SALINAS REDEVELOPMENT AGENCY

Salinas, California

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2011

SALINAS REDEVELOPMENT AGENCY

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2011

PREPARED BY

THE FINANCE DEPARTMENT

Matt N. Pressey, CPA
Finance Director

Miguel Gutierrez, Accounting Officer
Elizabeth Mariano, Supervising Accountant

AUDITORS

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

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City of Salinas

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December 13, 2011

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, 2011. 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 eighth 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, 2011, 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, 2011, 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, 2011, the adjustment for changes in fair value of investments was an unrealized gain of $4,513 while interest earnings from investments was $73,300.

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.

On May 10, 2011, the Agency paid an additional $459,236 to SERAF as required by State legislation. This payment was made without deferring any deposits into the Low and Moderate Income Housing Funds, however, it did impact funding for current redevelopment projects.

By May 15, 2012 the Agency is required to pay an additional $1,853,758 to the Auditor-Controller as part of the new Voluntary Alternative Redevelopment Program.

All of the above actions have required the Agency to drastically scale back its redevelopment plans. 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.

Please refer to Note 18, Recent Changes in Legislation Affection California Redevelopment Agencies (on page 40), for a discussion of the State of California's attempt to dissolve redevelopment agencies and the City's response to those action.

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 $1,088,500 in 2010-11 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 2011-12 budget includes funds to make these debt service payments.

Commitments & Contingencies

See Note 13, Commitments and Contingencies, for a discussion of Agency commitments relating to pass through tax obligations to other taxing agencies, audit of pass-through tax payments to Monterey County Office of Education, the Monterey Street parking structure financings and litigation involving Salinas Renaissance Partners.

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, Assistant 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,

Matt N. Pressey, CPA
Finance Director

SALINAS
REDEVELOPMENT AGENCY

List of Principal Officials

Dennis Donohue
Chairperson

Sergio Sanchez
Board member

Gloria De La Rosa
Board member

Steve McShane
Board member

Tony Barrera
Board member

Kimbley Craig
Board member

Jyl Lutes
Board member

Jim Pia
Executive Director

Patricia M. Barajas
Secretary

Vanessa Vallarta
Agency Counsel

Matt N. Pressey, CPA
Treasurer

Jeff Weir
Community and Economic Development Director

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INDEPENDENT AUDITOR'S REPORT

The Governing Board of
Salinas Redevelopment Agency
Salinas, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Salinas Redevelopment Agency, (the Agency), a component unit of the City of Salinas, California as of and for the year ended June 30, 2011, 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, 2011, 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 6, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 3 through 8 and 44 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. The introductory section, and supplementary information – budgetary comparison schedules – capital projects funds and budgetary comparison schedules – debt service funds are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures to the 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

McGilloway, Ray, Brown & Kaufman

Salinas, California
December 6, 2011

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, 2011. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

Financial Highlights

- The Agency's net assets decreased $7,300,027 (46.3%) to $8,477,701.
- The Agency's combined fund balances decreased $3,460,296 (20.2%) over the previous year to an ending balance of $13,641,871. The vast majority of the fund balances are restricted and, therefore, unavailable.
- The Agency's tax increment revenue decreased 12.8% over the prior fiscal year.
- The Agency's governmental activities expenditures decreased by $1,139,243 (16.5%) primarily due to a reduction of $1,771,340 in the required contribution to the Supplemental Educational Revenue Augmentation Fund (SERAF).
- The Agency funded $285,618 in additional housing and business loans. It received $29,530 in principal repayments and forgave $36,000 in housing loans receivable pursuant to loan agreements.
- The Agency paid $459,236 to the Supplemental Educational Revenue Augmentation Funds (SERAF). This is 7.8% of the fiscal year's tax increment revenue.
- The Agency transferred $8,005,079 in cash, land held for resale and capital assets to the City.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

The Statement of Activities presents information showing how the Agency's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows.

Fund Financial Statements

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

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

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

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

Notes to Basic Financial Statements

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

Required Supplementary Information

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

Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Statement of Net Assets

Net assets are a good indicator of the Agency's financial position. At the end of this fiscal year, net assets of the Agency were $8,477,701 which is a decrease of $7,300,027 from the prior year.

The following is the condensed Statement of Net Assets for the fiscal year ended June 30, 2011.

Salinas Redevelopment Agency
Condensed Statement of Net Assets

	Fiscal Year Ended June 30,		Change	
	2011	2010	Amount	Percent
Assets:				
Current Assets	$ 3,952,464	$ 6,179,530	$ (2,227,066)	-36.0%
Other Assets	11,943,594	13,540,687	(1,597,093)	-11.8%
Capital Assets, Net	160,866	4,954,399	(4,793,533)	-96.8%
Total Assets	16,056,924	24,674,616	(8,617,692)	-34.9%
Liabilities:				
Current Liabilities	1,299,058	1,639,652	(340,594)	-20.8%
Long-term Liabilities	6,280,165	7,257,236	(977,071)	-13.5%
Total Liabilities	7,579,223	8,896,888	(1,317,665)	-14.8%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	(1,500,059)	3,053,746	(4,553,805)	-149.1%
Restricted	15,074,304	15,808,195	(733,891)	-4.6%
Unrestricted	(5,096,544)	(3,084,213)	(2,012,331)	65.2%
Total Net Assets	$ 8,477,701	$ 15,777,728	$ (7,300,027)	-46.3%

The Agency's assets decreased $8.6 million primarily due to the transfer of $8.0 million in assets to the City. The Agency transferred $1.4 million in Housing grant funds, $1.8 million in Land Held for Resale, and $4.8 million in Capital Assets. These transfers were part of an effort to shield the Agency from the State's attempt to takeaway assets and dissolve redevelopment agencies. Liabilities decreased $1.3 million due to scheduled payments on long-term debt and decreased redevelopment activity at the end of the fiscal year.

The deficit of $1.5 million in Invested in Capital Assets, Net of Related Debt is the result of transferring $4.8 million in Capital Assets to the City, but retaining all the related debt. The deficit Unrestricted Net Assets is likewise the result of transferring $3.2 million in Land Held for Resale and Housing grants to the City.

The Agency has $15.1 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.

Statement of Activities

The following is the condensed Statement of Activities for the fiscal year ended June 30, 2011.

Salinas Redevelopment Agency
Condensed Statement of Activities

	Fiscal Year Ended June 30,		Change	
	2011	2010	Amount	Percent
Revenues				
Program Revenues:				
Charges for Services	$ 46,181	$ 71,915	$ (25,734)	-35.8%
General Revenues:				
Tax Increments	5,864,060	6,724,829	(860,769)	-12.8%
Investment Earnings	275,380	310,787	(35,407)	-11.4%
Miscellaneous	268,331	123,727	144,604	116.9%
Total Revenues	6,453,952	7,231,258	(777,306)	-10.7%
Expenses				
Administration	1,321,820	1,074,689	247,131	23.0%
Housing	36,000	-	36,000	
Public Works	772,783	213,752	559,031	261.5%
Public Safety	333,148	301,469	31,679	10.5%
Recreation	-	39,152	(39,152)	-100.0%
Contribution to Other Agencies	65,000	65,000	-	0.0%
Pass-through Taxes	947,862	1,099,535	(151,673)	-13.8%
Contribution to SERAF	459,236	2,230,576	(1,771,340)	-79.4%
Parking Structure Debt	1,088,500	1,088,700	(200)	0.0%
Interest on long-term debt	724,551	775,270	(50,719)	-6.5%
Total Expenditures	5,748,900	6,888,143	(1,139,243)	-16.5%
Transfers to City & Loan Forgiveness	(8,005,079)	(36,000)	(7,969,079)	22136.3%
Change in Net Assets	(7,300,027)	307,115	(7,607,142)	-2477.0%
Net Assets - Beginning	15,777,728	15,470,613	307,115	2.0%
Net Assets - Ending	$ 8,477,701	$ 15,777,728	$ (7,300,027)	-46.3%

Tax increment revenues (90.8% of the Agency's revenues) decreased $860,769 (12.8%) from a year ago due to reduced property values. Investment earnings decreased $35,407 (11.4%) from last year due to continued declining interest rates and investment yields.

