gross tax increment must be deposited in the Housing Fund for the remainder of the plan life, commencing on July 1, 2015.

Additionally, on May 10, 2011, the Agency will be required to pay \$459,236 to SERAF as required by State budget action.

These actions set the Agency's redevelopment plans back several years. Operating expenditures had to be curtailed and other capital projects funding were placed on hold including business façade improvements, E. Market Street streetscape improvements, Alisal Street parking improvements, and other future development and redevelopment initiatives.

### **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 of \$1,050,000 in 2008-09 and \$1,088,700 in 2009-10 were made using Central City Debt Service Funds. The 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 2010-11 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 2010-11 shifting of property tax increments.

## Redevelopment Plan Amendment

Redevelopment staff is working on a plan amendment project that involves four potential changes to the current status quo:

1. Extend time limits of existing Project Areas;
2. Fiscally merge the Central City and Sunset Avenue Project Areas;
3. Extend/reinstate eminent domain;
4. Add area to the Existing Project Area(s) or create new project areas.

If approved, the Plan Amendments will provide the Agency with additional time, flexibility, and the financial resources to more effectively alleviate blight within its existing Project Areas. More specifically, they allow the Agency to focus redevelopment expenditures on high-priority projects and activities within the Project Areas. The Amendments will enhance and optimize the bonding capacity of the Agency by expanding the Agency's financial capacity. Additional areas in the City may also be qualified for redevelopment activity.

## 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 thank-you to the Finance Department staff, Miguel Gutierrez, Accounting Officer and Elizabeth Mariano, Supervising Accountant, 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 Keever  
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



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# McGILLOWAY, RAY, BROWN & KAUFMAN

Accountants & Consultants

2511 Garden Road, Suite A180  
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831-373-3337 Fax 831-373-3437  
Toll Free 866-373-2511

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Fax 831-424-7936

## 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, 2010, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2010 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 considered in assessing the results of our audit.

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 38 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. 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. The budgetary comparison schedules – capital projects and debt service funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Mc Giloway, Ray, Brown & Kaufman*

December 7, 2010

SALINAS REDEVELOPMENT AGENCY  
Management's Discussion and Analysis  
June 30, 2010

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, 2010. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

### Financial Highlights

- The Agency's net assets increased \$307,115 (2%) to \$15,777,728.
- The Agency's combined fund balances decreased \$1,550,814 (8.0%) over the previous year to an ending balance of \$17,102,167. The vast majority of the fund balances are reserved and unavailable.
- The Agency's tax increment revenue increased 5.4% over the prior fiscal year.
- The Agency's total liabilities decreased by \$806,934 (8.3%) to \$8,896,888 primarily due to payments on its bonded debt.
- The Agency funded \$2,042,234 in additional housing and small business loans. It received \$114,518 in principal repayments and forgave \$36,000 in housing loans receivable pursuant to loan agreements.
- The Agency paid \$2,230,576 to the Supplemental Educational Revenue Augmentation Funds (SERAF). This is 33% of the fiscal year's tax increment revenue.
- The Agency suspended the deposit of \$940,000 to the Low and Moderate Income Housing Funds in order to make the SERAF payment.

### 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.

SALINAS REDEVELOPMENT AGENCY  
Management's Discussion and Analysis  
June 30, 2010

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.

SALINAS REDEVELOPMENT AGENCY  
Management's Discussion and Analysis  
June 30, 2010

**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 \$15,777,728 which is an increase of \$307,115 from the prior year.

The following is the condensed Statement of Net Assets for the fiscal year ended June 30, 2010.

Salinas Redevelopment Agency  
Condensed Statement of Net Assets

	Fiscal Year Ended June 30,		Change	
	2010	2009	Amount	Percent
<b>Assets:</b>				
Current Assets	\$ 6,179,530	\$ 8,480,635	\$ (2,301,105)	-27.1%
Other Assets	13,540,687	11,674,875	1,865,812	16.0%
Capital Assets, Net	4,954,399	5,018,925	(64,526)	-1.3%
<b>Total Assets</b>	<b>24,674,616</b>	<b>25,174,435</b>	<b>(499,819)</b>	<b>-2.0%</b>
<b>Liabilities:</b>				
Current Liabilities	1,639,652	1,700,918	(61,266)	-3.6%
Long-term Liabilities	7,257,236	8,002,904	(745,668)	-9.3%
<b>Total Liabilities</b>	<b>8,896,888</b>	<b>9,703,822</b>	<b>(806,934)</b>	<b>-8.3%</b>
<b>Net Assets:</b>				
Invested in Capital Assets, Net of Related Debt	3,053,746	2,989,744	64,002	2.1%
Restricted	15,808,195	16,745,695	(937,500)	-5.6%
Unrestricted	(3,084,213)	(4,264,826)	1,180,613	-27.7%
<b>Total Net Assets</b>	<b>\$ 15,777,728</b>	<b>\$ 15,470,613</b>	<b>\$ 307,115</b>	<b>2.0%</b>

Considering the fact that the Agency has \$8.9 million in debt it is noteworthy that the Agency still has Net Assets of \$15.8 million. Unrestricted Net Assets total a negative \$3.1 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. Infrastructure improvements are turned over to the City.

The Agency has \$15.8 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.

**SALINAS REDEVELOPMENT AGENCY**  
**Management's Discussion and Analysis**  
**June 30, 2010**

Total assets decreased \$499,819 while total liabilities decreased \$806,934 leading to an increase of \$307,115 in net assets.

**Statement of Activities**

The following is the condensed Statement of Activities for the fiscal year ended June 30, 2010.

