

BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006



PREPARED BY
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City of Salinas

Finance Department • 200 Lincoln Avenue • Salinas, California 93901-2639 • (831) 758-7408

February 13, 2007

***Honorable Mayor and Members of the City Council
City of Salinas, California***

We are pleased to submit the City of Salinas (City) Basic Financial Statements for the fiscal year ended June 30, 2006. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. The report complies with the financial reporting model developed by the Governmental Accounting Standards Board Statement No. 34 (GASB 34) and the newly issued pronouncement establishing comprehensive investment disclosures and custodial credit risk (GASB 40).

Responsibility for the accuracy of the data and the fairness of presentation, including all notes and disclosures, rests with the City. We believe the data presented in this report is accurate in all material respects and all statements and disclosures necessary for the reader to obtain a thorough understanding of the City's financial activities have been included. Management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City'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.

While traditionally addressed to the governing body of the City, this report is intended to provide relevant financial information to the residences of the City of Salinas, City staff, creditors, investors and other concerned readers. We encourage all readers to contact the Department of Finance with any questions or comments concerning this report.

Brown, Kaufman & Associates, LLP, a firm of certified public accountants have audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2006, 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. Based upon the audit, the independent auditors concluded that there was reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2006, 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.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

This report is divided into two sections:

- The **Introductory Section** includes this letter of transmittal and an organizational overview of the City government.
- The **Financial Section** consists of the independent auditors' report, Management's Discussion and Analysis, Basic Financial Statements (which include the Government-Wide Financial Statements, Fund Financial Statements, Notes to Financial Statements and Required Supplementary Information) and other supplementary information.

The Reporting Entity and Its Services

In defining the reporting entity, we have included the City's component units, which are the Salinas Redevelopment Agency and the Salinas Public Financing Authority because the City Council has financial accountability for these entities. Please refer to the Notes to Financial Statements for a more detailed discussion of the component units. There are no other governmental units over which the City Council has financial accountability.

The City of Salinas acts as fiscal agent for the Salinas Valley Solid Waste Authority, Sunrise House and the Second Chance Youth Program. Therefore, the financial information of these agencies is included in the Fiduciary Funds in the accompanying financial statements.

The City of Salinas was incorporated as a charter city on March 4, 1874, and operates under the Council-Manager form of government. The City is governed by a six member Council elected by districts for four-year alternating terms and a Mayor elected at large for a two-year term. The Council appoints the City Attorney and the City Manager who is responsible for day-to-day administration of the City under the policy direction of the Council.

The City of Salinas is the county seat of Monterey County, and is located in the Central Coast region of California, 17 miles inland from the Monterey Bay, 325 miles north of Los Angeles and 106 miles south of San Francisco. Salinas is a charter city providing all typical City services: Public safety-police and fire, Public Works-maintenance services (streets, lighting, signals, facilities, parks and trees), development and permit services, current and advanced planning and traffic and facilities engineering, Library, Recreation and General administrative services. Business-type City services include: a Municipal Airport, Industrial Waste system, Golf (two municipal golf courses), Sanitary Sewer and Storm Drain systems, Water Utility and a Downtown Parking District. The State Department of Finance reports the City's population at 148,350, as of January 1, 2006. The City employs about 670 persons on a full time basis.

Salinas is served by three elementary school districts, a unified high school district and several private schools at both the primary and secondary level. Hartnell College, a State Community College, offers two-year degrees and occupational certificate programs. California State University Monterey Bay is located less than 15 miles away on the former Fort Ord site. Graduate studies through Golden Gate University, Monterey Institute of International Studies and Chapman College are available nearby. Also in the area are Moss Landing Marine Laboratory, Monterey College of Law, Stanford University's Hopkins Marine Station and San Jose State University.

Salinas has extensive health and medical services with two of Monterey County's four hospitals located within the City. Salinas also offers skilled nursing and convalescent homes and residential retirement facilities for seniors, as well as over 200 practicing physicians.

Fire protection and basic and advanced life support are provided by the City's full service Fire Department. Advanced life support services are provided by the Fire Department's paramedic program with new funding being provided from a countywide ambulance contract. The City of Salinas has a well-equipped, fully staffed Police Department and receives additional support, as

required, from the Monterey County Sheriff's Office. The Salinas City Council has committed to increasing sworn police officers over the next year.

The City's moderate climate encourages year-round use of its 550 plus acres of municipal parks, which include golf courses, tennis courts and swimming pools. The Salinas Community Center regularly hosts symphonies, ballets, concerts and conventions. Salinas is host to the annual Steinbeck Festival, the California Rodeo, and the California International Airshow. Salinas recently opened a new California Sports Complex and the National Steinbeck Center. Surrounding Salinas are diverse recreational opportunities including beautiful beaches and the world famed golf courses of the Monterey Bay Peninsula.

As the retail hub of the Central Coast, Salinas enjoys a wide selection and diversity in its stores. Northridge Shopping Center contains over 120 specialty shops and four major department stores – Macy's, Sears, J.C. Penney and Mervyn's. Best Buy opened during July 2006 at the Northridge Shopping Center. Harden Ranch Plaza includes Target, Circuit City and Home Depot, as well as specialty stores, restaurants, and banking institutions. The Westridge Shopping Center is home to Costco, Wal-Mart, Office Max, Albertson's and a variety of national chain restaurants. The Salinas Auto Center houses nine local dealers. During December 2005, the City Council approved "Phase II" of the Salinas Auto Center to include major retail and four auto dealers on forty-one acres of land. Additionally, Salinas' location allows quick access to the Monterey Peninsula, as well as the San Jose area.

The City utilizes various Boards and Commissions in the conduct of its affairs. Commissions established by City Ordinance are:

- Equal Opportunity Commission
- Airport Commission
- Recreation-Parks Commission
- Library Commission
- Traffic and Transportation Commission
- Planning Commission
- Youth Commission
- Measure V Committee

Boards and committees established by Resolution of the City Council are:

- Police Community Advisory Committee
- Animal Shelter Committee
- Design Review Board
- Board of Appeals
- Grievance Advisory Board

Accounting System and Budgetary Control

The City's accounting and budgeting records for general governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable. Expenditures are recorded when the services or goods are received or the liabilities incurred. Accounting and budgeting for the City's proprietary funds are maintained on the accrual basis.

The City Council approves operating appropriations at the department and fund level prior to July 1, each year and may amend the budget during the fiscal year. On June 7 and 14, 2005, the City Council was presented and reviewed a recommended one (1) year operating budget for the City of Salinas and Salinas Redevelopment Agency. The Salinas City Council and Salinas Redevelopment Agency unanimously adopted fiscal year 2005-06 Annual Operating Budgets on June 14, 2005. An updated Six-Year Capital Improvement Budget for fiscal year 2005-06 was adopted on June 14, 2005. The Capital Improvement Budget is generally updated every two years. Please refer to Required Supplementary Information to the financial statements for a more detailed discussion of budget policy and control.

Annual Financial Report

The purpose of the City's Annual Financial Report is to summarize the administrative and operational performance of the City during the previous fiscal year. The report is intended to highlight significant accomplishments that were achieved during the fiscal year ended June 30, 2006 and to provide a financial analysis of City performance.

Government-Wide Financial Statements (GASB 34)-New Reporting Model

Governmental Accounting Standards Board's (GASB) Statement No. 34 required a complete overhaul of the City's financial reporting. Financial statements continue to be presented under the fund accounting model but the government-wide reporting model adds statements which focus on the City's net worth and include depreciation of all fixed assets and infrastructure.

Under this reporting model the City's basic financial statements are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to Basic Financial Statements.

Under this reporting model the financial statements also contain other supplementary information, in addition to the basic financial statements, including Management's Discussion and Analysis and Budgetary Policy and Control.

Government-Wide Financial Statements report all assets of the City, including infrastructure assets such as street systems, sidewalks, traffic signals, bridges and streetlights. Also, depreciation is charged on the City's infrastructure assets and general fixed assets (land improvements-parks, buildings, vehicles, machinery and equipment). Government-Wide Financial Statements report all liabilities of the City including long-term debt payable (annual leave, bonds, interest, leases, etc.). The end result of the Government-Wide Financial Statements is to provide the City's net assets (net worth), which is all City assets less all City liabilities. The City of Salinas' net assets (net worth) at June 30, 2006 are \$291,865,999.

Please refer to Government-Wide Statement of Net Assets and Statement of Activities presented in the basic financial statements for a more detailed presentation of the City's net assets.

Capital Assets and Depreciation

As of June 30, 2006, capital assets, including infrastructure assets, of the City of Salinas totaled \$520.7 million; accumulated depreciation totaled \$227.2 million, with the difference providing net capital assets of \$293.5 million. Net capital assets of the City's governmental activities (general government) are \$142.5 million and net capital assets for the City's business-type activities (enterprise funds) are \$151.0 million.

During fiscal year 2005-06, depreciation expense on capital assets of the City's governmental activities (general government) was \$7.0 million and depreciation expense on capital assets of the City's business-type activities (enterprise funds) was \$5.7 million.

A requirement of GASB 34 is the recording of depreciation on capital assets of the City's governmental activities (general government). These assets include buildings, infrastructure (streets, curbs, gutters, sidewalks, bridges, streetlights, traffic signals, etc.), improvements other than buildings (park improvements, etc.), and machinery and equipment. Depreciation expense on these assets for the year ended June 30, 2006 was \$6,964,124 and depreciation on retirements of (\$120,450). Depreciation expense represents the amount at which assets are being used-up annually. Due to budget constraints over the years, the City has been unable to invest in the maintenance of capital assets at anywhere near the annual depreciation amount.

Please refer to the Notes to Basic Financial Statements for a complete discussion of the City's Capital Assets.

Long-term Debt Payable

At June 30, 2006, the City had \$106.1 million in long-term debt. Long-term debt includes liabilities for annual leave, long-term portion of Worker's Compensation claims payable, capital leases and notes and bonds payable. While the General Fund guarantees most of the City's long-term debt, other funds, agencies or property owners make the majority of principal and interest payments. Examples of other funds, agencies or property owners include, the Industrial Waste Fund, Golf Courses Fund, the Steinbeck Center, the Sanitary Sewer Fund, Salinas Redevelopment Agency property tax increments, payments from the Salinas Valley Solid Waste Authority for the installment sale of Crazy Horse landfill and payments from property owners who are included in the City's various assessment districts.

Please refer to the Notes to Basic Financial Statements for a complete discussion of the City's Long-term Debt.

Fund Financial Statements-General Government Fund Balances

Fiscal operations of the City are reflected in the Governmental Fund Types (General, Special Revenue, Debt Service and Capital Projects). Total resources available during the fiscal year of \$179,805,955, consists of fund balances at July 1, 2005 of \$71,428,589 and revenues of \$108,377,366. Other net financing sources totaled, \$583,495, including sources of \$1,402,554 from the 2005 Certificates of Participation refunding issue, net transfers in of \$735,941 from non-governmental funds and a use of \$1,555,000 for the General Fund Advances to Twin Creeks Golf course that were forgiven as part of the transfer of the golf course to First Tee of Monterey County. Total resources expended during the fiscal year for governmental services were \$99,343,576. Fund balances were increased by \$9,617,285 to a total of \$81,045,874. This increase in fund balances is due to changes in the following governmental funds.

The General Fund fund balance increased \$6,477,279 to \$25,192,290, of which \$16,353,287 is reserved and \$8,839,003 is unreserved.

The General Fund unreserved fund balance of \$8,839,003 includes designated funds of \$6,055,720 and undesignated funds of \$2,783,283. The designated fund balance of \$6,055,720 include taxes receivable, accounts receivable, interest receivable and other accrued resources, less long-term liabilities due to the Workers Compensations Fund. These funds are designated for future year budgets: when the funds are available for expenditure or when the long-term liabilities become payable.

The June 30, 2006 undesignated fund balance estimated in fiscal year 2005-06 budget was \$53,442. The undesignated fund balance at June 30, 2006 pursuant to the audited financial statements is \$2,783,283. The difference of \$2,729,841 is the general fund carryover at June 30, 2006. The General Fund carryover of \$2,729,841 was reported to Council with the year-end budget review during October 2006.

The General Fund undesignated fund balance of \$2,783,283 is available for allocation and expenditure at June 30, 2006. General Fund reserves available for expenditure at June 30, 2006 total \$8,500,800, including the operating reserve of \$3,610,000, the structural budget deficit reserve of \$2,425,000 and the capital projects reserve of \$2,465,800. General Fund reserves have been set-aside by Council for specific purposes.

During the mid-year budget review in February 2007 staff will recommend the allocation of the June 30, 2006 undesignated fund balance of \$2,783,283 as follows; 1) \$1,390,000 to the Operating Reserve; and 2) \$1,393,283 to the Capital Projects Reserve.