The 16.5% decrease in expenses was due primarily to a reduction in the Agency's required contribution to the Supplemental Educational Revenue Augmentation Fund (SERAF) in accordance with a new State legislative requirement.

The Agency transferred $8,005,079 in assets to the City. This was the primary cause of the $7,300,027 reduction in Net Assets.

FUND FINANCIAL STATEMENT ANALYSIS

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency's governmental funds combined fund balances of $13.6 million are mostly not spendable, restricted, or assigned as follows:

• Nonspendable long-term loans and notes receivable	$9,961,868
• Nonspendable land held for resale	1,657,553
• Restricted for debt service	1,993,828
• Restricted for low and moderate income housing	402,311
• Assigned for encumbrances	173,632

The negative unassigned fund balances of $547,321 represents that portion of fund balance that will be funded by future tax increments. The Agency has limited resources available.

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 44 through 46. Supplementary budgetary comparison schedules for all other funds can be found on pages 48 through 51.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011 the Agency had $160,866 invested primarily in land and improvements as summarized below. Additional information on the Agency's capital assets can be found in Note 8 on page 30 of this report. The Agency has minimal capital assets because most Agency financed improvements are infrastructure improvements that are owned by the City. In FY 2010-11 the Agency transferred $5,718,061 in capital assets to the City. Under the Property Conveyance Agreement with the City the capital assets continue to be used for redevelopment purposes. No new capital assets were added during the fiscal year.

Salinas Redevelopment Agency
Condensed Statement of Capital Assets

	Fiscal Year Ended June 30,		Change	
	2011	2010	Amount	Percent
Land	$ 149,270	$ 2,276,508	$ (2,127,238)	-93%
Buildings	-	3,475,581	(3,475,581)	-100%
Improvements other than buildings	17,840	133,082	(115,242)	-87%
Total Capital Assets	167,110	5,885,171	(5,718,061)	-97%
Accumulated Depreciation	(6,244)	(930,772)	924,528	-99%
Total Net Capital Assets	$ 160,866	$ 4,954,399	$ (4,793,533)	-97%

Long-Term Debt

At June 30, 2011 the Agency had $7.2 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 31 of this report.

Salinas Redevelopment Agency
Condensed Statement of Long-term Debt

	Fiscal Year Ended June 30,		Change	
	2011	2010	Amount	Percent
Annual Leave	$ 143,087	$ 125,397	$ 17,690	14.1%
Post Retirement Benefits	41,128	29,907	11,221	37.5%
Loans and Notes	310,135	391,308	(81,173)	-20.7%
Tax Allocation Bonds	6,835,487	7,631,674	(796,187)	-10.4%
	7,329,837	8,178,286	(848,449)	-10.4%
Less Issuance Discount	(115,944)	(124,863)	8,919	-7.1%
Net Long-Term Debt	$ 7,213,893	$ 8,053,423	$ (839,530)	-10.4%

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 increment decreased due to a decrease of 16.2% in Central City property values and 4.8% in Sunset Avenue. The overall tax base change is dependent upon construction, property sales, and assessed property values. According to the County Assessor the Agency can anticipate that property values will begin to increase by 2% per year going forward.

The biggest economic impact on the Agency is the State's attempt to dissolve redevelopment agencies throughout California in an attempt to balance the State budget. The City has opted to continue operating the Salinas Redevelopment Agency by complying with the Voluntary Alternative Redevelopment Program. This means the Agency will have to make a payment of $1,853,758 in FY 2011-12 with an estimated $450,000 annually thereafter if the state legislation is upheld by the State Supreme Court. Please refer to Note 18 - Recent Changes in Legislation Affecting California Redevelopment Agencies on page 40 for a more in-depth discussion of how the state legislation may impact all California Redevelopment Agencies.

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, 2011

		Governmental Activities
Assets		
Cash and Investments	$	1,459,643
Interest Receivable-Investments		3,029
Accounts Receivable		3,436
Taxes Receivable		141,872
Interest Receivable-Long Term Loans		769,780
Loans Receivable		9,961,868
Deferred Charges		324,173
Restricted Cash and Investments		1,574,704
Land Held for Resale		1,657,553
Capital Assets:		
Land and Nondepreciable Assets		149,270
Depreciable Assets-Net		11,596
Total Assets		16,056,924
Liabilities		
Accounts Payable		78,362
Accrued Interest Payable		286,968
Debt Payable-Due Within One Year		933,728
Debt Payable-Due in More than One Year-Net of Discounts		6,280,165
Total Liabilities		7,579,223
Net Assets		
Invested in Capital Assets, Net of Related Debt		(1,500,059)
Restricted for:		
Debt Service		2,204,492
Housing		12,869,812
Unrestricted		(5,096,544)
Total Net Assets	$	8,477,701

The accompanying notes are an integral part of this statement.

SALINAS REDEVELOPMENT AGENCY
Statement of Activities
For Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:					
Administration	$ 1,321,820	$	$	$	$ (1,321,820)
Public Safety	333,148				(333,148)
Housing	36,000	46,181			10,181
Public Works	772,783			268,331	(504,452)
Contribution to Other Agencies	65,000				(65,000)
Pass-thru Taxes	947,862				(947,862)
SERAF	459,236				(459,236)
Parking Structure Debt	1,088,500				(1,088,500)
Interest on Long-Term Debt	724,551				(724,551)
Total Governmental Activities	$ 5,748,900	$ 46,181	$	$ 268,331	(5,434,388)
		General Revenues			
		Tax Increment-Received			5,864,060
		Unrestricted Investment Earnings			275,380
		Total General Revenues			6,139,440
		Transfers			
		Housing Grant Funds Transferred to City			(1,422,053)
		Land Held for Resale Transferred to City			(1,791,277)
		Capital Assets Transferred to City			(4,791,749)
		Total Transfers to City			(8,005,079)
		Change in Net Assets			(7,300,027)
		Net Assets - Beginning of Year			15,777,728
		Net Assets - End of Year			$ 8,477,701

The accompanying notes are an integral part of this statement.