	Salinas Redevelopment Agency Condensed Statement of Activities		Change	
	Fiscal Year Ended June 30,		Amount	Percent
	2010	2009		
<b>Revenues</b>				
Program Revenues:				
Charges for Services	\$ 71,915	\$ 79,205	\$ (7,290)	-9.2%
General Revenues:				
Tax Increments	6,724,829	6,382,888	341,941	5.4%
Investment Earnings	310,787	376,705	(65,918)	-17.5%
Miscellaneous	123,727	15	123,712	824746.7%
Total Revenues	<u>7,231,258</u>	<u>6,838,813</u>	<u>392,445</u>	5.7%
<b>Expenses</b>				
Administration	1,074,689	1,166,606	(91,917)	-7.9%
Housing	-	18,702	(18,702)	-100.0%
Public Works	213,752	331,975	(118,223)	-35.6%
Public Safety	301,469	312,830	(11,361)	-3.6%
Recreation	39,152	79,274	(40,122)	-50.6%
Contribution to Other Agencies	65,000	50,000	15,000	30.0%
Pass-through Taxes	1,099,535	1,040,812	58,723	5.6%
Contribution to SERAF	2,230,576	-	2,230,576	
Parking Structure Debt	1,088,700	-	1,088,700	
Interest on long-term debt	775,270	1,936,799	(1,161,529)	-60.0%
Total Expenditures	<u>6,888,143</u>	<u>4,936,998</u>	<u>1,951,145</u>	39.5%
Other Financing Sources (Uses)	<u>(36,000)</u>	<u>(36,000)</u>	<u>-</u>	0.0%
Change in Net Assets	307,115	1,865,815	(1,558,700)	-83.5%
Net Assets - Beginning	15,470,613	13,604,798	1,865,815	13.7%
Net Assets - Ending	<u>\$ 15,777,728</u>	<u>\$ 15,470,613</u>	<u>\$ 307,115</u>	2.0%

Tax increment revenues (94.6% of the Agency's revenues) increased \$341,941 (5.4%) from a year ago. Investment earnings decreased \$65,918 (17.5%) from last year due to continued declining interest rates and investment yields.

The 43.2% increase in expenses was due primarily to the Agency's required contribution of \$2,230,576 to the Supplemental Educational Revenue Augmentation Fund (SERAF) in accordance with a new State legislative requirement. This was a State requirement in order to balance the State budget. In order to make the payment, the Agency suspended the deposit of \$940,000 to the Low and Moderate Income Housing Funds.

All operating programs had decreased expenses due the budget cutbacks necessary to fund the SERAF contribution. The Agency made debt service payments of \$1,088,700 for the Parking Structure.

**FUND FINANCIAL STATEMENT ANALYSIS**

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



SALINAS REDEVELOPMENT AGENCY  
Management's Discussion and Analysis  
June 30, 2010

At year-end the Agency's governmental funds reported combined fund balances of \$17.1 million. Approximately 94% of these funds (\$16.7 million) represent resources not available because they are:

- Reserved for long-term loans and note receivable - \$9,438,053
- Reserved for land held for resale - 3,448,830

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

- Reserved for encumbrances - \$ 76,483
- Reserved for debt service payments - 1,954,431
- Reserved for Plaza Grande operations - 298,300
- Reserved for parking structure debt service - 1,135,000

The Agency Board has at its discretion \$751,070 for future budgets. Of this amount \$743,818 can be used only for low and moderate income housing projects. The remainder of \$7,252 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, 2010 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 page 29 of this report. The Agency has minimal capital assets because most Agency financed improvements are infrastructure improvements that are owned by the City. No new capital assets were added during the fiscal year.

Salinas Redevelopment Agency  
Condensed Statement of Capital Assets

	Fiscal Year Ended June 30,		Change	
	2010	2009	Amount	Percent
Land	\$ 2,276,508	\$ 2,299,628	\$ (23,120)	-1%
Buildings	3,475,581	3,475,581	-	0%
Improvements other than buildings	133,082	133,082	-	0%
Total Capital Assets	5,885,171	5,908,291	(23,120)	0%
Accumulated Depreciation	(930,772)	(889,366)	(41,406)	5%
Total Net Capital Assets	<u>\$ 4,954,399</u>	<u>\$ 5,018,925</u>	<u>\$ (64,526)</u>	-1%

SALINAS REDEVELOPMENT AGENCY  
Management's Discussion and Analysis  
June 30, 2010

**Long-Term Debt**

At June 30, 2010 the Agency had \$8.1 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	
	2010	2009	Amount	Percent
Annual Leave	\$ 125,397	\$ 108,069	\$ 17,328	16.0%
Post Retirement Benefits	29,907	22,829	7,078	31.0%
Loans and Notes	391,308	471,184	(79,876)	-17.0%
Tax Allocation Bonds	7,631,674	8,403,470	(771,796)	-9.2%
	8,178,286	9,005,552	(827,266)	-9.2%
Less Issuance Discount	(124,863)	(133,782)	8,919	-6.7%
Net Long-Term Debt	<u>\$ 8,053,423</u>	<u>\$ 8,871,770</u>	<u>\$ (818,347)</u>	-9.2%

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 increased 5.4% over the past fiscal year. The overall tax base change is dependent upon construction, property sales, and assessed property values. Tax increment revenue estimates for FY 2010-11 are based on assessed property value declines in the project areas for calendar 2009. Net taxable property values declined 16.2% in the Central City project area and declined 4.8% in the Sunset Avenue project area. The Agency modified its FY 2010-11 budgets accordingly.

**CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide 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, 2010

	Governmental Activities
<b>Assets</b>	
Cash and Investments	\$ 3,832,090
Interest Receivable	577,960
Accounts Receivable	2,000
Loans Receivable	9,741,780
Taxes Receivable	202,650
Deferred Charges	350,077
Restricted Cash and Investments	1,564,830
Land Held for Resale	3,448,830
Capital Assets:	
Land and Nondepreciable Assets	2,276,508
Depreciable Assets-Net	2,677,891
 Total Assets	 24,674,616
 <b>Liabilities</b>	
Accounts Payable	553,110
Accrued Interest Payable	290,355
Long-Term Liabilities:	
Due Within One Year	902,439
Due in More than One Year-Net of Discounts	7,150,984
 Total Liabilities	 8,896,888
 <b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	3,053,746
Restricted for:	
Debt Service	3,251,551
Housing	12,556,644
Unrestricted	(3,084,213)
 Total Net Assets	 \$ 15,777,728

The accompanying notes are an integral part of this statement.