The General Fund Operating Reserve is \$3,610,000 (5%) at June 30, 2006. Experience from the three-year (2003-2005) budget shortfalls has proven that a 5% operating reserve is insufficient. In fact, prior to the start of the budget shortfalls, on June 30, 2003 General Fund reserves totaled \$10,363,291. While this reserve allowed Council to gradually reduce the budget, in the end \$15.3 million (24%) and 123 positions had to be eliminated. Staff will recommend that \$1,390,000 be allocated to the operating reserve, increasing this reserve to \$5,000,000. Additionally, staff will

recommend that Council's Fiscal Policies be amended to provide a minimum 10% operating reserve goal (about \$7.5 million).

After the allocation of June 30, 2006 undesignated fund balance of \$2,783,283 with the mid-year budget review during February 2007, General Fund reserves to end fiscal year 2006-07 are estimated at \$9,812,683, inclusive of a capital projects reserve for projects budgeted in both fiscal years 2007-08 and 2008-09 of \$4,812,683 and an operating reserve of \$5,000,000. A \$5,000,000 operating reserve represents about 7% of the General Fund FY 06-07 operating budget.

This allocation is integrated in the City's three-year budget (FY2006-07, 2007-08 & 2008-09) projections and is pursuant to Council's previously approved budget actions, fiscal policies and past practice.

The Housing and Urban Development Fund showed a slight decrease in fund balance of \$1,834 in fiscal year 2006. This fund tends to have minimal changes since most of the expenditures are offset by grant revenues.

The Development Fees Fund showed an increase in fund balance of \$587,240 reflecting the receipt of \$2,470,383 in fees and interest and spending \$1,883,143 on capital projects during fiscal year 2006. The Development Fees Fund Balance of \$17.4 million is budgeted in the City's six-year Capital Improvement Program budget for sewer, storm drain, park and street improvement projects related to the impact of development.

The Special Construction Assistance Fund showed an increase in fund balance of \$1,373,173. The beginning fund balance of \$4,504,346 was adjusted to \$2,533,000 due to the transfer of Monterey Street Parking Structure to Business Type Fund.

The Assessment District Debt Service Fund showed a decrease in fund balance of \$843,761 due to debt service payments made during the fiscal year from funds collected in the prior year.

Other Governmental Funds showed an increase in fund balances of \$2,025,188. Increases reported in the Central City and Sunset Avenue Debt Service and Housing funds of \$734,497 and \$842,633 respectively are the result of strong Tax Increments received during the year. The Gas Tax Funds report an increase of \$260,834 due to interest earned during the year.

The combined fund balances for the governmental fund types aggregated \$81,045,874 at June 30, 2006. Portions of these fund balances were designated for certain services and multi-year capital projects. In addition, City policy and Federal/State mandates restrict the majority of these funds for specific purposes. Please refer to the Governmental Funds Balance Sheet for a detailed listing of reserved fund balances.

Fund Financial Statements-General Governmental Revenues

The current governmental operations of the City are accounted for in the General, Special Revenue, Debt Service, and Capital Project Funds. For the fiscal year ended June 30, 2006, total revenues for general governmental functions totaled \$108,377,366, an increase of 12.28% over the previous fiscal year. Property Tax Revenues were the largest single category of revenue during this fiscal year, producing 22.5% of the combined governmental fund type revenues and 32.2% of the General Fund revenues. Following new revenue classification criteria, Property Taxes category includes the Property Tax-In-Lieu of VLF (2/3 of vehicle license fees) of \$10,007,961 that is determined now by the city's growth in assessed valuation. In previous fiscal years, the vehicle license fee was determined by the city's population and reported in the Intergovernmental category. Sales Tax was the second largest source of revenue this fiscal year producing 31.7% of General Fund and Measure V revenues and 22.1% of the combined governmental fund type revenues. The recently approved Sales and Transactions Tax (Measure V) represents 2% of the combined governmental fund type revenues and is not included in the Sales Tax category. Intergovernmental revenue was the third largest single category of revenue during the fiscal year producing 17.3% of the combined governmental fund revenues. Intergovernmental revenues consist of Vehicle Licenses Fees (1/3 of VLF), Federal and State Local Public Safety Funds, Federal Block Grants, State Gas Taxes and Federal and State Construction Grants. Other Taxes was the fourth largest source of revenue

producing 12.2% of General Fund revenues and 8.5% of the combined governmental fund type revenues. Other Taxes include business license and franchise tax among others. Utility User's Tax was the fifth largest source of combined governmental fund type revenues producing 7.6% of the total.

The State ERAF shift is recorded as a reduction of property tax in the amount of \$1,549,336 and was a compromise made with Governor Schwarzenegger by local governments for the Governor's support of Proposition 1A. State Proposition 1A was approved at the November 2004 election and constitutionally protects local government revenue from State takes in the future. For the City of Salinas this latest ERAF property tax shift totals about \$3,098,672 over the last two years.

Revenues are presented on the modified accrual basis: revenues are recorded in the accounting period when due. For example, sales tax is collected one quarter in arrears. The final payment of sales tax for the quarter ended June 30, 2006 (representing 5.1% increase over the quarter ending June 30, 2005) was received in September 2006. Payments from the State Board of Equalization received in July 2005, August 2005 and September 2005 for the quarter ending June 30, 2006 totaled \$3,419,446 and are recorded as revenue and sales tax receivable for the year ended June 30, 2006.

As of July 1, 2004, the State of California has implemented the "Triple Flip" and thereby reduced the local allocation of the 1% Bradley-Burns statewide sales tax by .25% and used this .25% as security for the State's "Economic Recovery Bonds." The State has replaced this .25% of sales tax with a dollar-for-dollar allocation of local property tax from County Educational Relief Augmentation Fund (ERAF) funds. Counties distribute these funds to cities based on sales tax estimates in two equal installments in January and May. In January of the following year a "true-up" payment is made for the difference between estimated and actual sales tax.

The sales tax due from the State of California for FY 2005-06 totaled \$1,483,881 and is recorded as revenue and in-lieu sales tax receivable for the year ended June 30, 2006.

On November 8, 2005, the voters of Salinas approved Measure V, a 0.50% transactions and use tax. Measure V is a general tax and is reported as part of the General Fund, although the tax is accounted for in a separate sub-fund of the General Fund. The tax was effective April 1, 2005, with the first advance payment (\$504,445) received from the State Board of Equalization in June 2006.

Like sales tax, Measure V revenues are presented on the modified accrual basis: revenues are recorded in the accounting period when due. Measure V taxes are collected one quarter in arrears. The final payment of Measure V taxes for the quarter ended June 30, 2006 was received in September 2006. Payments from the State Board of Equalization received in July 2005, August 2005 and September 2005 for the quarter ending June 30, 2006 totaled \$1,697,059 and are recorded as revenue and Measure V tax receivable for the year ended June 30, 2006. First quarter tax revenue and investment earnings total \$2,202,903.

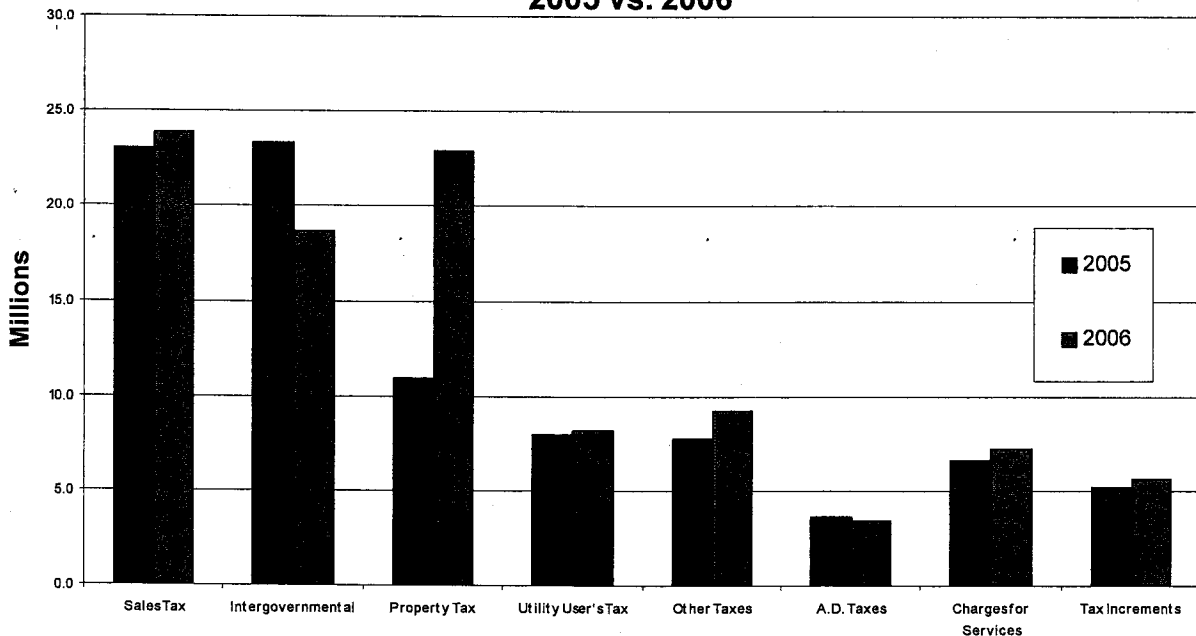
Taxes receivable total \$6,861,411 for the year ended June 30, 2006 and are further explained in footnote number 4 to the financial statements.

The City's budget is prepared on a cash basis: when the revenues are received and available for expenditure. For example, cash basis sales tax receipts are as follows; 2001-02 \$21,211,759; 2002-03 \$20,725,724; 2003-04 \$20,683,583; 2004-05 \$22,694,294 and 2005-06 \$23,519,860. Cash basis sales tax receipts declined in fiscal years 2002-03 and 2003-04. On a cash basis, sales tax increased 3.6% in FY 2005-06.

Revenues from various sources and the resulting changes over last year are shown below.

Source of Revenues	2006 Amounts	Percent of Total	2005 Amounts	2005 vs. 2006 Increase/(Decrease)	
				Dollars	Percent
Assessment District:					
Taxes	\$ 3,432,591	3.17%	\$ 3,620,167	\$ (187,576)	-5.18%
Property Tax	24,397,365	22.51%	12,416,268	11,981,097	96.50%
Sales Tax	23,948,462	22.10%	23,052,239	896,223	3.89%
Intergovernmental	18,702,506	17.26%	23,292,253	(4,589,747)	-19.71%
Other Taxes	9,206,137	8.49%	7,742,163	1,463,974	18.91%
Utility User's Tax	8,228,800	7.59%	7,862,325	366,475	4.66%
Charges for Service	7,232,366	6.67%	6,656,782	575,584	8.65%
Property Tax Increment	5,550,280	5.12%	5,161,606	388,674	7.53%
Interest	2,474,873	2.28%	1,580,732	894,141	56.56%
Transactions and Use Tax	2,202,903	2.03%	-	2,202,903	100.00%
Growth/Dev Fees	1,784,204	1.65%	1,729,679	54,525	3.15%
Miscellaneous	1,528,516	1.41%	1,973,743	(445,227)	-22.56%
Fines/Forfeitures	841,112	0.78%	881,122	(40,010)	-4.54%
Developer Contributions	382,706	0.35%	455,868	(73,162)	-16.05%
State ERAF Shift	(1,549,336)	-1.43%	(1,549,336)	-	-
License & Permits	13,881	0.01%	188,587	(174,706)	-92.64%
TOTAL	\$ 108,377,366	99.99%	\$ 95,064,198	\$ 13,313,168	14.00%

General Government Top Eight Revenues 2005 vs. 2006

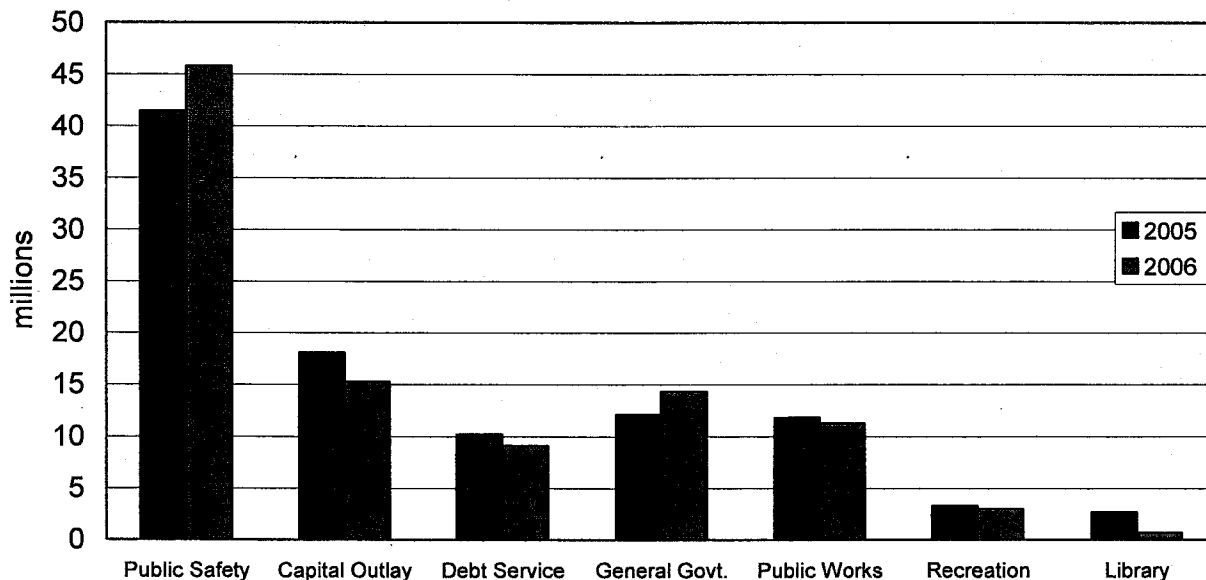


Fund Financial Statements-General Governmental Expenditures

Expenditures for governmental operations during the fiscal year ended June 30, 2006, were \$99,345,576, a decrease of 0.3% in operations and a net increase of 2.4% in total expenditures over the previous year. Changes in expenditures by major function are as follows:

Function	2006	Percent of Total	2005	2005 vs. 2006 Increase/(Decrease)	
				Dollars	Percent
General Government	\$ 13,953,875	14.0%	\$ 11,740,424	\$ 2,213,451	18.9%
Public Safety	45,779,987	46.1%	41,479,017	4,300,970	10.4%
Public Works	11,264,475	11.3%	11,818,961	(554,486)	-4.7%
Recreation	2,985,058	3.0%	3,290,593	(305,535)	-9.3%
Library	635,884	0.6%	2,663,239	(2,027,355)	-76.1%
Education (ERAF payment)	373,526	0.4%	399,559	(26,033)	-6.5%
Subtotal Operations	74,992,805	75.4%	71,391,793	3,601,012	5.0%
Capital Outlay	15,266,285	15.4%	18,086,450	(2,820,165)	-15.6%
Debt Service:					
Principal	5,267,604	5.3%	5,285,731	(18,127)	-0.3%
Interest	3,066,179	3.1%	4,262,588	(1,196,409)	-28.1%
Pass thru Tax	750,703	0.8%	655,177	95,526	14.6%
Total	\$ 99,343,576	100.0%	\$ 99,681,739	\$ (338,163)	-0.3%

General Government Expenditures 2005 vs. 2006



Operating Expenditures increased by \$3,601,012 or 5.0% from \$71,391,793 in fiscal year 2004-05 to \$74,992,805 in fiscal year 2005-06. General Government expenditures increased by \$2,213,451 or 18.9% from the prior year due to an increase in senior and low income housing projects of \$2,441,708 in the Housing and Urban Development Fund. Public Safety expenditures increased by \$4,300,970 or 10.4% from the prior year due to the addition of six (6) sworn police officer positions in the Joint Gang Task Force, negotiated salary increases effective July 1, 2005 (3.0%) and January 1, 2006 (3.0%) for Police and (4.0%) for Fire, increases in retirement, health, and overtime costs. Expenditures in Public Works, Recreation and Library functions decreased by a combined \$2,887,376 as a result of the reduction in services implemented during the year.

The State of California 2005-06 fiscal year budget included another Educational Revenue Augmentation Fund (ERAF) shift of property tax increments to schools. A payment of \$373,526 to the Monterey County Auditor was paid during May 2006 by the Salinas Redevelopment Agency. The State does not include in their budget any additional ERAF shift for fiscal year 2006-07.

Principal and interest payments decreased \$1,214,536 due to the debt transfer of the 2004 Certificates of Participation for the financing of the Monterey Street Parking Structure to the Business-Type Funds.

Capital Outlay (Project) expenditures decreased \$2,820,165 or 15.6% from \$18,086,450 in fiscal year 2004-05 to \$15,266,285 in fiscal year 2005-06. Capital projects expenditures during fiscal year 2005-06 include: 1) General Fund investments of about \$0.7 million were limited to prior years commitments and required projects such as Computer replacement, Copier leases, Graffiti Abatement, Fire vehicle lease payments, Fire air masks and NPDES storm discharge monitoring; 2) Block Grant investments of over \$2.5 million for projects such as the Municipal Pool improvements, East Salinas traffic signals and street lights and ADA modifications; 3) Development Fee investments were increased when compared to last year's investment to about \$1.1 million for projects that relate to the impact of development such as planning costs associated with the new Municipal Pool, the Sanborn Road improvements, Rossi Street sewer improvements and the development of Carr Lake; 4) Gas Tax investments of over \$1.7 million were for street maintenance, traffic signals and NPDES storm drain projects; 5) Federal and State Grants and Developer paid investments of over \$3.4 million included cost associated with annexation of future growth areas, bicycle lanes and street light improvements; new police facility study, 6) property owners through Assessment District invested about \$0.1 million in the Harden Neighborhood Park Phase 2.

Business-type Activities-Enterprise Funds

Enterprise Funds are the City's business-type activities (activities supported, at least in part, by fees or charges) and include the Salinas Municipal Airport, the Industrial Waste Facility, the Municipal Golf Courses (Fairways and Twin Creeks), the Storm Sewer System, the Sanitary Sewer System, the Hitchcock Road water utility and the Crazy Horse Landfill Fund (which is used to account for the proceeds of the installment sale of the landfill to the Salinas Valley Solid Waste Authority). The Downtown Parking District is a new business-type activity this fiscal year.

The Enterprise Funds net assets totals \$120,416,954 at June 30, 2006.

Net assets in the Municipal Airport Fund total \$11,345,297. Capital assets, net of depreciation are \$9,940,632. Capital assets include buildings, runways and lights, furniture and equipment and land.

Net assets in the Industrial Waste Fund total \$6,597,237. Capital assets, net of depreciation are \$5,738,508. Capital assets include percolation ponds, aeration lagoons, irrigation beds and pipelines, buildings, pump station and road improvements, and furniture and equipment.

Deficit net assets in the Municipal Golf Courses Fund total \$(5,406,908). Capital assets, net of depreciation are \$7,777,644. Fixed assets include buildings, course improvements, furniture and equipment.

During March 1999, Certificates of Participation (Certificates), Series A-1999, totaling \$13,064,662, were issued for the construction of Twin Creeks Golf Course (\$8,221,604) and the renovation of

Fairways Golf Course (\$4,843,058). During September 2005, Refunding Certificates Series 2005 A, totaling \$8,005,000, were issued to refinance the Twin Creeks portion of Certificates Series A-1999. The deficit net assets in Municipal Golf Courses Fund of \$5,406,908 represents the amount that debt issued for the purchase of capital assets exceed the value of those capital assets net of accumulated depreciation.

On August 24, 2004 the City Council entered into a lease agreement with First Tee of Monterey County to operate and manage the Twin Creek golf course. During September 2005, the Twin Creek's portion of the 1999 Certificates were refunded with Certificates Series 2005 A. The lease term and annual payments coincides with the Refunding Certificates Series 2005 A and runs for 20 years (15 years with a 5-year option) with base annual rent of \$575,000. The lease provides for City participation in annual golf course revenues, beginning in years six through the last year of the option in 20 years. The Monterey Peninsula Foundation guarantees the lease payments to the City and First Tee of Monterey County operates the golf course. As part of the lease arrangement, General Fund advances totaling \$1,555,000 were forgiven. This lease arrangement has eliminated the General Fund subsidy of Twin Creeks Golf Course. The value (capital assets, net of depreciation) of Twin Creeks Golf Course is \$4.7 million.

Cash flow advances totaling \$2,835,000 have been made from the City's General Fund to cover operating losses at Fairways Golf Course in fiscal years 2001-02 through 2005-06. City Council is exploring alternatives to continuing the Fairways Golf Courses subsidy, including increasing rounds with rate specials and advertising and reducing costs by contracting for maintenance of the course. The City has received maintenance contract proposals for Fairways Golf Course and the City Council will review the bid results during January and February 2007. The value (capital assets, net of depreciation) of Fairways Golf Course is \$3.1 million.

Net assets in the Sanitary Sewer Fund totals \$32,803,226. Capital assets, net of depreciation are \$43,048,670. Capital assets include sewer lines; lift stations, pumps and generators, rolling equipment and land.

The Sanitary Sewer Fund was established to account for the financial activities of the City's sewer collection system. During July 1998, Sanitary Sewer System Revenue Bonds, Series 1998, totaling \$16,000,000 were issued to fund a six-year sewer replacement program. The City levies a sewer fee on the users of the sewer system to pay for sewer related expenses and debt service on the bonds.

Net assets in the Storm Sewer Fund total \$69,163,890. Capital assets, net of depreciation are \$68,131,279. Capital assets include storm sewer lines, lift stations, pumps and generators, rolling equipment and land.

The Storm Sewer Fund was established to account for the financial activities of the City's storm sewer system. The National Pollutant Discharge Elimination System (NPDES) program is an unfunded Federal mandate. During June 1999, the City adopted an ordinance establishing a storm sewer utility fee. The City levied this fee on the users of the storm sewer system to pay for the mandated NPDES program costs and other storm sewer related expenses. During August 2002, the California Supreme Court concluded that the storm sewer fee is subject to voter approval under the meaning of Proposition 218. The City suspended collection of the storm sewer fee of \$1,100,000 during fiscal year 2002-003. The City intends to seek alternative funding for the storm sewer program. During fiscal year 2000-01, the City's street sweeping program and the revenue collected for street sweeping was incorporated into this enterprise.

With the loss of the Storm Sewer Utility Fee, annual expenditures of \$1.5 million are paid for with a combination of Gas Tax (\$1.1 million) and General Fund (\$0.4 million) monies. Increased compliance requirements and costs associated with the City's new 5-year NPDES permit are expected to double over the next five years to an annual cost, potentially exceeding \$5.0 million. Cost increases include increased manpower, contract engineering services, GIS mapping of the storm system, staff services to prepare inventories and updates for all commercial/industrial business, advertising expenses, contract services for water monitoring, laboratory costs for monitoring and to follow-up on toxicity reduction evaluations, and contract services for public

education curriculum development and implementation. If the Storm Utility Fee is not replaced, funding of the Federally mandated NPDES program would require a substantial increase in funding from the General Fund and Gas Tax resources.

Net assets in the Crazy Horse Landfill Fund total \$3,949,913. This amount is due from the Salinas Valley Solid Waste Authority for the purchase of Crazy Horse Canyon Landfill over the remaining installment period (\$385,097 annual payments for 21 years, including 7.91% interest). These payments are transferred to the Debt Service Fund and used to offset annual debt service on the 1997 Crazy Horse COPs (Refunded by COP Series 2005 B in September 2005).

Net assets in the Water Utility total \$181,858. Capital assets, net of depreciation are \$179,683.

The Water Utility Fund was established to account for the repairs, maintenance and operations of the water well located on Hitchcock Road. This project started in September 2003, after the well shaft had collapsed and emergency repairs were required. The Water Utility is funded by the users of the system including, the Monterey Regional Water Pollution Control Agency (MRWPCA), the Monterey County Animal Shelter and the City of Salinas' Animal Shelter and Industrial Waste treatment plant.

Net assets in the Downtown Parking District total \$1,782,441. Capital assets, net of depreciation are \$16,127,655.

The Downtown Parking District is a new business-type activity this fiscal year and includes City owned parking lots in the downtown area, the Salinas Street parking garage and the Monterey Street parking structure (a 5-level, 435-space parking garage adjacent to the Steinbeck Center and Maya Multiplex Theater). The Monterey Street parking structure was funded with Certificates of Participation financing and a \$2.0 million Economic Development Administration (EDA) grant. On December 17, 2003, the City sold Certificates in the amount of \$16,630,000 at 4.68% interest for a term of thirty (30) years.

Annual debt service of \$1,091,950 is being paid from capitalized interest in the first three years. The first full debt service payment begins in 2007-08. Pursuant to a reimbursement agreement the Salinas Redevelopment Agency (Central City Project) is responsible for debt service. The Agency is scheduled to make a partial debt service payment in 2006-07 of \$275,000. In addition, the Agency has set aside \$1,135,000 for shortfalls associated with the parking structure annual debt payments of \$1,091,950 that begin in 2007-08.

It is anticipated that the Downtown Parking District including debt service will be funded with a combination of off-street paid parking, Central City tax increment growth (with the planned Hotel development), implementation of on-street paid parking through out the downtown area and lastly (if required) the General Fund.

The City's General Fund is ultimately responsible for the parking structure debt (subject to repayment by the Agency) if the Agency is financially unable to make the bond payments.

Please refer to Statements of Proprietary Funds Net Assets and Revenue, Expenses and Changes in Net Assets presented in the financial statements for a more detailed discussion and financial presentation of Enterprise Funds.