SALINAS REDEVELOPMENT AGENCY

Governmental Funds

Balance Sheet

June 30, 2011

	Special Revenue		Capital Projects		Debt Service		
	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	Total
Assets							
Cash and Investments	$ 156,382	$ 111,245	$ 181,403	$ 43,155	$ 869,124	$ 98,334	$ 1,459,643
Interest Receivable	930	254	1,263			582	3,029
Accounts Receivable				3,436			3,436
Advance to Other Funds	450,000	490,000					940,000
Loans Interest Receivable	260,999	505,247			3,534		769,780
Loans Receivable	4,986,050	4,240,500	213,063	37,539	484,716		9,961,868
Restricted Cash and Investments					1,574,704		1,574,704
Land Held for Resale	500,431	1,157,122					1,657,553
Total Assets	$ 6,354,792	$ 6,504,368	$ 395,729	$ 84,130	$ 2,932,078	$ 98,916	$ 16,370,013
Liabilities and Fund Balances							
Liabilities:							
Accounts Payable	$ 10,234	$ 7,488	$ 18,501	$ 42,139	$	$	$ 78,362
Deferred Revenues	710,999	995,247			3,534		1,709,780
Advance from Other Funds					450,000	490,000	940,000
Total Liabilities	721,233	1,002,735	18,501	42,139	453,534	490,000	2,728,142
Fund Balances:							
Nonspendable:							
Long Term Loans Receivable	4,986,050	4,240,500	213,063	37,539	484,716		9,961,868
Land Held for Resale	500,431	1,157,122					1,657,553
Restricted for:							
Debt Service Reserve					1,574,704		1,574,704
Debt Service					419,124		419,124
Low/Moderate Housing	298,300	104,011					402,311
Assigned for:							
Encumbrances			166,555	7,077			173,632
Unassigned	(151,222)		(2,390)	(2,625)		(391,084)	(547,321)
Total Fund Balances	5,633,559	5,501,633	377,228	41,991	2,478,544	(391,084)	13,641,871
Total Liabilities and Fund Balances	$ 6,354,792	$ 6,504,368	$ 395,729	$ 84,130	$ 2,932,078	$ 98,916	$ 16,370,013

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, 2011

Total Fund Balances - Total Governmental Funds	$ 13,641,871
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	769,780
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	141,872
Deferred charges for bond issuance costs are not current financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet	324,173
Capital assets used in governmental funds are not current financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet	160,866
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	(286,968)
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the Governmental Funds Balance Sheet	(7,213,893)
Net Assets of Governmental Activities	$ 8,477,701

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, 2011

	Special Revenue		Capital Projects		Debt Service		
	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	Totals
Revenues:							
Tax Increment	$	$	$	$	$ 3,026,124	$ 2,898,714	$ 5,924,838
Investment Earnings	4,537	434	4,421		65,828	2,593	77,813
Rental Income				27,726			27,726
Housing Loans	7,969						7,969
Miscellaneous			10,450	36			10,486
State Tank Grant			268,331				268,331
Total Revenues	12,506	434	283,202	27,762	3,091,952	2,901,307	6,317,163
Expenditures:							
Current:							
Administration	150,898	157,666	447,580	510,861			1,267,005
Public Works				57,300			57,300
Contribution to Other Agency			15,000	50,000			65,000
Public Safety				333,148			333,148
Pass Through Taxes					129,151	818,711	947,862
SERAF						459,236	459,236
Capital Outlay:							
Project Improvements				713,699			713,699
Debt Service:							
Principal Retirement				81,173	1,127,187	1,724,000	2,932,360
Interest and Fiscal Charges				15,542	667,563	35,914	719,019
Parking Structure Debt					1,088,500		1,088,500
Total Expenditures	150,898	157,666	462,580	1,761,723	3,012,401	3,037,861	8,583,129
Excess(Deficiency) of Revenues Over(Under) Expenditures	(138,392)	(157,232)	(179,378)	(1,733,961)	79,551	(136,554)	(2,265,966)
Other Financing Sources (Uses):							
Loan Proceeds-City			331,000	1,724,000			2,055,000
Loans Receivable Forgiven	(36,000)						(36,000)
Housing Grant to City	(1,036,141)	(385,912)					(1,422,053)
Property Transfers to City			(941,277)	(850,000)			(1,791,277)
Operating Transfers In	605,225	579,743			240,000		1,424,968
Operating Transfers Out	(240,000)				(605,225)	(579,743)	(1,424,968)
Total Other Financing Sources (Uses)	(706,916)	193,831	(610,277)	874,000	(365,225)	(579,743)	(1,194,330)
Net Change in Fund Balances	(845,308)	36,599	(789,655)	(859,961)	(285,674)	(716,297)	(3,460,296)
Fund Balances at Beginning of Year	6,478,867	5,465,034	1,166,883	901,952	2,764,218	325,213	17,102,167
Fund Balances at End of Year	$ 5,633,559	$ 5,501,633	$ 377,228	$ 41,991	$ 2,478,544	$ (391,084)	$ 13,641,871

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, 2011

Net Change in Fund Balances - Total Governmental Funds	$ (3,460,296)
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	(11,221)
(Increase)/decrease in compensated absences liability	(17,690)
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.	(1,784)
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities but does not require the use of current financial resources. Therefore, this interest expense is not reported as expenditures in Governmental Funds. The following amount represents net (increase)/decrease in accrued interest payable.	3,387

Accrued Interest Payable @ 6/30/10	$290,355
Accrued Interest Payable @ 6/30/11	$286,968
Net (increase)/decrease	$ 3,387

Interest receivable that is long-term in nature is not considered current financial resources and, therefore, not reported as revenue in Governmental Funds.	197,567
Taxes Receivable not collectible within sixty days.	(60,778)

Taxes Receivable @ 6/30/10	$202,650
Taxes Receivable @ 6/30/11	$141,872
Net increase/(decrease)	$ (60,778)

Retirement of Capital Assets are not recorded in Governmental Funds.	(4,791,749)
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	2,932,360
This amount represents long-term debt incurred for loan from City of Salinas	(2,055,000)
Change in Net Assets of Governmental Activities	$ (7,300,027)

The accompanying notes are an integral part of this statement.

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 additional year to July 8, 2025.

The Agency is financed by property tax increment 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 Agency does not have any business-type activities.

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 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.

1. Summary of Significant Accounting Policies: (continued)

B. Measurement Focus and Basis of Accounting and Financial Statement Presentation (continued)

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 eliminations 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:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The purpose of these funds is to account for that portion of tax increment revenue required to be used for low and moderate-income housing.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The purpose of these funds is 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.

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest payment on general long-term obligations. The source of revenue for these funds is the incremental property tax revenues.

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 re-budgeted for the coming year. Project-length financial plans are adopted for all capital projects funds and appropriations are carried forward until project completion.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances at year-end are reported as restricted, committed, or assigned fund balance depending on the resources that have been identified to fund the applicable encumbrance.

E. Interest Earnings

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

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

1. <u>Summary of Significant Accounting Policies</u>: (continued)

F. Cash and Investments

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

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

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

G. 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 loan interest that is not available in the current period is deferred in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with 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. No allowance for uncollectible accounts is recorded as all receivables, tax increments and loans, are considered 100% collectible since they are secured by liens.

H. Loans Receivable

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

I. Restricted Cash and Assets

Assets that are restricted for specified uses by bonded debt requirements, grant provisions or other requirements are classified as restricted because 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.

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 this amount is recorded as a nonspendable portion of fund balance because such assets are not available for current operations.

K. Deferred Revenues

Deferred revenue is recorded for assets recognized in connection to 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.

L. 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 government's 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.

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

M. Long-Term Debt

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

Beginning with fiscal year 2011 the Agency implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted Fund Balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government, through constitutional provisions, or by enabling legislation.

Committed Fund Balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned Fund Balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

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

N. Net Assets and Fund Equity (continued)

Unassigned Fund Balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

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:

	Secured	Unsecured
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. Interfund-fund Balances/Internal Balances

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

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

Q. 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.

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

R. Personnel

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

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.

T. Low and Moderate Housing Obligations

The Central City Debt Service Fund and the Sunset Avenue Merged Debt Service Fund deposit 20% of the allocated tax increment revenues into a Low and Moderate Housing Funds (reflected as Special Revenue Funds) as required by Section 33334.2 of the California Health and Safety Code. This money is to be used to provide for low and moderate housing. Housing expenditures include the administration of the low and moderate program, loan extensions, and purchasing property to develop low and moderate housing projects.