SALINAS REDEVELOPMENT AGENCY  
Statement of Activities  
For Fiscal Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
<b>Governmental Activities:</b>					
Administration	\$ 1,074,689	\$	\$	\$	\$ (1,074,689)
Public Safety	301,469				(301,469)
Housing	-	71,915			71,915
Public Works	213,752				(213,752)
Recreation	39,152				(39,152)
Contribution to other agencies	65,000				(65,000)
Pass-thru Taxes	1,099,535				(1,099,535)
SERAF	2,230,576				(2,230,576)
Parking Structure Debt	1,088,700				(1,088,700)
Interest on long-term debt	775,270				(775,270)
<b>Total Governmental Activities</b>	<b>\$ 6,888,143</b>	<b>\$ 71,915</b>	<b>\$</b>	<b>\$</b>	<b>(6,816,228)</b>
		<b>General Revenues</b>			
					6,724,829
					310,787
					(36,000)
					123,727
					<u>7,123,343</u>
					307,115
					<u>15,470,613</u>
					<u>\$ 15,777,728</u>

The accompanying notes are an integral part of this statement.

SALINAS REDEVELOPMENT AGENCY

Governmental Funds

Balance Sheet

June 30, 2010

	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	
<b>Assets</b>			*	*			
Cash and Investments	\$ 1,260,744	\$ 103,421	\$ 14,017	\$ 53,986	\$ 1,348,282	\$ 1,051,640	\$ 3,832,090
Interest Receivable	176,704	397,793	1,814			1,649	577,960
Accounts Receivable				2,000			2,000
Advance to Other Funds	450,000	490,000					940,000
Loans Receivable	4,955,339	4,213,329	220,011	49,374	303,727		9,741,780
Restricted Cash and Investments					1,564,830		1,564,830
Land Held for Resale	500,431	1,157,122	941,277	850,000			3,448,830
<b>Total Assets</b>	<b>\$ 7,343,218</b>	<b>\$ 6,361,665</b>	<b>\$ 1,177,119</b>	<b>\$ 955,360</b>	<b>\$ 3,216,839</b>	<b>\$ 1,053,289</b>	<b>\$ 20,107,490</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts Payable	\$ 239,302	\$ 9,467	\$ 10,236	\$ 53,408	\$ 2,621	\$ 238,076	\$ 553,110
Deferred Revenues	625,049	887,164					1,512,213
Advance from Other Funds					450,000	490,000	940,000
<b>Total Liabilities</b>	<b>864,351</b>	<b>896,631</b>	<b>10,236</b>	<b>53,408</b>	<b>452,621</b>	<b>728,076</b>	<b>3,005,323</b>
<b>Fund Balances:</b>							
Reserved for:							
Encumbrances	48,391	27,171	921				76,483
Loans & Notes Receivable	4,955,339	4,213,329	220,011	49,374			9,438,053
Land Held for Resale	500,431	1,157,122	941,277	850,000			3,448,830
Debt Service					1,629,218	325,213	1,954,431
Plaza Grande Operations	298,300						298,300
Parking Structure Debt Svc.					1,135,000		1,135,000
Future Budgets	676,406	67,412	4,674	2,578			751,070
<b>Total Fund Balances</b>	<b>6,478,867</b>	<b>5,465,034</b>	<b>1,166,883</b>	<b>901,952</b>	<b>2,764,218</b>	<b>325,213</b>	<b>17,102,167</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,343,218</b>	<b>\$ 6,361,665</b>	<b>\$ 1,177,119</b>	<b>\$ 955,360</b>	<b>\$ 3,216,839</b>	<b>\$ 1,053,289</b>	<b>\$ 20,107,490</b>

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, 2010

<b>Total Fund Balances - Total Governmental Funds</b>	\$	17,102,167
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		572,213
Deferred revenue for suspension of housing funds set-aside is not considered available resources and, therefore, not reported as part of Governmental Funds fund balance		940,000
Taxes receivable not collectible within sixty days		202,650
Deferred charges for bond issuance costs are not current financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet		350,077
Capital assets used in governmental funds are not current financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet		4,954,399
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		(290,355)
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>(8,053,423)</u>
<b>Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>15,777,728</u></b>

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, 2010

	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	
<b>Revenues:</b>							
Tax Increment	\$	\$	\$	\$	\$ 3,618,656	\$ 3,098,973	\$ 6,717,629
Investment Earnings	23,196	7,543	17,153		66,009	16,181	130,082
Rental Income		24,500		31,812			56,312
Housing Loans	15,603						15,603
Steinbeck Center Reimbursement					123,727		123,727
<b>Total Revenues</b>	<b>38,799</b>	<b>32,043</b>	<b>17,153</b>	<b>31,812</b>	<b>3,808,392</b>	<b>3,115,154</b>	<b>7,043,353</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Administration	152,898	141,012	324,924	405,545			1,024,379
Public Works				70,702			70,702
Contribution to Other Agency			15,000	50,000			65,000
Public Safety				301,469			301,469
Pass Through Taxes					256,289	843,246	1,099,535
SERAF					891,000	1,339,576	2,230,576
Suspension of Housing Set-Aside					450,000	490,000	940,000
<b>Capital Outlay:</b>							
Project Improvements	1,722	1,151	89,529	25,274			117,676
<b>Debt Service:</b>							
Principal Retirement				79,876	773,796	908,000	1,761,672
Interest and Fiscal Charges				22,055	704,578	41,825	768,458
Parking Structure Debt					1,088,700		1,088,700
<b>Total Expenditures</b>	<b>154,620</b>	<b>142,163</b>	<b>429,453</b>	<b>954,921</b>	<b>4,164,363</b>	<b>3,622,647</b>	<b>9,468,167</b>
Excess(Deficiency) of Revenues Over(Under) Expenditures	(115,821)	(110,120)	(412,300)	(923,109)	(355,971)	(507,493)	(2,424,814)
<b>Other Financing Sources (Uses):</b>							
Loan Proceeds-City			2,000	908,000			910,000
Loans Receivable Forgiven	(36,000)						(36,000)
Operating Transfers In	273,731	129,795			240,058		643,584
Operating Transfers Out	(240,058)				(273,731)	(129,795)	(643,584)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,327)</b>	<b>129,795</b>	<b>2,000</b>	<b>908,000</b>	<b>(33,673)</b>	<b>(129,795)</b>	<b>874,000</b>
<b>Net Change in Fund Balances</b>	<b>(118,148)</b>	<b>19,675</b>	<b>(410,300)</b>	<b>(15,109)</b>	<b>(389,644)</b>	<b>(637,288)</b>	<b>(1,550,814)</b>
Fund Balances at Beginning of Year	6,597,015	5,445,359	1,577,183	917,061	3,153,862	962,501	18,652,981
Fund Balances at End of Year	\$ 6,478,867	\$ 5,465,034	\$ 1,166,883	\$ 901,952	\$ 2,764,218	\$ 325,213	\$ 17,102,167