Internal Service Funds

Internal Service Funds are used to account for the City's risk management program which administers employee benefits and the City's insurance programs including; 1) General Insurances-employee assistance program, unemployment claims, biennial physical exams and property insurance; 2) Worker's Compensation self-insurance program; and 3) General Liability self-insurance program.

At June 30, 2006, the Internal Service Funds liabilities for estimated claims payable totaled \$8,658,703, with \$8,064,454 representing Worker's Compensation and \$594,249 representing

General Liability. Amount due from the General Fund of \$1,154,265 is recorded at June 30, 2006 and represents claim liabilities, which exceed resources for the Workers Compensation Fund.

Total Worker's Compensation insurance claims liabilities are \$10,478,947 at June 30, 2006. A portion of the liability is reported in the Internal Service Fund (\$8,064,454) and a portion is treated as long-term debt (\$2,414,493). The long-term debt portion represents future obligations of the Worker's Compensation Plan. The Worker's Compensation fund shortfall is \$3,568,758 at June 30, 2006.

Please refer to Combining Statements of Internal Service Funds Net Assets and Revenue, Expenses and Changes in Net Assets presented in the financial statements for a more detailed discussion and financial presentation of Internal Service Funds.

Fiduciary Funds

Fiduciary Funds are used to account for assets held in trust for others and cannot be used for general government purposes. The City maintains the following Fiduciary Funds:

Private Purpose Trust Funds include net assets (deposits) of \$1,444,483 held by the City for Community Center and Sherwood Hall activities, MRWPCA Fees, Sales Tax, Payroll Taxes, "Rally Salinas" Library donations, Developer Deposits, Construction Bonds and the like.

Pension Trust Funds held by the City of \$38,959,879 are employee deferred compensation funds.

Agency Funds are assets held by the City for Sunrise House, Second Chance Youth Program, Sherwood Hall Box Office, Employee Cafeteria Plan, Retired Employees Health Insurance Program and the Salinas Valley Solid Waste Authority. Agency assets held by the City total \$64,371,609.

Please refer to Statements of Fiduciary Net Assets and Changes in Net Assets presented in the financial statements for a more detailed discussion and financial presentation of Fiduciary Funds.

Cash Management

In accordance with the provisions of California Government Code Section 53600 et. seq., the City is restricted to certain types of legal investments. These investments are included in the City's investment policy and are approved by City Council annually. The City's investment policy was last approved on November 8, 2005. In addition, the City's investment activity is reported to the City Council monthly pursuant to the California Government Code.

The City invests all idle funds daily. The cash management system of the City is designed to monitor revenues and expenditures to ensure the investment of monies to the fullest extent possible. The criteria, in order of priority, for selecting investments are safety, liquidity, and yield.

The majority of City funds (about 60%) are invested in the State's Local Agency Investment Fund (LAIF). LAIF yielded average returns of 2.26% for fiscal year ended June 30, 2003, 1.55% for fiscal year ended June 30, 2004, 2.10% for fiscal year ended June 30, 2005, and 3.71% for fiscal year ended June 30, 2006.

Government Accounting Standards Board (GASB) Statement No. 31 requires fair value reporting of investments on the City's balance sheet. The City's investment in the State Local Agency Investment Fund is required to be presented at fair value, not cost. The City's investment in certificates of deposit and investment contracts are reported at cost, which is fair value. While recorded at fair market value in the financial statements, the City's investments are redeemable at 100% of cost.

The City's investment in the State Local Agency Investment Fund at June 30, 2006 is as follows:

Balance at cost – June 30, 2006	\$ 73,043,607
Unrealized Loss	<u>(132,515)</u>
Balance at fair value – June 30, 2006	<u>\$ 72,911,092</u>

Please refer to the Notes to Basic Financial Statements for a complete discussion of the City's Cash and Investments.

Risk Management

The City is self-insured for general liability claims to the first \$1,000,000 per occurrence. The City has general liability insurance with Markel America Insurance Company/ Interstate Fire and Casualty Company, with coverage to \$10,000,000 per occurrence, after the \$1,000,000 self-insured retention.

The City is self-insured for worker's compensation claims to the first \$1,000,000 per occurrence. The City has excess workers' compensation insurance with ACE American Insurance Company, with statutory coverage (pursuant to California Workers' Compensation Act), after the \$1,000,000 self-insured retention.

The City has property insurance coverage with Travelers Insurance Company, with coverage for City buildings totaling \$117,253,664 and other property totaling \$18,715,800, after a \$10,000 deductible. Coverage amounts are based on estimated cost to replace.

All costs associated with insurances are recorded in the Internal Service Funds.

Property Assessment

Assessed valuation of citywide taxable properties grew to \$9,926,023,729 and represents an increase of 12.7% over fiscal year 2005-06. The following table summarizes the growth in assessed valuation.

	<u>Before Redevelopment Increment</u>	<u>After Redevelopment Increment</u>	<u>Percent Increase</u>
2006-07	\$9,926,023,729	\$9,375,130,314	12.88%
2005-06	8,806,009,783	8,305,434,488	12.64%
2004-05	7,799,653,100	7,373,407,370	10.98%
2003-04	7,045,521,979	6,643,698,145	6.90%
2002-03	6,590,542,785	6,284,551,441	10.31%
2001-02	5,989,470,269	5,697,145,117	9.08%
2000-01	5,488,912,290	5,222,902,081	9.39%
1999-00	5,029,395,502	4,774,694,999	7.08%
1998-99	4,709,447,645	4,458,969,474	4.77%
1997-98	4,506,337,033	4,255,858,862	4.79%
1996-97	4,327,830,573	4,061,240,315	2.93%
1995-96	4,177,587,864	3,945,454,648	6.59%
1994-95	3,926,957,420	3,701,663,409	4.16%
1993-94	3,773,131,297	3,553,767,999	3.15%
1992-93	3,608,213,592	3,445,387,429	6.10%

Source: Monterey County Assessor's Certified Valued Report.

California Public Employees' Retirement System (CALPERS)

During fiscal year 2004-05, most public agencies through out California faced significant budget shortfalls due, in large part, to increases in health and retirement rates coupled with flat revenue and State revenue shifts.

What caused the large increases in employer retirement contribution rates? The short answer – investment returns. During the mid- to late 1990's, the U.S. stock market experienced a tremendous boom. The compound annual investment return at CalPERS was 15.6% between July 1, 1994 and June 30, 2000.

However, the great boom ended with three fiscal years of returns considerably less than the 8.25% assumed in CalPERS actuarial calculations: -7.23% for fiscal year 2000-01; -5.9% for fiscal year 2001-02; and 3.9% for fiscal year 2002-03. Because of asset smoothing (three-year lag in posting gains and losses), CalPERS investment losses were not reflected in the City's contribution rates until fiscal years 2004-05 and 2005-06. City of Salinas rates and contributions for fiscal years 2002-03, and 2006-07 are compared as follows:

	Fiscal year <u>2002-03</u>	Fiscal Year <u>2006-07</u>
Police	12.031%	26.812%
Fire	0.000%	33.847%
Miscellaneous	3.081%	10.694%
City Contribution	\$1,946,800	\$8,920,900

CalPERS investment performance provides hope to see a reversal of past trends of rising employer contribution rates. After suffering three years of losses during the stock market downturn, CalPERS recorded a 13.4% return in 2003-04, an 11.2% return in 2004-05 and a 12.3% return in 2005-06. Since these actual returns are higher than the 7.75% returns currently assumed by CalPERS actuaries, CALPERS estimates that rates have peaked in fiscal year 2006-07.

Where might employer contribution rates be in five years? Due to the large swings in employer contribution rates, difficulty in state and local agency budget planning and the need to reduce volatility in rates, during April 2005, the CalPERS board adopted new rate stabilization methods. In order to smooth employer contribution rates, CalPERS will now spread investment gains and losses over fifteen (15) years rather than three (3) years. Given the new rate stabilization method and CalPERS positive investment returns, staff believes CalPERS rates have peaked and will remain at fiscal year 2006-07 levels over the next five years. Fiscal year 2007-08 rates for the City of Salinas are estimated as follows:

	Fiscal Year <u>2007-08</u>
Police	26.60%
Fire	34.10%
Miscellaneous	10.60%
City contribution	\$9,368,300

Fire's rate of 34.10% of payroll includes 12.4% (cost of 3% @ 50 – effective 12/1/05). Effective June 1, 2001, retirement formulas for police officers are 3% @ 50 and miscellaneous employee are 2% @ 55. In addition to the City contributions, public safety employees contribute 9% and miscellaneous employees contribute 7%.

For fiscal year 2005-06, CalPERS pension cost was \$9,874,831. The City of Salinas actually contributed \$7,147,467 (27.9% higher than previous year's cost) while City employees contributed \$2,757,364.

New York Life Retirement Plan (NYL)

The New York Life Retirement Plan is a closed defined benefit pension plan that covers non-public safety employees. As of June 19, 1995, all new non-public safety employees are required to enroll in PERS. The NYL plan is based on a 2% at 60 years of age formula and provides for a monthly annuity or a lump sum retirement benefit. Employees contribute 4.5% of their compensation to the plan.

The City's annual pension costs expressed as a percentage of covered payrolls is as follows; FY 2002-03 (16.44%); FY2003-04 (17.90%); FY 2004-05 (15.36%); FY 2005-06 (22.02%); and FY

2006-07 (26.5%). Due to the conservative nature of the plan's investments, NYL rates are consistent, although the NYL retirement plan continues to be more expensive than PERS (FY 2005-06 miscellaneous employee rate of 10.61%).

During fiscal year 2005-06, the City contributed \$1,213,477 (8.4% higher than previous year's cost) to the New York Life retirement plan while the employees contributed \$153,687. The City paid member contributions on behalf of SEIU employees of \$56,981.

Health Insurance

City employees are covered for health, dental and vision costs under PERS Choice, Delta Dental and MES Vision. The City pays one hundred (100%) percent of the health insurance premiums for employees. Health insurance premiums are set by the CalPERS Board and have increased 18.0% in calendar year 2004, 10.0% in calendar year 2005, 9.5% in calendar year 2006 and 12.5% in calendar year 2007. The City's health insurance costs are budgeted at \$7.9 million in fiscal year 2006-07.

State Budget Impacts

Beginning in 1992, the State of California began a shift of property tax revenues from cities, counties and redevelopment agencies to schools and reduced its spending on education by an equal amount. Each dollar of property tax transferred by the State to the Educational Relief Augmentation Fund (ERAF), allows the State to reduce its General Fund commitment to schools.

For the City of Salinas, the ERAF (I & II) shift beginning in 1992 is an annual property tax "take" from Salinas' taxpayers of \$3.4 million. The State, to balance its own budgets took these resources from the taxpayers of Salinas. This is an on-going property tax shift, it is not protected by Proposition 1A, and the State will continue to take a minimum of \$3.4 million of Salinas' tax dollars year after year.

The next ERAF (III) shift was a compromise made with Governor Schwarzenegger by local governments for the Governor's support of Proposition 1A. State Proposition 1A was approved at the November 2004 election and constitutionally protects local government revenue from State takes in the future. For the City of Salinas this latest ERAF (III) property tax shift totaled \$3,098,672 over two years (FY04-05 \$1,549,336 and FY05-06 \$1,549,336).

In November 2003, Governor Schwarzenegger permanently reduced Vehicle License Fees (VLF) by 67% and replaced the reduction of the City's VLF with an increase in the City's property tax. Currently, in fiscal year 2006-07, the City's VLF distributed with property tax totals \$11,281,580 (12.9% AV increase) and the remaining 33% of \$1,000,000 is collected by the Department of Motor Vehicles and is distributed based on population. It is important to note that the City's 67% share of VLF is now considered property tax and increases based on increases in property (AV) assessed valuation.

What is the "Triple Flip" of local sales tax? On March 2, 2004, California voters approved a \$15 billion bond issue (Economic Recovery Bonds) to finance the State's fiscal years 2002-03 and 2003-04 budget deficits. To issue the bonds at a more favorable interest rate, the State pledged one-quarter cent of local governments sales tax to guarantee the debt. To compensate, the State has reallocate in-lieu sales tax dollars that are distributed by the County auditor with property tax distributions. This creates a cash flow problem, as "backfill" of sales tax is now paid by the State (through the County) twice a year in January and May/June rather than our normal monthly allocation of sales tax. For the City of Salinas, the one-quarter cent sales tax is about \$6.0 million annually. The "Triple Flip" of local sales tax ends with the repayment of the \$15 billion Economic Recovery Bonds. The State plans to retire these bonds in 2009-10.

In November 2004, the voters of California approved Proposition 1A, an amendment to the California state constitution intended to restore predictability and stability to local government budgets. The measure protects local property tax, sales tax and vehicle license fee (VLF) revenues.