2. *Cash and Investments:*

The Agency's cash and investments are reported on the Statement of Net Assets as follows:

Cash and Investments	$1,459,643
Restricted Cash and Investments	1,574,704
Total cash and investments	$3,034,347

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

The Agency maintains most of its unrestricted investments in the City's cash and investment pool. It is not possible to disclose relevant information about the Agency's separate portion of the cash and investment pool, as there are no specific investments belonging to the Agency itself. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2011, basic financial statements. A copy of that report may be obtained by contacting the City's Finance Department, 200 Lincoln Ave., Salinas, CA 93901.

2. *Cash and Investments: (continued)*

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, 2011 included a portion of the pool funds invested in Structured Notes and Asset-Backed securities.

As of June 30, 2011 the Agency had the following investments and maturities:

			Investment Maturities			
Investment Type	Cost	Fair Value	0-6 mths	6-12 mths	1-5 years	over 5 yrs
State of California						
Local Agency Investment Fund	$ 1,916,497	$ 1,921,010	$ 1,921,010	$ -	$ -	$ -
Wells Fargo Treasury Plus						
Money Market Fund	137,870	137,870	137,870			
Westdeutsche Landesbank						
Investment Agreement	975,467	975,467				975,467
	$ 3,029,834	$ 3,034,347	$ 2,058,880	$ -	$ -	$ 975,467

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. Even though the Local Agency Investment Fund portfolio as of June 30, 2011 had an average life of 237 days, it is presented as an investment with a maturity of 0-6 months because 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.

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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The actual ratings as of June 30, 2011 for the money market funds (Wells Fargo Treasury Plus) was rated AAAm by Standard & Poor's Rating Group and Aaa-mf 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, 2011.

Concentration of Credit Risk

The Local Agency Investment Fund, representing 63.3% of the portfolio is not considered a concentrated risk. The Westdeutsche Landesbank Investment Agreement represents 32.1% of the investment portfolio. This investment agreement exceeds 5% of the Agency's investment portfolio and therefore does represent a concentration of credit risk. It was invested in accordance with the Indenture of Trust.

Custodial Credit Risk

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

3. ***Restricted Assets:***

Cash and investments of $1,574,704 are recorded as restricted assets at June 30, 2011.

Cash and investments held by fiscal agent and reported in the Debt Service Fund of $1,574,704 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 increment 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.

Fund	Operating Transfers In	Operating Transfers Out
Special Revenue Funds:		
Central City Housing Fund	$ 605,225	$ 240,000
Sunset Avenue Merged Housing Fund	579,743	-
	1,184,968	240,000
Debt Service Funds:		
Central City Debt Service Fund	240,000	605,225
Sunset Avenue Merged Debt Svc Fund	-	579,743
	240,000	1,184,968
	$ 1,424,968	$ 1,424,968

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, 2011. 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 in 2009-10 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, 2011 is $940,000.

5. ***Loans Receivable:***

At June 30, 2011, the government-wide and fund financial statements show the Agency had $9,961,868 in long-term housing and unreinforced masonry loans receivable. Transactions for the year are summarized as follows:

Beginning Balance	$9,741,780
La Gloria Apartments	64,630
Tressor Apartments	40,000
Steinbeck Center Loan	180,988
Principal Repayments: Housing & URM	(17,695)
Emergency Small Business Loans	(11,835)
Loans Receivable Forgiven	(36,000)
Ending Balance	$9,961,868

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

Following are the individual loans receivable at June 30, 2011:

Central City Housing Fund

Six First Time Homebuyer Loans at 3% interest for 30 years due and payable upon transfer or sale of property. If owner occupies property for 30 years, the 3% interest is forgiven.	$ 80,000
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.	18,000
Housing Construction Loan at 6% amortized over 30 years due and payable upon transfer or sale of property.	28,556
Housing Construction Loan at 5% amortized over 20 years due and payable upon transfer or sale of property.	118,428
Housing Rehab Loan at 2.75%/LAIF rate amortized over 15 years due and payable upon transfer or sale of property.	16,566
Loan to Community Housing Improvement Systems and Planning Association (CHISPA) to provide down payment assistance loans to farm worker families. Loans bear interest at 3.5% annually, are subordinate to the primary mortgage, and are due upon transfer of title. If owner occupies property for 45 years, the 3.5% interest is forgiven.	775,500
Loan made during May 2003 to the Plaza Grande for a 92-unit very low-income residential project. Loan bears no interest and requires no payments until due in forty years.	250,000
Loan to Salinas Gateway LP for land acquisition and construction of Gateway Apartments. The original loan of $910,000 made in August 2005 was amended in June 2007. The amount authorized was increased to $1,290,000 and an additional $311,447 was loaned during the fiscal year 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.	1,590,000
Loan to Tynan Affordable Housing Limited Partnership for construction of Tynan Village. The loan is secured by a deed of trust and bears interest at 3%. The terms of the loan call for annual repayments equal to a 1/3 pro rata share of 50% of the residual receipts (rents less operating expenses) commencing in December 2018.	1,275,000

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

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.	400,000
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.	434,000
Total Central City Housing Fund Loans Receivable	4,986,050

Sunset Avenue Merged Housing Fund

Loan to KDF Communities, LLC to purchase, rehabilitate and convert the 219-unit Los Padres Apartment complex to affordable housing. Loan is at 3% interest for 55 years and was originated on June 1, 2003. No payments are due for first 10 years. The next 5 years require payments of $10,000, $20,000, $30,000, and $40,000. Years 15 through 30 require annual payment of $50,000. Beginning in 2034 the remaining balance and any accrued interest is fully amortized in annual payments through the end of the loan. The loan is secured by a deed of trust in second lien position.	1,500,000
Five First Time Homebuyer Loans at 3% interest for 30 years due and payable upon transfer or sale of property. If owner occupies property for 30 years the 3% interest is forgiven.	95,000
Loan made during May 2005 to CHISPA for Los Abuelitos Senior Housing Project no interest for 55 years.	300,000
Loan to Tynan Affordable Housing Limited Partnership for construction of Tynan Village. The loan is secured by a deed of trust and bears interest at 3%. The terms of the loan call for annual repayments equal to a 1/3 pro rata share of 50% of the residual receipts (rents less operating expenses) commencing in December 2018.	725,000
Loan to 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.	396,000

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

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.	1,000,000
Loan to Community Housing Improvement Systems and Planning Association (CHISPA) to provide down payment assistance loans to farm worker families. Loans bear interest at 3.5% annually, are subordinate to the primary mortgage, and are due upon transfer of title. If owner occupies property for 45 years, the 3.5% interest is forgiven.	224,500
Total Sunset Avenue Merged Housing Fund Loans Receivable	4,240,500
Central City Project Fund	
26 Unreinforced Masonry Loans for engineering and retrofitting of downtown buildings to meet City code earthquake requirements. Loans are interest free for 25 years due and payable upon transfer or sale of property. 16 loans have no payments due until the end of the 25 year term. 10 loans have monthly payments amortized over 25 years.	213,063
Central City Debt Service Fund	
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.	484,716
Sunset Avenue Merged Project Fund	
Sixteen Emergency Small Business Loans due in 10 years interest free.	37,539
Total Loans Receivable	$9,961,868

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

The Statement of Net Assets reports $324,173 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 the 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, 2010	Increases	Decreases	June 30, 2011
Tax Allocation Bonds, Series A-1992	$ 163,684	$	$ (12,590)	$ 151,094
Tax Allocation Bonds, Series A-1996	186,393		(13,314)	173,079
	$ 350,077	$ -	$ (25,904)	$ 324,173

7. ***Land Held for Resale:***

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

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 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	$ 1,657,553

On March 8, 2011 the Agency authorized the transfer of the following Land Held for Resale to the City. The Property Conveyance Agreement specifies that future sales of these properties will be for redevelopment purposes consistent with the Redevelopment Plan, Implementation Plan, and will comply with Redevelopment Law. These transfers are reflected in the Statement of Revenues, Expenditures and Changes in Fund Balances as Property Transfers to City.