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, 2010

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,550,814)

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	(7,078)
(Increase)/decrease in compensated absences liability	(17,328)
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. (41,406)

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. 2,107

Accrued Interest Payable @ 6/30/09	\$292,462
Accrued Interest Payable @ 6/30/10	\$290,355
Net (increase)/decrease	\$ 2,107

Interest receivable that is long-term in nature is not considered current financial resources and, therefore, not reported as revenue in Governmental Funds. 180,705

Taxes Receivable not collectible within sixty days. 7,200

Taxes Receivable @ 6/30/09	\$(195,450)
Taxes Receivable @ 6/30/10	\$ 202,650
Net increase/(decrease)	\$ 7,200

Suspension of Housing Set-Aside does not require the use of current resources. 940,000

Retirement of Capital Assets are not recorded in Governmental Funds. (23,120)

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	1,761,672
This amount represents long-term debt incurred for loan from City of Salinas	(910,000)
	771,672

**Change in Net Assets of Governmental Activities** \$ 307,115

The accompanying notes are an integral part of this statement.



SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**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, 2010

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, 2010

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. 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.

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

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

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, which approximates fair value. 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.

**F. *Receivables***

In the government-wide financial statements, receivables consist of all revenues earned at year-end and not yet received.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as investment interest, loan interest, and loans receivable. Loan interest that is not available in the current period is deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

**G. *Loans Receivable***

For the purpose of the fund financial statements, long-term loans receivable arising from affordable housing loans have been offset with a reserve for loans and notes receivable in fund equity.

**H. *Deferred Revenues***

Deferred revenue is recorded for assets recognized in connection with a transaction before the earning process is complete. Those assets are offset by a corresponding liability for deferred revenue. Included in deferred revenue is the long-term interest receivable that is not considered available resources and the suspension of housing funds set-aside that is also not considered available resources in the governmental funds.

**I. *Restricted Cash and Investments***

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.

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

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

**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 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. Long-Term Liabilities**

**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.

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

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

**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.

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

**N. 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.

**O. 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.

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

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

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

	<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.

**P. *Investment 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

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

**Q. *Expenditures/Expenses***

In the government-wide financial statements, expenses are classified by function. In the governmental fund financial statements, expenditures are classified as follows:

- Governmental Funds – By Character
  - Current (further classification by function)
  - Capital Outlay
  - Debt Service

**R. *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.

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

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

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.

**S. 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.

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. Investment earnings 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, 2010 included a portion of the pool funds invested in Structured Notes and Asset-Backed securities.

As of June 30, 2010 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	\$ 3,832,090	\$ -	\$ 3,832,090	\$ -	\$ -
Wells Fargo Treasury Plus					
Money Market Fund	589,363	589,363			
Westdeutsche Landesbank					
Investment Agreement	975,467				975,467
	<u>\$ 5,396,920</u>	<u>\$ 589,363</u>	<u>\$ 3,832,090</u>	<u>\$ -</u>	<u>\$ 975,467</u>



SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

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, 2010 had an average life of 203 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, 2010 for the money market funds (Wells Fargo Treasury Plus) was rated AAAM by Standard & Poor's Rating Group and Aaa by Moody's Investors Service, respectively. Westdeutsche Landesbank was rated BBB+ and A3 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, 2010.

Concentration of Credit Risk

The Local Agency Investment Fund, representing 76.0% of the portfolio is not considered a concentrated risk. The Westdeutsche Landesbank Investment Agreement represents 18.0% 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).

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

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

The fair value of the pledged securities in the collateral pool must equal at least 110% of the total 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 Cash and Investments:**

Cash and investments of \$1,564,830 are recorded as restricted assets at June 30, 2010.

Cash and investments held by fiscal agent and reported in the Debt Service Fund of \$1,564,830 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	\$ 273,731	\$ 240,058
Sunset Avenue Merged Housing Fund	<u>129,795</u>	<u>-</u>
	<u>403,526</u>	<u>240,058</u>
Debt Service Funds:		
Central City Debt Service Fund	240,058	273,731
Sunset Avenue Merged Debt Svc Fund	<u>-</u>	<u>129,795</u>
	<u>240,058</u>	<u>403,526</u>
	<u>\$ 643,584</u>	<u>\$ 643,584</u>

Advances to/from other funds

The Central City Debt Service Fund has a liability to the Central City Housing Fund of \$450,000 at June 30, 2010. The Sunset Avenue Merged Debt Service Fund has a similar liability of \$490,000 to the Sunset Avenue Merged Housing Fund. A portion of the mandatory set-aside (20% of tax increment revenue) to the Low and Moderate Income Housing Funds was deferred in 2009-10.

In order to fund the Agency's contribution of \$2,230,576 to the Supplemental Educational Revenue Augmentation Funds (SERAF) the Agency suspended part of its Low and Moderate Income Housing Fund deposit as allowed pursuant to Health & Safety Code Section 33334.2 (k). The total advance of \$940,000 must be fully repaid by June 30, 2015. The debt service requirement to maturity for the housing set-aside payable at June 30, 2010 is \$940,000.