Additionally Proposition 1A requires the Legislature to either fund or suspend state mandates. Although Proposition 1A will lessen the frequency and ability of the State to shift resources away from local governments, the State legislature will still have the ability, upon a two-thirds vote, to "borrow" from allocations to local governments twice during a 10-year period.

In addition to ERAF property tax shifts from the City, ERAF shift of property tax increments from Redevelopment Agencies began in fiscal year 2002-03. Payments have been made to the Monterey County Auditor as follows: May 2003 (\$123,344), May 2004 (\$212,756), May 2005 (\$401,183) and May 2006 (\$373,526). The State's take of property tax from the taxpayers of the Central City and Sunset project areas totaled \$1,110,807 over the four-year period. The State's approved fiscal year 2006-07 budget does not include ERAF shifts from redevelopment agencies. Proposition 1A does not protect redevelopment agencies from future State ERAF shifts.

The State's adopted budget for fiscal year 2006-07 includes budgeted expenditures of \$128.4 billion, up \$11 billion (9.5 %) from fiscal year 2005-06. The 2006-07 State budget is balanced with the use of significant reserves (one-time funds). The State continues to carry a "structural deficit"; a \$7.1 billion shortfall is expected in 2006-07, reflecting an on going difference between revenues and expenditures for the State's General Fund. In November 2006, the Legislative Analyst's Office (LAO) estimated this imbalance would continue in 2007-08 and 2008-09 absent corrective action, with annual operating shortfalls in the range of \$5.5 billion.

The Governor's 2007-08 proposed budget was released in January 2007 and includes proposed expenditures of \$131 billion. The proposed budget is balanced and assumes ending 2007-08 with a \$2.1 billion reserve. The budget assumes the use of one-time funds (carryover reserve of \$3.1 billion), diversion of Public Transportation Funds (\$1.1 billion), very optimistic revenue assumptions (10% property tax growth, despite the current slowdown in the real estate market), reductions in social services (Cal WORKS) and a variety of other actions that according to the LAO "raise a number of serious policy and legal issues, which may make their implementation problematic."

On January 12, 2007, the Legislative Analyst's Office warned "The downside risks in this budget could easily exceed the \$2.1 billion reserve budgeted for 2007-08. It is also important to remember that the state continues to face a significant ongoing structural shortfall in its budget, as well as pressures related to unfunded retiree health care costs and potential additional costs to the state's correctional health care system. In view of these factors, it will be important that the Legislature develop a more realistic budget which includes alternative budgetary solutions and avoids raising ongoing commitments (absent identified funding to pay for them)."

Proposition 1A reduces the State's ability to make up its shortfalls through revenue shifts from local governments, although, the State legislature still has have the ability, upon a two-thirds vote, to "borrow" from allocations to local governments twice during a 10-year period.

Labor Relations

All employee groups have approved Memorandum of Understandings (MOUs) with the City through the next fiscal year (2006-07). Fire Supervisors and International Association of Firefighters (IAFF) MOU expires June 30, 2007. Police Managers and Salinas Police Officers Association (SPOA) MOUs expire June 30, 2007. MOUs for Association of Management Personnel of Salinas (AMPS), Salinas Municipal Employees Association (SMEA), Service Employees International Union (SEIU) and SEIU Crew Supervisors have been extended through December 31, 2007. Confidential Compensation Plans (Management and Non-management) have been extended through December 31, 2007.

Based on the approved MOUs, actual employee service costs are included in the City's budget projections for fiscal year 2006-07. MOU increases per bargaining unit are as follows: SPOA and Police Managers (3.0% 1/1/06 and 3.0% 7/1/06); IAFF and Fire Supervisors (4.0% 1/1/06); SMEA (3.0% 1/1/06 and 3.0% 1/1/07); SEIU and Crew Supervisors (3.0% 1/1/06 and 3.0% 1/1/07); AMPS

(3.0% 1/1/06 and 1.5% 1/1/07) and Confidential Group (3.0% 1/1/06 and 3.0% 1/1/07).

Transactions and Use Tax (Measure V)

Over a period of three fiscal years beginning in April 2003, the Salinas City Council reduced City programs and services funded by the General Fund budget a total of \$15.3 million or 24%. The required reductions included the elimination of 123.50 authorized positions, the layoff of employees and broadly impacted services throughout the City. The reductions were required to maintain the City's financial solvency. The financial crisis was the result of a combination of factors including a weak economy evidenced by sales tax actually decreasing for two years, State raids on local revenue, increasing charges assessed by the County of Monterey, increasing retirement costs and increasing employee health insurance costs.

On November 8, 2005, the voters of Salinas approved (61.74%) the ordinance establishing a Temporary Transactions and Use Tax at the rate of one-half of one percent (0.50%) to be in effect for a period of ten (10) years. Initial collection of the tax began April 1, 2006 with the first receipt of revenues from the tax occurring in June 2006. The tax will generate approximately \$10.0 million annually beginning in fiscal year 2006-07.

The tax approved by the voters is a general tax. As such, the City may use the revenue from the tax for any general governmental purpose. In order to assure full compliance with the intent of the ordinance, the tax proceeds from this ordinance will be separately received and accounted for in the City's financial reporting system. The tax is reported as part of the General Fund in the Basic Financial Statements.

The Oversight Committee is a fundamental provision in the voter-approved ordinance. The ordinance states that: "The Mayor and City Council shall each annually appoint one member of the public to serve as an oversight committee for the revenue that the City receives from the tax. The committee shall prepare an annual report on the revenue received and recommend the use thereof. The City Manager shall provide staff for the committee, and the Finance Director shall provide all relevant data regarding revenue from the tax and expenditure thereof."

During May 2006, the Measure V Oversight Committee completed its work identifying \$10,000,000 in on-going programs and services to be funded by Measure V revenue.

The approved on-going (annual appropriations) departmental use of Measure V funds is as follows:

Administration	\$ 295,000
Development & Engineering & Permit Services	257,500
Street & Sidewalk Maintenance	337,500
Finance	185,600
Fire	332,500
Legal	181,900
Library	3,600,000
Maintenance Services	834,100
Parks and Recreation	1,145,900
Police	2,830,000
Total	\$10,000,000

Significant savings are forecasted during the first year (FY 2006-07) of Measure V funding. The primary reason for the savings will be the time necessary to complete the hiring process required to restore services. It is essential these one-time savings be used for one-time capital outlay or capital improvement investments.

The approved departmental use of one-time funds for fiscal year 2006-2007 is as follows:

Administration	\$40,000
Development & Engineering & Permit Services	337,500
Fire	170,000
Library	463,000
Maintenance Services	1,333,000
Police	400,000
Total	\$2,743,500

The number of positions funded by Measure V during fiscal year 2006-07 is summarized as follows:

Administration	2.5
Development and Engineering	3.0
Finance	2.5
Fire	1.0
Legal	1.5
Library	39.5
Maintenance	12.0
Parks and Recreation	4.0
Police	24.0
Total	90.0

Fiscal Year 2006-07 Budgets

On May 9 and 16, 2006, the City Council was presented and reviewed a two-year budget (2006-07 and 2007-08) with staff recommending a one (1) year operating budget for the City of Salinas and Salinas Redevelopment Agency. The Salinas City Council and Salinas Redevelopment Agency unanimously adopted fiscal year 2006-07 Annual Operating Budgets on May 16, 2006. An updated Six-Year Capital Improvement Budget for fiscal year 2006-07 was adopted on June 11, 2006. The Capital Improvement Budget is generally updated every two years.

As is customary, the focus of the budget discussions was on the City's General Fund. The significant difference was the focus on restoration and enhancement of City services after three years of reductions totaling \$15.3 million or 24%. The difference was mainly due to the passage of Measure V (a City Transactions and Use Tax of ½ cent) providing \$10.0 million annually. Additionally, non Measure V General Fund revenue growth allowed the addition of \$1.0 million in General Fund services and programs. The operating budget was adopted about one month early so that the service restoration process could begin. This was especially critical for those services requiring the hiring of permanent City staff.

The General Fund budget has stabilized given several factors. First, assessed value of property in the City (and related property tax and property tax in-lieu of VLF revenues) has increased by more than 12% in fiscal years 2005-06 and 2006-07. Second, modest economic recovery continues as indicated by the City's sales tax collections. Third, Proposition 1A constraints barring the State from significant raids on City revenue became effective beginning in fiscal year 2006-2007. Fourth, staff anticipates that the peak has been reached in the City's CalPERS retirement costs, and, finally, the Council has maintained financial discipline in managing on-going expenses as evidenced in the elimination of programs and services for an overall 24% reduction in the General Fund budget since April 2003.

The recovery that began in fiscal year 2006-07, inclusive of the estimated \$10.0 million from the new ½ cent transaction and use tax, must be well managed and must include all the elements of prudent

financial planning. The demands for services will far out strip available resources and those demands must be balanced with General Fund investment in capital facilities as well as services. The City's cash reserves must also be a priority as the General Fund cash balances will be minimal. Just as the City set aside funds in reserve in the mid 1990s after the desperate budgets of the early 1990s, Salinas must begin to methodically save funds in reserve to guard against the next economic downturn.

General Fund Reserves

As reported in the Basic Financial Statements for June 30, 2006, the General Fund unreserved fund balance of \$8,839,003 includes designated funds of \$6,055,720 and undesignated funds of \$2,783,283. The designated fund balance of \$6,055,720 include taxes receivable, accounts receivable, interest receivable and other accrued resources, less long-term liabilities due to the Workers Compensations Fund. These funds are designated for future year budgets: when the funds are available for expenditure or when the long-term liabilities become payable.

The June 30, 2006 undesignated fund balance estimated in fiscal year 2005-06 budget was \$53,442. The undesignated fund balance at June 30, 2006 pursuant to the audited financial statements is \$2,783,283. The difference of \$2,729,841 is the general fund carryover at June 30, 2006. The General Fund carryover of \$2,729,841 was reported to Council with the year-end budget review during October 2006.

Cash basis (budget basis) General Fund results produced a surplus for the fiscal year ended June 30, 2006. Cash basis revenue exceeded budget estimates by \$1,104,377 and expenditures were less than budget by 1,812,718, producing a budget carryover of \$2,917,095 for fiscal year ended June 30, 2006. Increases in property tax (increased property assessed values) and building related permits and fees (remodeling activity and Monte Bella subdivision) accounts for most of the revenue increase and expenditure savings were achieved because of about thirty (30) vacant positions carried during the year along with other operating budget savings. After year-end adjustments, the available General Fund carryover is \$2,729,841.

The General Fund undesignated fund balance of \$2,783,283 is available for allocation and expenditure at June 30, 2006. General Fund reserves available for expenditure at June 30, 2006 total \$8,500,800, including the operating reserve of \$3,610,000, the structural budget deficit reserve of \$2,425,000 and the capital projects reserve of \$2,465,800. General Fund reserves have been set-aside by Council for specific purposes.

During the mid-year budget review in February 2007 staff will recommend the allocation of the June 30, 2006 undesignated fund balance of \$2,783,283 as follows; 1) \$1,390,000 to the Operating Reserve; and 2) \$1,393,283 to the Capital Projects Reserve.

The General Fund Operating Reserve is \$3,610,000 (5%) at June 30, 2006. Experience from the three-year (2003-2005) budget shortfalls has proven that a 5% operating reserve is insufficient. In fact, prior to the start of the budget shortfalls, on June 30, 2003 General Fund reserves totaled \$10,363,291. While this reserve allowed Council to gradually reduce the budget, in the end \$15.3 million (24%) and 123 positions had to be eliminated. Staff will recommend that \$1,390,000 be allocated to the operating reserve, increasing this reserve to \$5,000,000. Additionally, staff will recommend that Council's Fiscal Policies be amended to provide a minimum 10% operating reserve goal (about \$7.5 million).

After the allocation of June 30, 2006 undesignated fund balance of \$2,783,283 with the mid-year budget review during February 2007, General Fund reserves to end fiscal year 2006-07 are estimated at \$9,812,683, inclusive of a capital projects reserve for projects budgeted in both fiscal years 2007-08 and 2008-09 of \$4,812,683 and an operating reserve of \$5,000,000. A \$5,000,000 operating reserve represents about 7% of the General Fund FY 06-07 operating budget.

This allocation is integrated in the City's three-year budget (FY2006-07, 2007-08 & 2008-09) projections and is pursuant to Council's previously approved budget actions, fiscal policies and past practice.

Financial Policies

The financial policies of the City were adopted during December 1991 and are included with the adoption of the annual City budget. The policies provide a framework for managing the day-to-day, as well as the long-term fiscal affairs of the City. The policies include accounting, reserves, administrative fees, revenues, operating budget, capital improvement program, debt, assessment districts, fixed asset maintenance and replacement and risk management.

One key element of the City's financial policies governs the allocation of General Fund Year-end carryover balances. The policy states "General Fund Year-end carryover balances shall be allocated to reserves in the following priority order; 1) Insurance Reserves; 2) Operating Budget Reserve and 3) Capital Improvement Program Reserve."