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
Sunset Avenue Merged Project Fund	
137, 145 & 151 Division Street	850,000
Total Land Held for Resale Transferred to City	$ 1,791,277

8. Capital Assets:

A. Government-Wide Financial Statements

At June 30, 2011, the Agency's capital assets consisted of the following:

	Governmental Activities
Nondepreciable Assets:	
Land	$ 149,270
Depreciable Assets:	
Buildings	-
Improvements	17,840
Total Depreciable Assets	17,840
Less Accumulated Depreciation	(6,244)
Total Depreciable Assets, Net	11,596
Total Capital Assets, Net	$ 160,866

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

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Land	$ 2,276,508	$ -	$ 2,127,238	$ 149,270
Buildings	3,475,581	-	3,475,581	-
Other Improvements	133,082		115,242	17,840
Total assets	5,885,171	-	5,718,061	167,110
Less Accumulated Depreciation	(930,772)	(1,784)	(926,312)	(6,244)
Total Capital Assets Net	$ 4,954,399	$ (1,784)	$ 4,791,749	$ 160,866

On March 8, 2011, the Agency transferred $5,718,061 of capital assets to the City as part of a new Cooperation Agreement. The property transfers are shown on the summary of capital assets as retirements. Under the Cooperation Agreement approved on March 8, 2011 the use of the properties will continue to be the same as when the Agency owned the properties. The Agency will continue to be responsible for any debt associated with the purchase of the properties.

Governmental activities depreciation expense for capital assets for the year ended June 30, 2011 is as follows:

Public Works	$ 1,784

B. Fund Financial Statements

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

9. ***Deferred Revenue:***

The government-wide financial statements report no deferred revenues as these are considered fully earned under full accrual accounting.

The fund financial statements report deferred revenues at June 30, 2011 as follows:

	Central City Housing Fund	Sunset Ave Housing Fund	Central City Debt Service	Totals
Interest Receivable-Loans	$ 260,999	$ 505,247	$ 3,534	$ 769,780
Advance to Other Funds	450,000	490,000	-	940,000
	$ 710,999	$ 995,247	$ 3,534	$ 1,709,780

The Interest Receivable is interest on long-term notes receivable that will not be paid until the notes mature. The Advance to Other Funds is due to be paid by June 15, 2015

10. ***Long Term Debt:***

The Agency's debt transactions and balances are summarized below and discussed in detail subsequently for the fiscal year ended June 30, 2011:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Annual Leave	$ 125,397	$ 17,690	$ -	$ 143,087	$ 25,079
Post Retirement Benefits	29,907	11,221	-	41,128	
	155,304	28,911	-	184,215	25,079
Loans and Notes Payable:					
City Loan-Sunset Ave Project	-	1,724,000	(1,724,000)	-	
City Loan-Central City Project	-	331,000	(331,000)	-	
City Loan-Homeless Shelter	157,500	-	-	157,500	
Breadbox Gym Note Payable	88,713	-	(42,244)	46,469	46,469
Church Purchase Note Payable	145,095	-	(38,929)	106,166	40,900
Total Loans & Notes Payable	391,308	2,055,000	(2,136,173)	310,135	87,369
Tax Allocation Bonds Payable:					
Series A-1996	5,155,000	-	(645,000)	4,510,000	680,000
Series A-1992	2,476,674	-	(151,187)	2,325,487	141,280
Less Issue Discount	(124,863)	-	8,919	(115,944)	
Total Bonds Payable	7,506,811	-	(787,268)	6,719,543	821,280
	$ 8,053,423	$ 2,083,911	$ (2,923,441)	$ 7,213,893	$ 933,728

10. Long Term Debt: (continued)

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, 2011, the liability for this accrued leave is $143,087.

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 $59.40 per month for each retiree. The Annual Required Contribution per employee for the fiscal year was $1,603. The Agency's portion of the Annual Required Contribution to fund future costs was $11,221 for the fiscal year ended June 30, 2011. Details of the plan are disclosed in the City's financial statements.

Loan from City of Salinas – Sunset Avenue Merged Project

During fiscal year ended June 30, 2011, the City of Salinas loaned the Salinas Redevelopment Agency's Sunset Avenue Merged Project $1,724,000 to complete project improvements. This loan was repaid at June 30, 2011.

Loan from City of Salinas – Central City Project

During fiscal year ended June 30, 2011, the City of Salinas loaned the Salinas Redevelopment Agency's Central City Project $331,000 to complete project improvements. This loan was repaid at June 30, 2011.

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 (0.495% for 2010-11) per annum, from proceeds of the sale of surplus land in the project area and from tax increment revenue received by the Agency from the increased assessed valuations on properties in the project area.

Homeless Shelter Loan - Green Gold Inn

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

Fiscal Year Ending June 30,	
Later years	$157,500

10. Long Term Debt: (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:

Fiscal Year Ending June 30,	Principal	Interest
2012	$ 46,469	$ 4,646

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 lease to the Boys and Girls Clubs of Monterey County has been terminated. The Agency is soliciting bids for a new tenant. 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 property was transferred to the City in March 2011. The Agency continues to be responsible for the promissory note.

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

Fiscal Year Ending June 30,	Principal	Interest
2012	$ 40,900	$ 4,803
2013	42,971	2,732
2014	22,295	557
	$106,166	$ 8,092

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.

*10. **Long Term Debt: (continued)***

Tax Allocation Bonds (continued)

The annual debt service requirements for the bonds at June 30, 2011 are as follows:

Fiscal Year Ending June 30,	Series A – 1996 Principal	Series A – 1996 Interest	Series A – 1992 Principal	Series A – 1992 Interest
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	1,750,000	294,527	517,876	3,127,148
	$4,510,000	$1,548,257	$2,325,487	$10,139,174

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

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

*11. **Unamortized Bond Discount:***

The Statement of Net Assets includes an unamortized bond discount of $115,944 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 change in the 1996 Tax Allocation Revenue Bonds unamortized discount at June 30, 2011:

	June 30, 2010	Increase	Decreases	June 30 2011
Tax Allocation Revenue Bonds, 1996	$ 124,863	$	$ (8,919)	$ 115,944

*12. **Risk Management:***

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

The City's self-insurance program carries excess insurance for catastrophic losses. Starr Indemnity & Liability Company provides general liability coverage up to a maximum of $15,000,000 after the self-insured retention of $1,000,000 per occurrence is met. Safety National Casualty Corporation 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.

Environmental Land Remediation Obligation

As of June 30, 2009, the Agency implemented GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement addresses the accounting and reporting of current and potential pollution remediation including contamination that an entity is subject to. A review of the Agency's obligations for hazardous materials remediation revealed that there is no current pollution remediation required based on current uses. If in the future when a land remediation obligation occurs to a property due to a change in purpose (i.e. convert to housing or retail project), the Agency will prepare estimates and comply with the provision of GASB Statement No. 49.