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**5. Interest Receivable:**

At June 30, 2010, interest receivable consisted of the following:

Investment Interest Receivable	\$ 5,747
Loan Interest Receivable	<u>72,213</u>
Total Interest Receivable	\$577,960

**6. Loans Receivable:**

At June 30, 2010, the government-wide and fund financial statements show the Agency had \$9,741,780 in long-term housing and unreinforced masonry loans receivable. Transactions for the year are summarized as follows:

<u>Loan Type</u>	<u>Rate</u>	<u>Balance June 30, 2009</u>	<u>New Loans</u>	<u>Principal Payments</u>	<u>Balance June 30, 2010</u>
<u>Central City Project Fund</u>					
Unreinforced Masonry	0.00%	\$ 295,516	\$ -	\$ (75,505)	\$ 220,011
<u>Central City Debt Service Fund</u>					
Steinbeck Center Debt	1.00%	-	303,727	-	303,727
<u>Central City Housing Fund</u>					
First Time Homebuyers	various	1,210,500	-	(51,000)	1,159,500
Housing Assistance	various	167,980	17,019	(10,701)	174,298
Gateway Apartments	3.00%	1,590,000	-	-	1,590,000
Tynan Village	3.00%	1,275,000	-	-	1,275,000
Tresor Apartments	3.00%	-	360,000	-	360,000
La Gloria Apartments	3.00%	-	396,541	-	396,541
		<u>4,243,480</u>	<u>773,560</u>	<u>(61,701)</u>	<u>4,955,339</u>
<u>Sunset Avenue Housing Fund</u>					
Los Padres Apartments	3.00%	1,500,000	-	-	1,500,000
First Time Homebuyers	3.00%	95,000	-	-	95,000
Sherwood Village	0.00%	300,000	-	-	300,000
Tynan Village	3.00%	725,000	-	-	725,000
La Gloria Apartments	0.00%	-	368,829	-	368,829
Sunflower Gardens	3.00%	403,883	596,117	-	1,000,000
Downpayment Assistance	3.50%	224,500	-	-	224,500
		<u>3,248,383</u>	<u>964,946</u>	<u>-</u>	<u>4,213,329</u>
<u>Sunset Avenue Merged Project Fund</u>					
Small Business Loans	0.00%	62,685	-	(13,311)	49,374
Total Loans		\$ <u>7,850,064</u>	\$ <u>2,042,233</u>	\$ <u>(150,517)</u>	\$ <u>9,741,780</u>

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**6. Loans Receivable: (continued)**

Following are the details on the loans receivable at June 30, 2010:

Central City Housing Fund

\$80,000 - 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.

\$54,000 - 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.

\$29,650 - Housing Construction Loan at 6% amortized over 30 years due and payable upon transfer or sale of property.

\$128,082 - Housing Construction Loan at 5% amortized over 20 years due and payable upon transfer or sale of property.

\$16,566 - Housing Rehab Loan at 2.75%/LAIF rate amortized over 15 years due and payable upon transfer or sale of property.

\$775,500 - 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.

\$250,000 - 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.

\$1,590,000 - 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 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, 2010. 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.

\$1,275,000 - 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.

\$360,000 - Loan to Salinas Pacific Associates Limited Partnership for construction of Tresor Apartments authorized on December 15, 2009 for \$400,000. The loan is secured by a deed of trust and bears 3% simple interest for 60 years. The terms of the loan call for annual repayments equal to 13% of the residual receipts (rents less operating expenses) commencing May 1, after Certificate of Occupancy is issued or May 1, 2012.

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

6. Loans Receivable: (continued)

\$396,541 - Loan to Community Housing Improvement Systems and Planning Association (CHISPA) for construction of La Gloria Apartments authorized on July 28, 2009 for \$434,000 as part of a larger loan for \$830,000. Loan is secured by a deed of trust, bears no interest for 60 years from February 1, 2010 or 55 years from when Certificate of Occupancy is issued, whichever is later. Due in full upon transfer, default, or end of term.

Sunset Avenue Merged Housing Fund

\$1,500,000 - 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.

\$95,000 - 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.

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

\$725,000 - 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.

\$368,829 - Loan to Community Housing Improvement Systems and Planning Association (CHISPA) for construction of La Gloria Apartments authorized on July 28, 2009 for \$396,000 as part of a larger loan for \$830,000. Loan is secured by a deed of trust, bears no interest for 60 years from February 1, 2010 or 55 years from when Certificate of Occupancy is issued, whichever is later. Due in full upon transfer, default, or end of term.

\$1,000,000 - Loan to Interim Inc. for the acquisition and reconstruction of Sunflower Gardens. The loan bears deferred simple interest at 3%, is due in 55 years, and is secured by a deed of trust. \$403,883 was loaned during the fiscal year ended June 30, 2009 and \$596,117 was loaned during fiscal year ended June 30, 2010.

\$224,500 - 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.

Central City Project Fund

\$220,011 - 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.

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

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

Central City Debt Service Fund

\$303,727 - Loan to Steinbeck Center for debt service on Certificates of Participation. On June 15, 2010 the Agency Board authorized a loan up to \$484,716 with simple interest at the LAIF rate not to exceed 1%, due in full on July 1, 2018.

Sunset Avenue Merged Project Fund

\$49,374 - Sixteen interest free Emergency Small Business Loans due in 10 years.

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

The Statement of Net Assets reports \$350,077 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, 2009	Increases	Decreases	June 30, 2010
Tax Allocation Bonds, Series A-1992	\$ 176,274	\$	\$ (12,590)	\$ 163,684
Tax Allocation Bonds, Series A-1996	199,707		(13,314)	186,393
	\$ 375,981	\$ -	\$ (25,904)	\$ 350,077

8. **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:

Central City Project Fund

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	523,272
	941,277

Central City Low and Moderate Income Housing Fund

17 & 19 Soledad Street	370,693
9 & 11 Soledad Street	129,738
	500,431

Sunset Avenue Merged Project Fund

137, 145 & 151 Division Street	850,000
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Sunset Avenue Merged Low and Moderate Income Housing Fund

115 Division Street	335,947
123 Division Street	300,000
923 E. Market Street	521,175
	1,157,122

Total land held for resale \$ 3,448,830

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**9. Capital Assets:**

**A. Government-Wide Financial Statements**

At June 30, 2010, the Agency's capital assets consisted of the following:

	<u>Governmental Activities</u>
Nondepreciable Assets:	
Land	\$2,276,508
Depreciable Assets:	
Buildings	3,475,581
Improvements	<u>133,082</u>
Total Depreciable Assets	3,608,663
Less Accumulated Depreciation	<u>(930,772)</u>
Total Depreciable Assets, Net	<u>2,677,891</u>
Total Capital Assets	<u>\$4,954,399</u>

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

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Land	\$ 2,299,628	\$ -	\$ 23,120	\$ 2,276,508
Buildings	3,475,581	-		3,475,581
Other Improvements	133,082	-		133,082
Total assets	5,908,291	-	23,120	5,885,171
Less Accumulated Depreciation	(889,366)	(41,406)		(930,772)
Total Capital Assets Net	\$ 5,018,925	\$ (41,406)	\$ 23,120	\$ 4,954,399

Governmental activities depreciation expense for capital assets for the year ended June 30, 2010 is as follows:

Public Works	\$ 2,254
Recreation	<u>39,152</u>
Total	<u>\$ 41,406</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.