Council's adherence to this financial policy increased the City's General Fund Reserve from its \$256 level on June 30, 1992 to the \$10,363,291 that was available in April 2003 when Council approved a multi-pronged three-year budget balancing strategy. The strategy included service level reductions, employee concessions, revenue increases and using reserves over the three-year period. Imagine the budget cuts that would have been necessary without this reserve. There would have been no time to phase reductions, negotiate employee concessions, increase fees, transfer Twin Creeks golf course to First Tee or pass the Business License Tax increase. The budget cuts would have been immediate and would have certainly included public safety.

Bond Issuer Credit Rating

The City of Salinas received an Issuer Credit Rating (ICR) of A+ from Standard and Poor's when the Golf Course bonds were issued in 1999. Standard and Poor's affirmed the City's A+ ICR on November 26, 2003 in conjunction with the issuance of the Monterey Street Parking Structure financing. On August 25, 2005, Standard and Poor's again awarded the City an A+ ICR in connection with the refunding of the 1999A Golf Course and the 1997A Capital Projects financings. The City's A+ ICR is widely published and will be instrumental in securing the lowest possible interest rates on future bond issues.

The rationale for this strong A+ ICR on City of Salinas debt, as stated by Standard and Poor's, reflects the City's:

- Strong local economy centered around agricultural production,
- Sustained growth in assessed property valuations,
- Sound financial management and reserve policies, and
- Low General Fund supported debt burden.

Acknowledgements

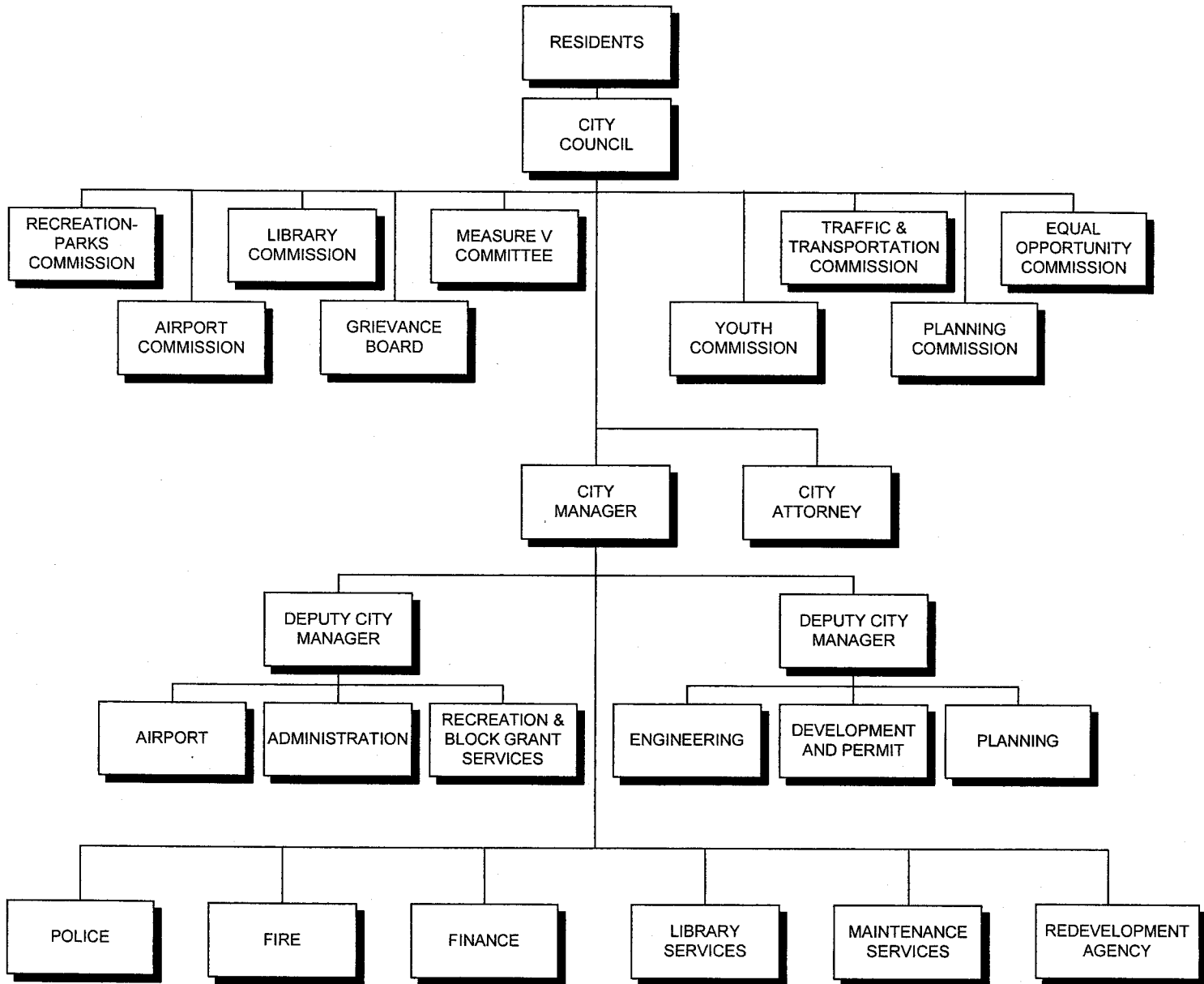
The preparation of this Annual Financial Report could not have been accomplished without the professional, efficient, and dedicated service of the staff of the Finance Department. In particular I would like to express my appreciation to our professional accountants: Miguel Gutierrez, and Elizabeth Mariano. The entire Finance staff deserves a special word of thanks for another year of hard work and quality performance. We also wish to thank our auditors, Brown, Kaufman and Associates, CPA's, for their cooperation and assistance.

Sincere appreciation is also expressed to the City Manager and members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,


Tom L. Kever
Director of Finance

CITY OF SALINAS Organization Chart



CITY OF SALINAS

List of Principal Officials



Anna Caballero
Mayor

Sergio Sanchez
Councilmember
District 1

Gloria De La Rosa
Councilmember
District 4

Roberto Ocampo
Councilmember
District 2

Maria Giuriato
Councilmember
District 5

Janet Barnes
Councilmember
District 3

Jyl Lutes
Councilmember
District 6

Dave Mora
City Manager

Vanessa Vallarta
City Attorney

Daniel Ortega
Police Chief

Alan Stumpf
Director of Redevelopment

Rob Russell
Deputy City Manager

Edward Montez
Fire Chief

Tom Kever
Director of Finance

Jorge Rifa
Deputy City Manager

Denise Estrada
Director of Maintenance Services

BROWN, KAUFMAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Telephone (831) 424-2737 • Facsimile (831) 424-7936

INDEPENDENT AUDITOR'S REPORT

The Honorable City Council
of the City of Salinas
State of California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Salinas, California (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Brown Kaufman & Associates LLP

February 6, 2007

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2006

This analysis of the City of Salinas (City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to the financial statements.

A. FINANCIAL HIGHLIGHTS

- At June 30, 2006, the City's net assets (excess of assets over liabilities) were \$291.9 million. Of this amount, \$30.4 million are unrestricted assets.
- During the fiscal year ended June 30, 2006, the City's total net assets increased by \$11.5 million. This change results from an increase of \$12.9 million in governmental activities net assets, and a decrease of \$1.4 million in business-type activities net assets.
- During the fiscal year cash flow advances were made from the City's General Fund to Fairways Golf Course (\$925,000) and Downtown Parking (\$350,000) enterprise funds. During the fiscal year \$1,555,000 of General Fund prior year advances to the Twin Creeks Golf Course were forgiven.
- During the fiscal year governmental funds fund balances increased \$9.6 million to \$81.0 million, of which \$64.3 million is reserved and thus unavailable.
- During the fiscal year the General Fund fund balance increased \$6.5 million (9.8% of operating expenditures) to \$25.2 million of which \$16.4 million is reserved. Unreserved General Fund balance of \$8.8 million includes designated funds (\$6.0 million) and undesignated (carryover) funds (\$2.8 million).
- The City's total debt decreased by \$2.8 million (4.3%) during the current fiscal year. The decrease is the result of regularly schedule debt service repayments in both governmental and business-type activities.
- The City's capital assets, net of depreciation, increased \$2.0 million to \$293.4 million.
- "Rally Salinas" a public fundraising campaign raised \$799,637 to keep the City's three libraries open during the first six-months of 2005-06. During January 2006, Council approved a \$700,000 General Fund appropriation to keep the libraries open the balance of 2005-06.
- On November 8, 2005, the voters of Salinas approved Measure V, a 0.50% transactions and use tax. The tax was effective April 1, 2005 and first quarter tax revenue and investment earnings total \$2,202,903. Annual revenue from the tax is estimated at \$10.0 million.
- With the passage of Measure V, \$10.0 million of General Fund services previously cut (\$15.3 million) were restored in 2006-07. Due primarily to property tax growth an additional \$1.0 million of General Fund services were restored in 2006-07.

B. OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements.

The basic financial statements include the City (primary government) and all legally separate entities (component units) for which the government is financially accountable. The City's component units consist of the Salinas Redevelopment Agency (Agency) and the Salinas Public Financing Authority (Authority). These component units are, for practical purposes, departments of the City and have been included in the basic financial statements as an integral part of the primary government using the blended method.

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 City and provide readers with a broad view of the City's finances. These statements present governmental activities and business-type activities separately and include all assets of the City (including infrastructure) as well as

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2006

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

all liabilities (including long-term debt). Additionally, certain interfund receivables, payables and other interfund activity have been eliminated as prescribed by GASB Statement No. 34.

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

The Statement of Activities and Changes in Net Assets presents information showing how the City'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.

In the Statement of Net Assets and the Statement of Activities and Changes in Net Assets, we separate the City activities as follows:

Governmental Activities—All of the City's basic services are reported in this category, including general government, public safety, community development, public works, recreation, and library. Property taxes, sales taxes, user fees, interest income, franchise fees, state grants and federal grants finance these activities. The City's insurance programs (health, worker's compensation, liability and property damage) are accounted for in internal service funds, but are reported as part of governmental activities since these programs are used primarily for governmental activities.

Business-Type Activities—The City charges a fee to customers to cover all or most of the costs of certain services it provides. The City's Industrial Wastewater System, Airport, Golf Courses, Sanitary Sewer, Hitchcock Water Utility, Storm Sewer and Landfill activities are reported as business-type activities.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the City's major funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many 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.

The Fund Financial Statements include statements for each of the three categories of activities – governmental, proprietary and fiduciary. The governmental funds are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary funds are agency funds, pension trust fund and private purpose trust funds, which only report assets and liabilities and do not have a measurement focus.

Governmental Funds—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, which 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 City's near-term financial requirements.

In order to better understand the City's long-term and short-term requirements, it is useful to compare the City's Governmental Funds Statements with the governmental activities in the Government-Wide Financial Statements. A reconciliation is provided for the Governmental Fund Balance Sheet and the

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2006

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Statement of Revenues, Expenditures and Changes in Fund Balances to facilitate this comparison. The major governmental funds include the General Fund, Housing and Urban Development Special Revenue Fund, Development Fees Special Revenue Fund, Special Construction Assistance Fund and Assessment Districts Debt Service Fund, which are reported in detail in the Governmental Fund Financial Statements. All other funds are shown in the aggregate as other non-major funds. Individual fund data for other non-major governmental funds is provided in the form of supplementary information elsewhere in the report.

Proprietary Funds—The City maintains two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-Wide Financial Statements. The City uses enterprise funds to account for its Industrial Wastewater System, Airport, Golf Courses, Sanitary Sewer, Hitchcock Water Well Utility, Storm Sewer and Landfill activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its general city insurance operations. Because these services predominantly benefit the governmental rather than business-type activities, they have been included within governmental activities in the Government-Wide Financial Statements.

Proprietary funds provide the same type of information as the Government-Wide Financial Statements, only in more detail. All enterprise funds are presented in detail as major enterprise funds. The internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of supplementary information elsewhere in the report.

Fiduciary Funds—The City is the trustee, or fiduciary, for certain funds held on behalf of external parties. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. These activities are excluded from the City's other financial statements because the resources of these funds are not available to support the City's own programs. The City is responsible for ensuring that these funds are used for their intended purpose.

Notes to the 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 City's budgetary comparison schedules for the General Fund, the Housing and Urban Development and Development Fees major special revenue funds, and information concerning the progress in funding its obligation to provide pension benefits to its employees.

Other Supplementary Information

Combining statements for nonmajor governmental funds, internal service funds and agency funds are presented immediately following the Required Supplementary Information as supplementary information.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Management Discussion and Analysis (MD&A) includes comparative data for analysis.