*13. **Commitments and Contingencies:***

Sunset Avenue Merged Project Area Commitment to Other Taxing Agencies

The Salinas Redevelopment Agency settled legal action with other taxing agencies over division of incremental tax revenue resulting from amendment of Buena Vista and Sunset Avenue Redevelopment Projects. Under the amended and restated terms of the agreement, Amended Plans adopted by Ordinance No. 2130 on April 9, 1991, payments due are contingent upon the amount of tax increment moneys available and the cumulative amounts expended by the merged redevelopment project. Statutory pass through payments for the Sunset Avenue Merged Project Area totaled $818,711 for fiscal year ending June 30, 2011. Pass through tax payments per agreements from the original project plan and amended project plan are estimated according to the following schedule:

Due in the year ended June 30,	Amount	Due in the year ended June 30,	Amount
2012	$ 865,669	2016	$ 1,650,842
2013	879,402	2017	1,685,650
2014	1,595,785	2018	1,727,801
2015	1,623,106	2019	1,770,794

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

Audit of Pass-Through Payments within Monterey County Office of Education Jurisdiction

On May 4, 2011, the Dolinka Group presented preliminary audit findings to the Monterey County Office of Education (MCOE) regarding their review of the pass-through payments made to Local Education Agencies (LEAs) within MCOE's jurisdiction. Agency staff met with the Dolinka Group on May 11, 2011. Staff resolved and eliminated all of the audit findings except the 2% payment type issue. The Dolinka Group claims the Sunset Ave 1990 Annexed portion of the Sunset Project Area is entitled to 2% payments and they were not able to determine if payments were made. They claim that the assessed valuation growth based on the annual Consumer Price Index percentage (not to exceed 2-percent) should increase from the applicable base year assessed value per Tax and Revenue Code 110.1(f) and that this calculation was not correctly made by Monterey County. The total exposure is approximately $43,500. This exposure has not been recorded in the financial statements. The final report from the Dolinka Group has not been finalized as of the date of this report.

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 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 required 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 all project areas totaled $947,862 for fiscal year ending June 30, 2011.

Commitment to Monterey Street Parking Structure

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

13. __Commitments and Contingencies__: (continued)

Commitment to Monterey Street Parking Structure (continued)

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 $1,088,500 for fiscal year 2010-11 debt service. Beginning in fiscal year 2007-08, maximum annual debt service payments are $1,091,950. Annual debt service payment of approximately $1,090,000 will most likely need to be paid by the Agency through September 1, 2033 when bonds are paid in full.

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.

Salinas Renaissance Partners, LLC v. City of Salinas, Salinas Redevelopment Agency

In January 2009, Salinas Renaissance Partners, LLC (SRP) and the City and Agency entered into a Project Planning and Negotiating Rights Agreement concerning City and Agency owned property in the downtown. The City terminated its agreement with SRP in January 2010 based on its "sole business judgement" that it was not feasible to proceed with the planning or negotiation called for under the agreement. SRP alleges that the City breached its contract with SRP and that it suffered more than $2,000,000 in damages, even though it never produced a workable redevelopment proposal.

The City has answered the complaint; and the parties are in the discovery stage. Trial is scheduled for February 27, 2012. The City has retained Goldfarb & Lipman to assist with the defense of the case. The City intends to vigorously defend the claim.

14. __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 $1,089,345 for the year ended June 30, 2011.

City of Salinas Administrative Services In addition, the City provided administrative services to the Agency for $233,345 for the year ended June 30, 2011.

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 this program 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.

14. Related Party Disclosures: (continued)

City of Salinas Neighborhood Stabilization Program (continued)

The value of the properties held for resale at June 30, 2011 is $1,405,855. 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.

Cooperation Agreements with the City for Redevelopment Projects

On November 8, 1988 the Agency and the City entered into Cooperation Agreements pertaining to the conduct and financing of the various Project Areas. These agreements continue until rescinded by the parties. Under the terms of the agreements the City will act as fiscal agent for the Agency and provide staff and administrative support to carry out the redevelopment plan. The Agency agrees to reimburse the City for direct administrative costs in accordance with an administrative budget approved annually by the Agency. The Agency will also reimburse the City for such things as office space and incidental supporting services of the various City departments for the proper conduct to the redevelopment plan in accordance with the City's cost allocation plan.

Each year, by adopting its annual budget, the Agency will determine the amount of money required for redevelopment purposes and expected to be received from tax increments. The City agrees to loan said amount to the Agency and the Agency agrees to repay such loan.

On March 8, 2011 the Agency and the City entered into a Public Improvements Grant and Cooperation Agreement whereby the Agency will provide grant funds to the City to accomplish certain specified public improvements in accordance with the redevelopment plans.

On March 8, 2011 the Agency and the City entered into an Affordable Housing Cooperation Agreement whereby the Agency will provide grant funds to the City for use by the City to increase, improve, and preserve the supply of affordable housing in the Project Areas or within the territorial jurisdiction of the City, consistent with the Agency's Implementation Plan.

On March 8, 2011 the Agency and the City entered into a Property Conveyance Agreement whereby the Agency transferred title to the City on $1,791,277 in Land Held for Resale and $4,791,749 in Capital Assets. Refer to Notes 7-Land Held for Resale and 8-Capital Assets, for more detail on the specific properties. The use of the properties will continue to be the same as when the Agency owned the properties.

15. Classification of Net Assets:

Governmental-Wide Financial Statements

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

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

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2011, the Agency's Statement of Net Assets reported restricted net assets of $15,074,304, of which $12,869,812 was restricted by enabling legislation.

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

Fund Financial Statements

In the Fund Financial Statements, fund balance is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

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

Nonspendable Fund Balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance represents amounts with constraints placed on the use of resources that are (a) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

Assigned Fund Balance represents amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned Fund Balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes.

16. *Deficit Net Assets and Fund Equity:*

Government-Wide Financial Statements

The deficit of $1,500,059 in Invested in Capital Assets, Net of Related Debt is the result of transferring $4,791,749 in Capital Assets to the City of Salinas, but retaining all the related debt. The debt is secured by future tax increment.

Fund Financial Statements

The Sunset Avenue Merged Debt Service Fund has a deficit fund equity of $391,084. This is the result of the fund being used to make the entire $459,236 Supplemental Educational Revenue Augmentation Fund (SERAF) payment to the Auditor-Controller. While the fund has few assets left, it still owes $490,000 to the Low/Moderate Income Housing Fund for the Advance from the prior year used to make the 2009-10 SERAF payment. Future tax increments will be used to pay back the Advance.

17. *Subsequent Events:*

On September 27, 2011 the City approved a Land Disposition Agreement with Taylor Fresh Foods for the sale and transfer of properties located at 132 and 111 Main Street for the price of $1.5 million. Since the property was originally purchased with redevelopment funds the proceeds from the sale will be deposited into the Central City Project Fund. The aforementioned Land Held for Resale was conveyed to the City in FY 2010-11 as part of a Property Conveyance Agreement and, therefore, is not reflected on the Agency's balance sheet.

On November 15, 2011 the Agency approved a $685,000 construction loan to the Housing Authority of the County of Monterey for the construction of Laguna Haciendas Apartments. These funds will come from the $1,422,053 Housing Grant funds transferred to the City.

18. *Recent Changes in Legislation Affecting California Redevelopment Agencies*

Assembly Bills X1 26 and X1 27

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and X1 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the City "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Salinas intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

18. *Recent Changes in Legislation Affecting California Redevelopment Agencies (continued)*

In the event that Assembly Bill X1 26 is upheld, the City might be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and X1 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and X1 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB X1 26.