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**10. Lease Obligations:**

Operating Leases

The Agency leases office facilities at 159 Main Street under a five-year lease. Total cost for the lease was \$48,635 for the year ended June 30, 2010. The future minimum lease payments for this lease are as follows:

Fiscal Year Ending June 30,	Amount
2011	\$ 49,974

**11. Long Term Liabilities:**

The following is a summary of governmental activities General Long Term Debt transactions for the fiscal year ended June 30, 2010:

	Balance			Balance	
	June 30, 2009	Additions	Retirements	June 30, 2010	Due Within One Year
Annual Leave	\$ 108,069	\$ 17,328	\$ -	\$ 125,397	\$ 25,079
Post Retirement Benefits	22,829	7,078	-	29,907	
	130,898	24,406	-	155,304	25,079
Loans and Notes Payable					
City Loan-Sunset Ave Project	-	908,000	(908,000)	-	
City Loan-Central City Project	-	2,000	(2,000)	-	
City Loan-Homeless Shelter	157,500	-	-	157,500	
Breadbox Gym Note Payable	127,117	-	(38,404)	88,713	42,244
Church Purchase Note Payable	186,567	-	(41,472)	145,095	38,929
Total Loans & Notes Payable	471,184	910,000	(989,876)	391,308	81,173
Tax Allocation Bonds Payable					
Series A-1996	5,765,000	-	(610,000)	5,155,000	645,000
Series A-1992	2,638,470	-	(161,796)	2,476,674	151,187
Less Issue Discount	(133,782)	-	8,919	(124,863)	
Total Bonds Payable	8,269,688	-	(762,877)	7,506,811	796,187
	\$ 8,871,770	\$ 934,406	\$ (1,752,753)	\$ 8,053,423	\$ 902,439

Annual Leave Liability

Employees are eligible to receive their entire unused annual leave balance upon termination, or can elect to be paid annually for a maximum of fifteen days of annual leave, depending on years of service. At June 30, 2010, the liability for this accrued leave is \$125,397.



SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

11. Long Term Liabilities: (Continued)

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 \$52.50 per month for each retiree. The Annual Required Contribution per employee for the fiscal year was \$2,022. The Agency's portion of the Annual Required Contribution to fund future costs was \$7,078 for the fiscal year ended June 30, 2010. The Agency's portion of the Unfunded Accrued Liability for these costs was \$52,233 as of June 30, 2010. 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, 2010, the City of Salinas loaned the Salinas Redevelopment Agency's Sunset Avenue Merged Project \$908,000 to complete project improvements. This loan was repaid at June 30, 2010.

Loan from City of Salinas – Central City Project

During fiscal year ended June 30, 2010, the City of Salinas loaned the Salinas Redevelopment Agency's Central City Project \$2,000 to complete project improvements. This loan was repaid at June 30, 2010.

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 (0.651% for 2009-10) 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 <u>June 30,</u>	
Later years	<u>\$157,500</u>

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**11. Long Term Liabilities: (Continued)**

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:

<u>Fiscal Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 42,244	\$ 8,871
2012	<u>46,469</u>	<u>4,646</u>
	<u>\$88,713</u>	<u>\$13,517</u>

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:

<u>Fiscal Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 38,929	\$ 7,724
2012	40,900	4,803
2013	42,971	2,732
2014	<u>22,295</u>	<u>557</u>
	<u>\$145,095</u>	<u>\$15,816</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.

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**11. Long Term Liabilities: (Continued)**

The annual debt service requirements for the bonds at June 30, 2010 are as follows:

Fiscal Year Ending June 30,	Series A – 1996		Series A – 1992	
	Principal	Interest	Principal	Interest
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	90,000	127,325	276,513	939,889
2016-2020	520,000	555,504	1,134,564	4,946,459
2021-2024	<u>1,750,000</u>	<u>294,527</u>	<u>517,876</u>	<u>3,127,148</u>
	<u>\$5,155,000</u>	<u>\$1,814,045</u>	<u>\$2,476,674</u>	<u>\$10,495,996</u>

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.

**12. 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, 2010:

	June 30, 2009	Increase	Decreases	June 30 2010
Tax Allocation Revenue Bonds, 1996	\$ 133,782	\$	\$ (8,919)	\$ 124,863

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**13. 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. Market 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.

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

**14. 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 an 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 Area totaled \$843,246 for fiscal year ending June 30, 2010.

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>
		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

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**14. Commitments: (continued)**

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 \$256,289 for fiscal year ending June 30, 2010.

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, 435-space public parking 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.

The Agency paid \$1,088,700 of fiscal year 2009-10 debt service. Beginning in fiscal year 2007-08, maximum annual debt service payments are \$1,091,950. At June 30, 2010, 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.

Commitment to Steinbeck Center On June 15, 2010, the Agency approved a loan agreement between the Agency and the National Steinbeck Center. The Agency agreed to make five lease payments on behalf of the Steinbeck Center. The lease payments are used to make debt service payments for the City/Agency Certificates of Participation Series A of 2002. The deferred lease payments due March 1, 2009 through March 1, 2010 total \$484,716. The Agency and Steinbeck Center entered into a note for \$484,716, with interest based on the Local Agency Investment Fund, which is variable, not to exceed (1%) per annum. The note and appropriate interest is due in full on July 1, 2018, unless prepaid prior to that date.

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**15. Subsequent Events:**

The Agency is required by the State to pay an additional \$459,236 to Supplemental Education Revenue Augmentation Fund (SERAF) on May 10, 2011.

On August 24, 2010 the Agency approved a \$700,000 increase for the loan to Salinas Gateway Limited Partnership for construction of Gateway Apartments in FY 2011-12. These funds will come from the affordable housing set-aside funds received in FY 2011-12.

On August 24, 2010 the Agency approved a \$535,000 construction loan to the Housing Authority of the County of Monterey for the construction of Laguna Haciendas Apartments. These funds will be provided by reducing the Chinatown Housing Budget.