Statement of Net Assets

Net assets are a good indicator of the City's financial position. During this fiscal year, net assets of the City were \$291.9 million, which is an increase of \$11,749,115 (4.2%) from the prior year.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2006

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2006 and 2005.

City of Salinas
Condensed Statements of Net Assets
June 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets:						
Current Assets	\$ 90,055,366	\$ 86,812,266	\$ 15,318,716	\$ 16,527,128	\$ 105,374,082	\$ 103,339,394
Other Assets	44,780,068	45,450,565	(750,861)	(2,809,157)	44,029,207	42,641,408
Capital Assets, Net	142,521,869	157,939,394	150,944,071	133,442,845	293,465,940	291,382,239
Total Assets	277,357,303	290,202,225	165,511,926	147,160,816	442,869,229	437,363,041
Liabilities:						
Current Liabilities	8,940,424	9,326,173	1,429,235	1,042,355	10,369,659	10,368,528
Other Liabilities	34,702,251	38,167,415	-	-	34,702,251	38,167,415
Long-term Liabilities, Net	62,265,583	81,610,165	43,665,737	27,100,049	105,931,320	108,710,214
Total Liabilities	105,908,258	129,103,753	45,094,972	28,142,404	151,003,230	157,246,157
Net Assets:						
Invested in Capital Assets, Net of Related Debt	90,720,790	87,379,139	107,278,334	106,342,796	197,999,124	193,721,935
Restricted	60,073,968	59,401,065	3,434,784	2,052,175	63,508,752	61,453,240
Unrestricted	20,654,287	14,318,268	9,703,836	10,623,441	30,358,123	24,941,709
Total Net Assets	\$ 171,449,045	\$ 161,098,472	\$ 120,416,954	\$ 119,018,412	\$ 291,865,999	\$ 280,116,884

At June 30, 2006, the largest portion of net assets (67.8%) consists of the City's investment in capital assets net of related debt. This component portrays the total amount of funds required to acquire those assets less any related outstanding debt used for such acquisition. The City uses these capital assets to provide services to residents. The capital assets of the City are not sources of income for repayment of debt as most assets are not revenue generating and generally are not liquidated to repay debt. Debt service payments are funded from other resources available to the City.

Other assets in the business type activities show a negative balance because they represent, among other things, long-term internal balances. These balances are amounts due from the business-type activities (Golf Course) to the governmental activities (General Fund) that are designed to be repaid over a longer period of time.

A portion of the City's net assets (21.8%) is subject to restrictions imposed by external parties and their use is determined by those restrictions and agreements. The remainder of net assets, \$30.4 million, represents unrestricted net assets. For the years ended June 30, 2006, the City reported positive balances in all three categories of net assets.

Governmental Activities reports a increase of \$3.2 million in current assets and a decrease of \$15.4 million in the capital assets, net, and a decrease of \$19.3 million in the long-term liabilities, net. The majority of the current assets increase is due to a higher amount of taxes received and coupled with a decrease in both capital assets, net and long-term liabilities, net, which is the result of the transfer of Parking District assets from the Governmental to the Business-type Activities.

The City's net assets increased by \$11.8 million during the current year. The increase reflects infrastructure and other capital assets funded by grants or developers, including, the grant funded portion of the Monterey Street Parking Structure of \$1.8 million, grant funded improvement projects at the Airport and modifications to City facilities.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2006

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Statement of Activities

Total revenues increased \$11.3 million due primarily to increases in operating grants and contributions of \$4.9 million (ADA and other infrastructure improvements contributed by HUD \$2.7 million), coupled with increases in general revenues of \$4.8 million due to a significant increase in the property taxes and vehicle license in-lieu (related to property values) as a result of real estate market transactions re-appraisals of existing home and increases in capital grants and contributions of \$2.9 million due to airport runway improvements contributed by the federal government and (0.9 million) and \$2.0 in street improvement contributed by developers.

Total expenditures increased \$6.1 million including an increase in general government of \$2.0 million due to increase investments to provide more low income housing opportunities; an increase of \$4.2 million in public safety due to increased retirement costs and employee benefits; an increase in public works of \$3.2 million due to significant capital project activity and a decrease in library expenditures of \$2.0 million reflecting approved budget reductions.

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2006 and 2005:

City of Salinas Condensed Statement of Activities and Changes in Net Assets For the Fiscal Year Ended June 30, 2006						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	\$ 7,172,391	\$ 6,705,092	\$ 6,124,625	\$ 6,161,190	\$ 13,297,016	\$ 12,866,282
Operating Grants & Contributions	15,072,422	10,729,911	946,659	423,061	16,019,081	11,152,972
Capital Grants & Contributions	11,202,559	9,664,565	3,513,236	2,170,349	14,715,795	11,834,914
General Revenues:						
Taxes	71,124,516	54,849,681	-	-	71,124,516	54,849,681
Licenses & Permits	13,881	188,587	-	-	13,881	188,587
Grants & Contributions						
not Restricted	1,062,899	12,467,680	-	-	1,062,899	12,467,680
Unrestricted Investment Earnings	954,210	532,615	913,874	715,795	1,868,084	1,248,410
Gain (Loss) on Disposal of Assets	10,261	1,818,816	-	(37,410)	10,261	1,781,406
General Fund Advance Forgiven	(1,555,000)	-	1,555,000	-	-	-
Miscellaneous	93,099	411,599	-	-	93,099	411,599
Total Revenues	105,151,238	97,368,546	13,053,394	9,432,985	118,204,632	106,801,531
Expenses						
General Government	13,820,028	12,164,719	1,231,111	970,942	15,051,139	13,135,661
Public Safety	46,432,796	42,239,015	-	-	46,432,796	42,239,015
Public Works	24,540,453	23,667,964	10,018,819	7,701,338	34,559,272	31,369,302
Recreation	3,648,214	3,942,545	2,610,943	2,707,172	6,259,157	6,649,717
Library	706,967	2,720,309	-	-	706,967	2,720,309
Education (ERAF)	373,526	399,559	-	-	373,526	399,559
Interest	3,330,858	4,117,358	-	-	3,330,858	4,117,358
Total Expenses	92,852,842	89,251,469	13,860,873	11,379,452	106,713,715	100,630,921
Increase in Net Assets before Transfers	12,298,396	8,117,077	(807,479)	(1,946,467)	11,490,917	6,170,610
Transfers	645,265	128,526	(645,265)	(31,061)	-	97,465
Increase in Net Assets	12,943,661	8,245,603	(1,452,744)	(1,977,528)	11,490,917	6,268,075
Net Assets - Beginning of Year	161,098,472	152,852,869	119,018,412	120,995,940	280,116,884	273,848,809
Transfer Parking Net Assets to Business-type Activities	(2,851,286)	-	2,851,286	-	-	-
Prior Year Adjustment (Note #25)	258,198	-	-	-	258,198	-
Net Assets - Ending	\$ 171,449,045	\$ 161,098,472	\$ 120,416,954	\$ 119,018,412	\$ 291,865,999	\$ 280,116,884

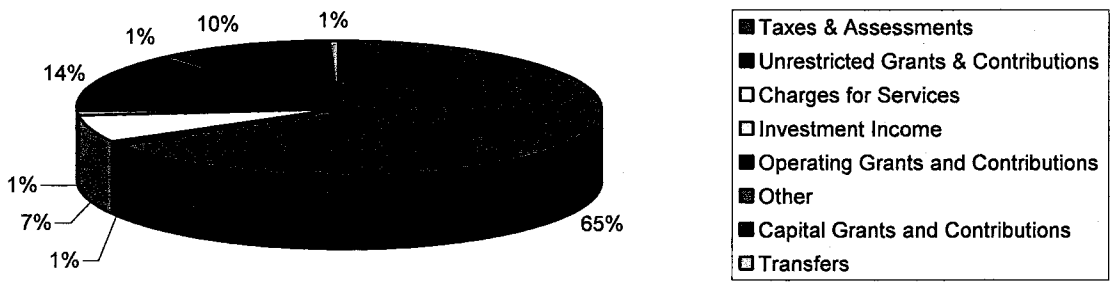
CITY OF SALINAS
 Management's Discussion and Analysis
 Fiscal year ended June 30, 2006

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Governmental Activities:

Governmental activities revenues (resources) total \$108.4 million including general revenues of \$107.7 million and transfers-in (inflows) of \$0.7 million. Governmental activities expenses total \$92.8 million. The City's governmental activities increased net assets by \$10.1 million. The following charts highlight the sources of revenues and purpose of expenses:

**Governmental Activities
 Revenues by Source
 June 30, 2006**



Total expenses for governmental activities were \$92.9 million including interest on long-term debt of \$3.3 million. Program revenues offset total expenditures as follows:

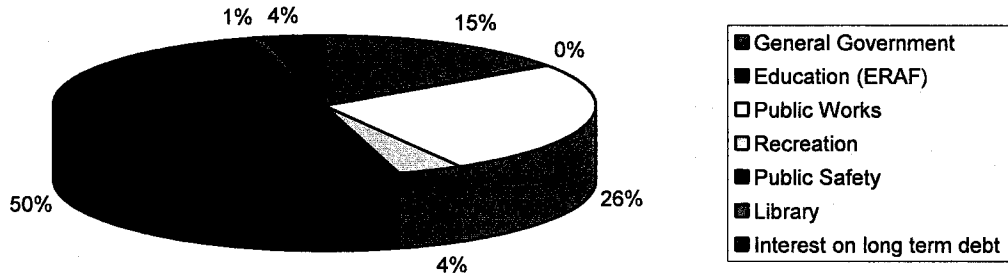
- Those who directly benefited from programs contributed \$7.2 million in charges for services.
- The City was able to fund some of its programs through operating grants and contributions from outside sources or other governments for a total amount of \$15.1 million.
- A total of \$11.2 million in capital projects was funded by outside agencies through capital grants and contributions.

As a result, total expenditures that were funded by tax revenues, investment income and other general revenues were \$59.4 million.

CITY OF SALINAS
 Management's Discussion and Analysis
 Fiscal year ended June 30, 2006

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued
Governmental Activities, Continued

**Governmental Activities
 Expenses by Function/Program
 June 30, 2006**



Functional expenses for the year ended June 30, 2006 were as follows:

	<u>Total Cost of Services</u>	<u>Percent</u>	<u>Net Cost of Services</u>	<u>Percentage</u>
	<u>2006</u>	<u>2006</u>	<u>2006</u>	<u>2006</u>
Public Safety	\$ 46,432,796	50.0%	\$ 43,278,694	72.9 %
Public Works	24,540,453	26.4%	7,859,772	13.2 %
General Government	13,820,028	14.9%	1,125,131	1.9 %
Recreation	3,648,214	3.9%	3,020,924	5.1 %
Library	706,967	0.8%	416,565	0.7 %
Education (ERAF)	373,526	0.4%	373,526	0.6 %
Interest on long term debt	3,330,858	3.6%	3,330,858	5.6 %
Total	\$ 92,852,842	100 %	\$ 59,405,470	100 %

Public safety continues to be the single highest expense for the City followed by public works. Net cost of services, after subtracting fees and grant revenues total \$59.4 million.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2006

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Business Type Activities

The Downtown Parking District is a new business-type activity this fiscal year. The City's business-type activities net assets decreased by \$1.5 million. The decrease was made up of the following:

Revenue Highlights:

- Resources in business-type activities totaled \$14.1 million, an increase of \$4.2 million.
- Charges for services remained constant showing a modest overall decrease of \$36,565. Industrial Waste charges decreased (\$65,373) due to a reduction in the number of users, Hitchcock Road Water Utility charges decreased (\$113,722) due to prior year payments for the construction of a water well and Municipal Golf Courses charges reflect the transfer of Twin Creeks Golf Course to the Monterey Peninsula Foundation (First Tee of Monterey County) in November 2004. The new Downtown Parking District collected \$318,103 in parking fees.
- Interest earnings increased \$0.2 million due to higher investments yields and other non-operating revenue increased \$0.4 million reflecting a full year lease payment made by the First Tee for the lease of the Twin Creeks Golf Course.
- Capital Contributions increased \$1.3 million due to an increase in airport improvements funded by federal grants.
- General Fund advances of \$1.5 million to Twin Creeks Golf Course were forgiven as part of the transfer to the Monterey Peninsula Foundation (First Tee of Monterey County).

Expense Highlights:

- Expenditures and transfers out in business-type activities totaled \$15.6 million, an increase of \$3.7 million.
- Operating expenses increased \$1.5 million reflecting an increase in depreciation of \$0.4 million and operating expenses (\$0.7 million) of the new Downtown Parking District.
- Interest expense increased \$0.9 million reflecting interest payments on bonds issued for the new Downtown Parking District.
- Transfer out the Capital Projects Fund increased \$1.4 million reflecting costs related to the maintenance of capital assets.