Agency Response to AB X1 26 and AB X1 27

On August 23, 2011, City Ordinance No. 2521 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills X1 26 and/or X1 27 are upheld as constitutional. The initial payment by the City is $1,853,758 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated $450,000 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the Agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of AB X1 26.

18. ***Recent Changes in Legislation Affecting California Redevelopment Agencies (continued)***

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The Agency plans to use the one-year waiver of the 20% contribution to low and moderate income housing fund to help fund this obligation. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or X1 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

Required Supplementary Information

SALINAS REDEVELOPMENT AGENCY
Required Supplementary Information
Budgetary Comparison Schedule
Central City Housing Fund
Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Budgetary Fund Balance, July 1, 2010	$ 6,478,867	$ 6,478,867	$ 6,478,867	$
Resources (inflows):				
Investment Earnings	20,000	20,000	4,537	(15,463)
Housing Loans	20,000	20,000	7,969	(12,031)
Transfers In	719,950	719,950	605,225	(114,725)
Amounts available for appropriation	7,238,817	7,238,817	7,096,598	(142,219)
Charges to Appropriations (outflows):				
Administration	194,500	194,500	150,898	43,602
Housing-Tresor Apartments	40,000	40,000		40,000
Housing-La Gloria Apartments	37,459	37,459		37,459
Housing-Salinas Gateway	158,224	158,224		158,224
Housing-Laguna Haciendas	535,000	535,000		535,000
Loans Receivable Forgiven			36,000	(36,000)
Transfers Out:				
Debt Service Fund	240,000	240,000	240,000	
Soledad Street Housing	65,795	65,795		65,795
Vista de la Terraza	200,000	200,000		200,000
Farm Worker Housing	7,270	7,270		7,270
Affordable Housing Grant to City			1,036,141	(1,036,141)
Total Charges to Appropriations	1,478,248	1,478,248	1,463,039	15,209
Budgetary Fund Balance, June 30, 2011	$ 5,760,569	$ 5,760,569	$ 5,633,559	$ (127,010)

SALINAS REDEVELOPMENT AGENCY
Required Supplementary Information
Budgetary Comparison Schedule
Sunset Avenue Merged Housing Fund
Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Budgetary Fund Balance, July 1, 2010	$ 5,465,034	$ 5,465,034	$ 5,465,034	$
Resources (inflows):				
Investment Earnings	25,000	5,000	434	(4,566)
Housing Loans	1,000	1,000		(1,000)
Rental Income	28,000	25,000		(25,000)
Transfers In	590,000	590,000	579,743	(10,257)
Amounts available for appropriation	6,109,034	6,086,034	6,045,211	(40,823)
Charges to Appropriations (outflows):				
Administration	199,900	199,900	157,666	42,234
Housing-Vista la Terraza	394,610	394,610		394,610
Housing-La Gloria Apartments	27,171	27,171		27,171
Transfers Out				
Affordable Housing Grant to City			385,912	(385,912)
Division Street Acquisition	1,987	1,987		1,987
Farm Worker Housing	5,000	5,000		5,000
Total Charges to Appropriations	628,668	628,668	543,578	85,090
Budgetary Fund Balance, June 30, 2011	$ 5,480,366	$ 5,457,366	$ 5,501,633	$ 44,267

Budgetary Highlights

The Central City Housing Fund original appropriations (outflows) and estimated resources (inflows) did not changed throughout the year. The Affordable Housing Grant to City does not show a budget amount due to the fact that the budget amount was not recorded before year-end. The Agency Board approved the Grant to the City without a specific amount because the grant amount would be based on the available funds at the end of the fiscal year, which was not determined until September.

The Sunset Avenue Merged Housing Fund original appropriations (outflows) did not change during the year. The estimated resources (inflows) decreased by $20,000 due to a decrease in investment earnings. The Affordable Housing Grant to City does not show a budget amount due to the fact that the budget amount was not recorded before year-end. The Agency Board approved the Grant to the City without a specific amount because the grant amount would be based on the available funds at the end of the fiscal year, which was not determined until September.

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, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
Budgetary Fund Balance, July 1, 2010	$ 1,166,883	$ 1,166,883	$ 1,166,883	$
Resources (inflows):				
Investment Earnings	15,000	15,000	4,421	(10,579)
Miscellaneous	1,000	1,000	10,450	9,450
State Tank Grant			268,331	268,331
Loan Payments	10,000	10,000		(10,000)
Loan Proceeds	541,800	541,800	331,000	(210,800)
Amounts available for appropriation	1,734,683	1,734,683	1,781,085	46,402
Charges to Appropriations (outflows):				
Administration	385,800	383,400	447,580	(64,180)
Contribution to Other Agency	15,000	15,000	15,000	
Capital Outlay	500	2,500	941,277	(938,777)
Transfers Out:				
Contamination Mitigation	16,500	16,500		16,500
Facade Improvements	466	466		466
Central City Project Expansion	229,000	229,000		229,000
Total Charges to Appropriations	647,266	646,866	1,403,857	(756,991)
Budgetary Fund Balance, June 30, 2011	$ 1,087,417	$ 1,087,817	$ 377,228	$ (710,589)

SALINAS REDEVELOPMENT AGENCY

Budgetary Comparison Schedule
Sunset Avenue Merged Project Fund
Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Budgetary Fund Balance, July 1, 2010	$ 901,952	$ 901,952	$ 901,952	$
Resources (inflows):				
Miscellaneous Receipts	500	500	36	(464)
Rental Income	24,000	24,000	27,726	3,726
Loan Repayments	1,000			
City Loan Proceeds	1,533,800	1,697,000	1,724,000	27,000
Amounts available for appropriation	2,461,252	2,623,452	2,653,714	30,262
Charges to Appropriations (outflows):				
Administration	539,000	507,866	510,861	(2,995)
Public Safety	314,700	321,400	333,148	(11,748)
Public Works	71,200	57,300	57,300	
Contribution to Other Agency		50,000	50,000	
Debt Service:				
Principal Retirement			81,173	(81,173)
Interest and Fiscal Charges			15,542	(15,542)
Transfers Out:				
Property Transfers to City			850,000	(850,000)
Project Area Expansion	150,000	150,000	150,000	
Streetscape Improvements	265,929	265,929	263,699	2,230
Breadbox Gymnasium	51,200	51,200		51,200
Church of the Nazarene	45,700	45,700		45,700
E. Market Overlay	300,000	300,000	300,000	
Total Charges to Appropriations	1,737,729	1,749,395	2,611,723	(862,328)
Budgetary Fund Balance, June 30, 2011	$ 723,523	$ 874,057	$ 41,991	$ (832,066)

SALINAS REDEVELOPMENT AGENCY

Budgetary Comparison Schedule
Central City Debt Service Fund
Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
Budgetary Fund Balance, July 1, 2010	$ 2,764,218	$ 2,764,218	$ 2,764,218	$
Resources (inflows):				
Tax Increment	2,300,000	2,300,000	3,026,124	726,124
Investment Earnings	65,000	65,000	65,828	828
Transfers In	240,000	240,000	240,000	
Amounts available for appropriation	5,369,218	5,369,218	6,096,170	726,952
Charges to Appropriations (outflows):				
Pass Through Taxes			129,151	(129,151)
Debt Service:				
Principal Retirement	796,200	796,200	796,187	13
Interest and Fiscal Charges	637,700	637,700	667,563	(29,863)
Parking Structure Debt Service	1,088,500	1,088,500	1,088,500	
Steinbeck Center Debt Service	180,000	180,000		180,000
City Loan Repayment	541,800	541,800	331,000	210,800
Transfers Out:				
To Housing Fund	719,950	719,950	605,225	114,725
Total Charges to Appropriations	3,964,150	3,964,150	3,617,626	346,524
Budgetary Fund Balance, June 30, 2011	$ 1,405,068	$ 1,405,068	$ 2,478,544	$ 1,073,476