**16. Related Party Disclosures:**

City of Salinas Payroll Expenses The Agency reimburses the City of Salinas for all payroll expenses. The Agency paid City of Salinas' payroll costs of \$980,698 for the year ended June 30, 2010.

City of Salinas Administrative Services In addition, the City provided administrative services to the Agency for \$129,935 for the year ended June 30, 2010.

City of Salinas Neighborhood Stabilization Program On February 22, 2010 the Agency entered into a Funding and Administration Agreement with the City of Salinas for the administration of the Neighborhood Stabilization Program (NSP). Under the agreement the City will provide NSP funds for the Agency's purchase of foreclosed homes within the City of Salinas. The Agency will purchase abandoned and foreclosed properties, and then cause such properties to be rehabilitated and sold to income-eligible persons.

The City retains sole responsibility for the administration of the NSP Program. The City is contracting with the Agency for the administration of properties' acquisition, rehabilitation and resale because of the Agency's experience with low and moderate income housing. While title to the purchased properties is recorded in the name of the Agency, the Agency cannot benefit from the proceeds of the sales. The proceeds of the sales is considered program income under the grant and can be used only as required under the grant.

The value of the properties held for resale at June 30, 2010 is \$1,600,651. This amount is recorded in the City's financial statements in the Neighborhood Stabilization Program Fund. It is not recorded on the Agency's financial statements because the grant belongs to the City and the Agency cannot use these assets for its own use.

In October 2009 the City received from the State Department of Housing and Community Development ("HCD") an allocation of NSP funds to be made available through the Housing and Economic Recovery Act, 2008 ("HERA") in the amount of \$2,621,166 of which \$2,129,498 is to be used for the acquisition, rehabilitation and disposition of abandoned and foreclosed properties.

**17. Classification of Net Assets:**

Governmental-Wide Financial Statements

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

SALINAS REDEVELOPMENT AGENCY  
Notes to Financial Statements  
June 30, 2010

**17. Classification of Net Assets: (continued)**

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, 2010, the Agency's Statement of Net Assets reported restricted net assets of \$15,808,195, 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 Land Held for Resale represents the carrying value of downtown properties acquired and represents resources unavailable for appropriations.

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.

**18. Deficit Net Assets and Fund Equity:**

Government-Wide Financial Statements

The deficit of \$3,084,213 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, 2010.

Required Supplementary Information



SALINAS REDEVELOPMENT AGENCY  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Central City Housing Fund  
 Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Budgetary Fund Balance, July 1, 2009	\$ 6,597,015	\$ 6,597,015	\$ 6,597,015	\$ -
Resources (inflows):				
Investment Earnings	50,000	25,000	23,196	(1,804)
Housing Loans	20,000	40,000	15,603	(24,397)
Transfers In	689,000	676,000	273,731	(402,269)
Amounts available for appropriation	<u>7,356,015</u>	<u>7,338,015</u>	<u>6,909,545</u>	<u>(428,470)</u>
Charges to Appropriations (outflows):				
Administration	170,000	170,000	152,898	17,102
Housing-Tresor Apartments	400,000	400,000		400,000
Housing-La Gloria Apartments	170,000	434,000		434,000
Housing-Salinas Gateway	158,224	158,224		158,224
Loans Receivable Forgiven			36,000	(36,000)
Transfers Out:				
Debt Service Fund	240,100	240,100	240,058	42
Soledad Street Housing	1,030,795	800,795		800,795
Chinatown Planning	1,300	1,300	1,300	-
Farm Worker Housing	7,692	7,692	422	7,270
Total Charges to Appropriations	<u>2,178,111</u>	<u>2,212,111</u>	<u>430,678</u>	<u>1,781,433</u>
Budgetary Fund Balance, June 30, 2010	<u>\$ 5,177,904</u>	<u>\$ 5,125,904</u>	<u>\$ 6,478,867</u>	<u>\$ 1,352,963</u>

SALINAS REDEVELOPMENT AGENCY  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Sunset Avenue Merged Housing Fund  
 Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Budgetary Fund Balance, July 1, 2009	\$ 5,445,359	\$ 5,445,359	\$ 5,445,359	\$ -
Resources (inflows):				
Investment Earnings	25,000	10,000	7,543	(2,457)
Housing Loans	1,000	1,000	-	(1,000)
Rental Income	28,000	28,000	24,500	(3,500)
Transfers In	590,000	590,000	129,795	(460,205)
Amounts available for appropriation	<u>6,089,359</u>	<u>6,074,359</u>	<u>5,607,197</u>	<u>(467,162)</u>
Charges to Appropriations (outflows):				
Administration	141,000	141,000	141,012	(12)
Housing-Vista la Terraza	95,000	95,000	390	94,610
Housing-Sunflower Gardens	860,117	596,117		596,117
Housing-La Gloria Apartments	396,000	396,000		396,000
Transfers Out:				
Division Street Acquisition	2,748	2,748	761	1,987
Farm Worker Housing	5,000	5,000		5,000
Total Charges to Appropriations	<u>1,499,865</u>	<u>1,235,865</u>	<u>142,163</u>	<u>1,093,702</u>
Budgetary Fund Balance, June 30, 2010	<u>\$ 4,589,494</u>	<u>\$ 4,838,494</u>	<u>\$ 5,465,034</u>	<u>\$ 626,540</u>

SALINAS REDEVELOPMENT AGENCY  
Notes to Required Supplementary Information  
June 30, 2010

**Budgetary Highlights**

The Central City Housing Fund original appropriations (outflows) were increased \$34,000 in total as appropriations were reallocated to accommodate additional funding for the La Gloria Apartments. The estimated resources (inflows) were decreased \$18,000 in total primarily due to a decrease in investment earnings as a result of the recession.

The Sunset Avenue Merged Housing Fund original appropriations (outflows) were decreased \$264,000 as several projects had to be scaled back due to the suspension of \$490,000 in deposits to the Housing Fund in order to make the required contribution to the Supplemental Educational Revenue Augmentation Fund. The estimated resources (inflows) were decreased by \$15,000 due to a decrease in investment earnings.

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, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Budgetary Fund Balance, July 1, 2009	\$ 1,577,183	\$ 1,577,183	\$ 1,577,183	\$ -
Resources (inflows):				
Investment Earnings	50,000	20,000	17,153	(2,847)
Miscellaneous	1,000	1,000		(1,000)
Loan Payments	10,000	40,000		(40,000)
Loan Proceeds	<u>625,900</u>	<u>625,900</u>	<u>2,000</u>	<u>(623,900)</u>
Amounts available for appropriation	<u>2,264,083</u>	<u>2,264,083</u>	<u>1,596,336</u>	<u>(667,747)</u>
Charges to Appropriations (outflows):				
Administration	383,400	383,400	324,924	58,476
Contribution to Other Agency	15,000	15,000	15,000	-
Capital Outlay	2,500	2,500	89,529	(87,029)
Transfers Out:				
Downtown Parking Plan	20,000			-
Contamination Mitigation	16,500	16,500		16,500
Facade Improvements	48,178	16,178		16,178
Purchase 10 Soledad Street	19,942	0		-
Chinatown Cameras	60,000	0		-
Central City Project Expansion	200,000	135,000		135,000
Freight Terminal Rehab	40,000			-
Downtown Redevelopment	150,000			-
Salinas Train Station Improvements	<u>4,049</u>			-
Total Charges to Appropriations	<u>959,569</u>	<u>568,578</u>	<u>429,453</u>	<u>139,125</u>
Budgetary Fund Balance, June 30, 2010	<u>\$ 1,304,514</u>	<u>\$ 1,695,505</u>	<u>\$ 1,166,883</u>	<u>\$ (528,622)</u>

SALINAS REDEVELOPMENT AGENCY

Budgetary Comparison Schedule  
 Sunset Avenue Merged Project Fund  
 Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Budgetary Fund Balance, July 1, 2009	\$ 917,061	\$ 917,061	\$ 917,061	\$ -
Resources (inflows):				
Investment Earnings				
Miscellaneous Receipts	500	500		(500)
Rental Income	24,000	16,000	31,812	15,812
Loan Repayments	12,000			
City Loan Proceeds	1,533,800	1,533,800	908,000	(625,800)
Amounts available for appropriation	<u>2,487,361</u>	<u>2,467,361</u>	<u>1,856,873</u>	<u>(610,488)</u>
Charges to Appropriations (outflows):				
Administration	489,000	483,800	405,545	78,255
Public Safety	314,700	314,700	301,469	13,231
Public Works	71,200	71,200	70,702	498
Contribution to Other Agency	50,000	50,000	50,000	-
Debt Service:				
Principal Retirement	34,912	34,912	79,876	(44,964)
Interest and Fiscal Charges	16,288	16,288	22,055	(5,767)
Transfers Out:				
SRA Clean Sweep	22,000			-
E. Alisal Parking Improvements	440,000	5,035	5,035	-
Streetscape Improvements		36,168	20,239	15,929
Church of the Nazarene	45,700	50,900		50,900
Façade Improvements	50,000			-
Total Charges to Appropriations	<u>1,533,800</u>	<u>1,063,003</u>	<u>954,921</u>	<u>108,082</u>
Budgetary Fund Balance, June 30, 2010	<u>\$ 953,561</u>	<u>\$ 1,404,358</u>	<u>\$ 901,952</u>	<u>\$ (502,406)</u>

SALINAS REDEVELOPMENT AGENCY

Budgetary Comparison Schedule  
 Central City Debt Service Fund  
 Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Budgetary Fund Balance, July 1, 2009	\$ 3,153,862	\$ 3,153,862	\$ 3,153,862	\$ -
Resources (inflows):				
Tax Increment	3,000,000	3,300,000	3,618,656	318,656
Investment Earnings	75,000	65,000	66,009	1,009
Steinbeck Center Reimbursement			123,727	123,727
Transfers In	240,000	240,000	240,058	58
Amounts available for appropriation	6,468,862	6,758,862	7,202,312	443,450
Charges to Appropriations (outflows):				
Pass Through Taxes			256,289	(256,289)
Contribution to SERAF		891,000	891,000	-
Suspension of Housing Set-Aside			450,000	(450,000)
Debt Service:				
Principal Retirement	771,800	771,800	771,796	4
Interest and Fiscal Charges	661,500	661,500	704,578	(43,078)
Transfers Out:				
To Housing Fund	676,000	676,000	273,731	402,269
Parking Structure Debt Service	1,088,700	1,088,700	1,088,700	-
Steinbeck Center Debt Service	180,000	180,000		180,000
City Loan Repayment	625,900	625,900	2,000	623,900
Total Charges to Appropriations	4,003,900	4,894,900	4,438,094	456,806
Budgetary Fund Balance, June 30, 2010	\$ 2,464,962	\$ 1,863,962	\$ 2,764,218	\$ 900,256

SALINAS REDEVELOPMENT AGENCY

Budgetary Comparison Schedule  
 Sunset Avenue Merged Debt Service Fund  
 Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Budgetary Fund Balance, July 1, 2009	\$ 962,501	\$ 962,501	\$ 962,501	\$ -
Resources (inflows):				
Tax Increment	2,400,000	2,400,000	3,098,973	698,973
Investment Earnings	50,000	15,000	16,181	1,181
Amounts available for appropriation	<u>3,412,501</u>	<u>3,377,501</u>	<u>4,077,655</u>	<u>700,154</u>
Charges to Appropriations (outflows):				
Pass Through Taxes	238,100	238,100	843,246	(605,146)
Interest and Fiscal Charges			41,825	(41,825)
Contribution to SERAF	1,339,600	1,339,600	1,339,576	24
Suspension of Housing Set-Aside			490,000	(490,000)
Transfers Out:				
To Housing Fund	590,000	590,000	129,795	460,205
City Loan Repayment	1,533,800	1,533,800	908,000	625,800
Total Charges to Appropriations	<u>3,701,500</u>	<u>3,701,500</u>	<u>3,752,442</u>	<u>(50,942)</u>
Budgetary Fund Balance, June 30, 2010	<u>\$ (288,999)</u>	<u>\$ (323,999)</u>	<u>\$ 325,213</u>	<u>\$ 649,212</u>



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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, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 7, 2010. 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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*.

We noted certain matters that we reported to management of the Agency, in a separate letter dated December 7, 2010.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGilloway, Ray, Brown & Kaufman*

December 7, 2010