SALINAS REDEVELOPMENT AGENCY

Budgetary Comparison Schedule
Sunset Avenue Merged Debt Service Fund
Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget-Positive (Negative)
Budgetary Fund Balance, July 1, 2010	$ 325,213	$ 325,213	$ 325,213	$
Resources (inflows):				
Tax Increment	2,400,000	2,200,000	2,898,714	698,714
Investment Earnings	10,000	10,000	2,593	(7,407)
Amounts available for appropriation	2,735,213	2,535,213	3,226,520	691,307
Charges to Appropriations (outflows):				
Pass Through Taxes	238,100	251,300	818,711	(567,411)
Interest and Fiscal Charges			35,914	(35,914)
Contribution to SERAF	1,339,600	498,000	459,236	38,764
City Loan Repayment	1,697,000	1,533,800	1,724,000	(190,200)
Transfers Out				
To Housing Fund	590,000	590,000	579,743	10,257
Total Charges to Appropriations	3,864,700	2,873,100	3,617,604	(744,504)
Budgetary Fund Balance, June 30, 2011	$ (1,129,487)	$ (337,887)	$ (391,084)	$ (53,197)

Auditor’s Report on Compliance and Internal Control

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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, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 6, 2011. 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

Management of the Agency is responsible for establishing and maintaining effective 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

<u>Compliance and Other Matters</u>
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 instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings as items: Finding 2011-1 *Financial Disclosure and Reporting* and Finding 2011-2 *Housing Assistance.*

We also noted certain matters that we reported to management of Salinas Redevelopment Agency in a separate letter dated December 6, 2011.

The Salinas Redevelopment Agency's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, governing board, City Council, the State Controller's Office and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

McGilloway, Ray, Brown & Kaufman

Salinas, California
December 6, 2011

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE WITH THE CALIFORNIA HEALTH AND SAFETY CODE

The Governing Board of
Salinas Redevelopment Agency
Salinas, California

Compliance

We have audited the Agency's compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011,* issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requires referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings as items: Finding 2011-1 *Financial Disclosure and Reporting* and Finding 2011-2 *Housing Assistance.*

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Internal Control over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings as item: Finding 2011-3 *Internal Control over Compliance*, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of the Salinas Redevelopment Agency, State of California, in a separate letter to governance dated December 6, 2011.

The Salinas Redevelopment Agency's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Agency's response and, accordingly, we express no opinion on it.

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

McGilloway, Ray, Brown & Kaufman

Salinas, California
December 6, 2011

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Current Year

Finding 2011-1 ***Financial Disclosure and Reporting***

Criteria: In accordance with the California Health & Safety Code section 33080.1, the Agency must present to their legislative body and the State Controller's Office a Fiscal statement for the previous fiscal year that contains the information required pursuant to Section 33080.5 within six months of the Agency's fiscal year end.

Condition: The Agency did not include the Fiscal statement for the Fiscal Year 2009/2010.

Context: After discussion with management, they were unaware the Fiscal statement had to be included as a separate report. Management has now agreed to include the Fiscal statement in the annual report to their legislative body and the State Controller's Office within six months of the Agency's fiscal year end.

Questioned Costs: None

Recommendation: We recommend that the Agency on an annual basis monitor the submission of the annual report to include all required items.

Response: As mentioned, the Agency was not aware of this specific "Fiscal" statement requirement and will prepare this statement going forward. The sample provided is a one page list of 7 items of financial information, which are all included in the Financial Statements that are submitted annually. The State Controller's office recently did an audit of 17 Agencies and none of them had prepared this Fiscal statement, which clearly reflects a poor communication issue. For over 30 years, now, the Agency has always prepared the required annual reporting which includes the Statement of Indebtedness, Annual Financial Statements, and Report of Annual Transactions to the State Controller's Office.

Finding 2011-2 *Housing Assistance*

Criteria: In accordance with the California Health & Safety Code section 33418, the Agency should have procedures and activities in place to monitor affordable housing deeds restricted to very low, low-moderate-income households. *(Appendix C, Housing Assistance, Guidelines for Compliance Audits of California Redevelopment Agencies, California State Controller, 2011).*

Condition: The Agency did not consistently perform procedures and activities to monitor and enforce affordability requirements for Agency-assisted rental units.

Context: During our testing we noted that the Agency could not provide one project file from our sample in order to perform current year compliance testing. Therefore, we could not make a conclusion on compliance for this particular project. We then requested the summary log of all rental occupied housing projects and determined an additional two projects that had not requested the annual income affidavits and, therefore, the Agency was not in compliance with performing procedures and activities to monitor and enforce affordability requirements.

In addition, the annual affidavits showed inconsistency in presentation. There were two instances from our selected projects that did not have the required information related to utility allowance and, therefore, we could not make a conclusion on maximum allowable rent.

The Director recognized the weaknesses and stated that the Agency is addressing the weakness by contracting with City Data Service (CDS), a consulting firm to monitor affordability compliance for the Agency under the City's Community Development Department oversight during FY 11/12. In addition, the monitoring of projects is now held with the Housing Division of the City of Salinas which has staff available to assist with the procedures and activities to monitor and enforce affordability requirements.

Questioned Costs: None

Recommendation: We recommend that the Agency update their current monitoring procedures to ensure all projects are included in the procedures and activities to enforce affordability requirements for the Agency-assisted rental units.

Response: As stated above, the compliance monitoring function for the Agency's assisted rental units has been reassigned to the Housing Division. Housing has taken initial steps to review each project file, re-organize its contents, assess the completeness of required documents, obtain any missing documents, and assist with the execution of a development and service contract with CDS.

Housing is currently in the process of working with CDS to develop the online system to meet the Agency's data management requirements including automated annual compliance notices, income/rent/utility schedules and compliance log, and a loan servicing module that is capable of producing reports required by the City's Finance department or property owner's auditors. Next steps include making contact with each property manager or sub-recipient for each property and providing training for the use of the online reporting system. Housing's goal is to complete this phase by early January 2012, receive compliance reports for the year 2011 by early February 2012, conduct necessary follow-ups, and deem project files complete by March 15, 2012.

Finding 2011-3 ***Internal Control over Compliance***

Criteria: Management of the Agency is responsible for establishing and maintaining effective internal control over compliance requirements.

Condition: The Agency was inconsistent in the application and completion of compliance monitoring and enforcement of affordability requirements for agency-assisted rental properties. The review procedures in place are not sufficient to ensure consistent application and completion of compliance monitoring.

Context: The Director stated that due to staffing changes and reassignments, the monitoring follow-up may have not occurred.

Questioned Costs: None

Recommendation: We recommend the Agency develop a monitoring checklist that will effectively ensure consistent application and completion of compliance monitoring (Health & Safety Code section 33418).

Response: Housing is currently in the process of working with City Data Service to develop the online system to meet the Agency's data management requirements including automated annual compliance notices, income/rent/utility schedules and compliance log, and a loan servicing module that is capable of producing reports required by the City's Finance Department or property owner's auditors. Next steps include making contact with each property manager or sub-recipient for each property and providing training for the use of the online reporting system.

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)

Prior Year Findings

None