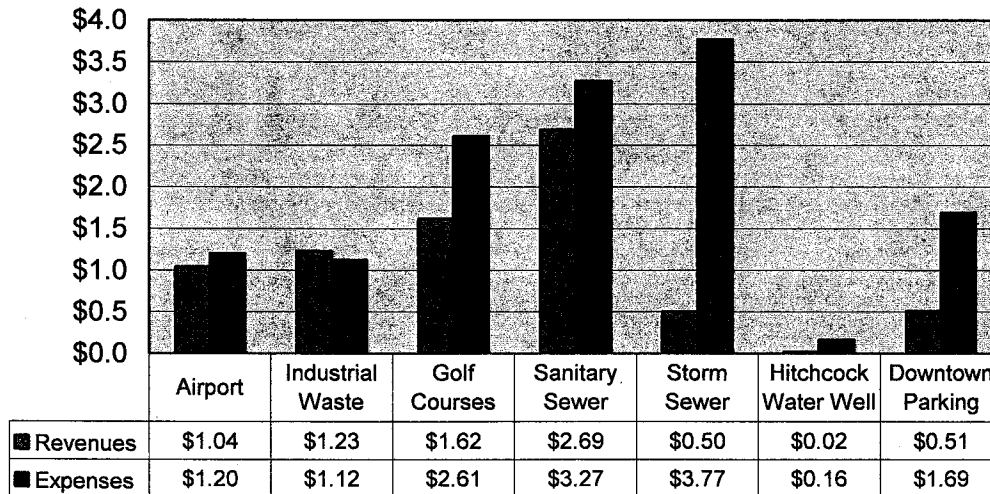
Operating Losses:

- The airport, golf course, sanitary sewer, storm sewer, water utility and downtown parking activities had combined losses of \$6.4 million. While the losses in the airport, sanitary sewer and water utility activities totaling \$0.9 million can be attributed to depreciation and other non-operating expenses, the same is not true of the golf course, storm sewer and downtown parking activity.
- The golf courses incurred a net loss of \$1.0 million (\$1.0 million the prior year) due primarily to lower than anticipated user fees coupled with debt services requirements. Twin Creeks golf course losses have been eliminated with the transfer (20 year lease) to First Tee youth golf organization. City Council will consider contract maintenance of Fairways Golf Course in order to reduce losses at that course.
- The storm sewer incurred a net loss of \$3.2 million including depreciation expense of \$2.7 million. Gas Tax (\$0.5 million) funded the balance of storm sewer activities. The cost of storm sewer operations has increased due to Federal unfunded mandates.
- The downtown-parking district incurred a net loss of \$1.2 million including depreciation expense of \$0.3 million and interest expense of \$1.0 million. The General Fund advanced \$350,000 to the district during the year.

CITY OF SALINAS
 Management's Discussion and Analysis
 Fiscal year ended June 30, 2006

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

**Business Type Activities
 Revenues and Expenses
 (in millions)
 June 30, 2006**



D. FUND FINANCIAL STATEMENT ANALYSIS

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

Governmental Funds

The focus of the City's governmental funds is to provide information on short-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of the end of fiscal year 2006, the City's governmental funds reported combined ending fund balances of \$81.0 million. Of this amount, \$64.3 million is reserved to indicate that it is not available for appropriation because it has already been committed for various purposes as shown in the Governmental Funds Balance Sheet. Unreserved fund balances total \$16.7 million, and are available for spending. Unreserved fund balances include General Fund of \$8.8 million, Special Revenue Funds of \$3.2 million and Capital Projects Funds of \$4.7 million.

The General Fund is the chief operating fund of the City. The General Fund fund balance increased by \$6.5 million in fiscal year 2006 to \$25.2 million, of which \$16.3 million is reserved, \$2.8 million is undesignated and \$6.1 million is designated for subsequent years' expenditures. The designated fund balance of \$6.1 million includes taxes receivable, accounts receivable, interest receivable and other accrued resources, less long-term liabilities due to the Workers Compensations Fund. These funds are designated for future year budgets: when the funds are available for expenditure or when the long-term liabilities become payable.

The General Fund undesignated fund balance of \$2.8 million is available for allocation and expenditure at June 30, 2006. General Fund reserves available for expenditure at June 30, 2006 total \$8.5 million,

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2006

D. FUND FINANCIAL STATEMENT ANALYSIS, Continued

including the operating reserve of \$3.6 million, the structural budget deficit reserve of \$2.4 million and the capital projects reserve of \$2.5 million. General Fund reserves have been set-aside by Council for specific purposes.

The Housing and Urban Development Fund showed a decrease in fund balance of \$1,834. This fund tends to have minimal changes since grant revenues offset most of the expenditures.

The Development Fees Fund showed an increase in fund balance of \$587,240. The Development Fees Fund Balance of \$17.4 million is budgeted in the City's six-year Capital Improvement Program budget for sewer, storm drain, park and street improvement projects related to the impact of development.

The Construction Assistance Fund showed an increase in fund balance of \$1.4 million due to the receipt of Federal and State grant reimbursements for prior year capital project expenditures. The fund balance at June 30, 2006 is \$3.9 million and is reserved for payment of encumbrances.

The Assessment District Debt Service Fund showed a decrease of \$843,761 due to debt service payments made during the fiscal year from funds collected in the prior year.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Factors concerning these funds have been addressed in the discussion of Government-wide Financial Analysis.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget a number of times. These budget amendments fall into two categories:

- Appropriations recorded after the beginning of the year to reflect encumbrance appropriations and capital project and grant program carryover budgets that reflect unspent appropriations from the prior year.
- New appropriations approved by City Council.

Actual expenditures (outflows) for the fiscal year were \$6.3 million under the amended budget. About \$1.5 million of the unspent capital project funds and encumbrances of \$760,847 will be appropriated in the carryover process for fiscal year 2006.

Resources (inflows) available for appropriations were \$4.4 million above budgeted amounts primarily due to the accrual of \$2.2 million of Measure V funds (not budgeted) and continued property and sales tax growth.

Cash basis (budget basis) General Fund results produced a surplus for the fiscal year ended June 30, 2006. Cash basis revenue exceeded budget estimates by \$1,104,377 and expenditures were less than budget by \$1,812,718, producing a budget carryover of \$2,917,095 for fiscal year ended June 30, 2006. Increases in property tax (increased property assessed values) and building related permits and fees (remodeling activity and Monte Bella subdivision) accounts for most of the revenue increase and expenditure savings were achieved because of about thirty (30) vacant positions carried during the year along with other operating budget savings. After year-end adjustments, the available General Fund carryover is \$2,729,841.

The June 30, 2006 undesignated fund balance estimated in fiscal year 2005-06 budget was \$53,442. The undesignated fund balance at June 30, 2006 pursuant to the audited financial statements is \$2,783,283. The difference of \$2,729,841 is the general fund carryover at June 30, 2006. The General Fund carryover of \$2,729,841 was reported to Council with the year-end budget review during October 2006.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2006

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets Including Infrastructure

Capital assets including infrastructure assets of the City are those assets, which are used in the performance of the City's functions. At June 30, 2006, net capital assets of the governmental activities totaled \$142.5 million and the net capital assets of the business-type activities totaled \$151.0 million. During FY 2002-03, American Appraisal Associates were hired to conduct an inventory and valuation of all the City's capital assets. Finance' staff maintains and updates the Capital Assets inventory by recording all assets acquired or retired at the end of every fiscal year.

The City has elected to report and depreciate all infrastructures.

Governmental activities acquired \$7.1 million of capital assets during the year. The majority of which, \$4.1 million, were infrastructure improvements. Of the remaining balance \$3.0 million, \$1.1 million is machinery and equipment and \$1.9 million is improvements other than buildings and construction in progress.

Business-type activities acquired \$7.8 million of capital assets during the year. The Federal Aviation contributed to the Airport Fund \$2.2 million for Airport runway improvements. The Sanitary Sewer had an additional \$2.2 million for replacements/improvement of the sewer lines. Other additions of capital assets were routine replacements of current capital assets.

The Downtown Parking District is a new business-type activity this fiscal year. After reclassifying assets, \$14.2 million has been transferred from Governmental activities to Enterprise. An additional \$2.1 million capital assets were acquired for the construction of the Monterey Street Parking.

The following is a summary of the City's capital assets as of June 30, 2006 and 2005.

City of Salinas' Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 20,665,070	\$ 20,322,466	\$ 3,629,739	\$ 3,623,039	\$ 24,294,809	\$ 23,945,505
Buildings	27,532,322	28,528,359	25,216,747	8,079,338	52,749,069	36,607,697
Improvements	9,225,921	8,576,027	14,483,658	11,914,567	23,709,579	20,490,594
Equipment	17,385,575	16,612,279	5,628,383	5,406,694	23,013,958	22,018,973
Infrastructure	184,710,894	180,641,988	211,332,119	207,271,750	396,043,013	387,913,738
Construction in Progress	875,969	15,112,799	-	-	875,969	15,112,799
	<u>260,395,751</u>	<u>269,793,918</u>	<u>260,290,646</u>	<u>236,295,388</u>	<u>520,686,397</u>	<u>506,089,306</u>
Accumulated Depreciation	<u>(117,873,882)</u>	<u>(111,854,524)</u>	<u>(109,346,575)</u>	<u>(102,852,543)</u>	<u>(227,220,457)</u>	<u>(214,707,067)</u>
	<u>\$ 142,521,869</u>	<u>\$ 157,939,394</u>	<u>\$ 150,944,071</u>	<u>\$ 133,442,845</u>	<u>\$ 293,465,940</u>	<u>\$ 291,382,239</u>

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2006

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS, Continued

Long-Term Obligations

As of June 30, 2006, the City had \$97,081,638 in long term debt as shown below:

City of Salinas' Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Loans and Notes	\$ 380,123	\$ 406,352	\$ -	\$ -	\$ 380,123	\$ 406,352
Revenue Bonds			14,565,000	14,945,000	14,565,000	14,945,000
Tax Allocation Bonds	10,636,515	11,364,240			10,636,515	11,364,240
Certificates of Participation	15,445,000	31,238,491	28,860,000	11,791,509	44,305,000	43,030,000
Assessment District Bonds	27,195,000	29,930,000	-	-	27,195,000	29,930,000
	<u>\$ 53,656,638</u>	<u>\$ 72,939,083</u>	<u>\$ 43,425,000</u>	<u>\$ 26,736,509</u>	<u>\$ 97,081,638</u>	<u>\$ 99,675,592</u>

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

On May 9 and 16, 2006, the City Council was presented and reviewed a recommended one (1) year operating budget for the City of Salinas and Salinas Redevelopment Agency. The Salinas City Council and Salinas Redevelopment Agency unanimously adopted fiscal year 2006-07 Annual Operating Budgets on May 16, 2006. An updated Six-Year Capital Improvement Budget for fiscal year 2006-07 was adopted on June 11, 2006. The Capital Improvement Budget is generally updated every two years. As is customary, the focus of the budget discussions was on the City's General Fund. The significant difference was the focus on restoration and enhancement of City services after three years of reductions totaling \$15.3 million or 24%. The difference was mainly due to the passage of Measure V (a City Transactions and Use Tax of ½ cent) providing \$10.0 million annually. Additionally, non Measure V General Fund revenue growth allowed the addition of \$1.0 million in General Fund services and programs. The operating budget was adopted about one month early so that the service restoration process could begin. This was especially critical for those services requiring the hiring of permanent City staff.

The General Fund budget has stabilized given several factors. First, assessed value of property in the City (and related property tax and property tax in-lieu of VLF revenues) has increased by more than 12% in fiscal years 2005-06 and 2006-07. Second, modest economic recovery continues as indicated by the City's sales tax collections. Third, Proposition 1A constraints barring the State from significant raids on City revenue became effective beginning in fiscal year 2006-2007. Fourth, staff anticipates that the peak has been reached in the City's CalPERS retirement costs, and, finally, the Council has maintained financial discipline in managing on-going expenses as evidenced in the elimination of programs and services for an overall 24% reduction in the General Fund budget since April 2003.

The recovery that began in fiscal year 2006-07, inclusive of the estimated \$10.0 million from the new ½ cent transaction and use tax, must be well managed and must include all the elements of prudent financial planning. The demands for services will far out strip available resources and those demands must be balanced with General Fund investment in capital facilities as well as services. The City's cash reserves must also be a priority as the General Fund cash balances will be minimal. Just as the City set aside funds in reserve in the mid 1990s after the desperate budgets of the early 1990s, Salinas must begin to methodically save funds in reserve to guard against the next economic downturn.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2006

H. REQUEST FOR INFORMATION

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



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**BASIC FINANCIAL STATEMENTS
GOVERNMENT-WIDE
FINANCIAL STATEMENTS**



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CITY OF SALINAS
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets:			
Cash and Investments	\$ 67,911,756	\$ 7,928,872	\$ 75,840,628
Cash and Investments Restricted	6,111,503	3,524,739	9,636,242
Taxes Receivable	8,558,471	-	8,558,471
Accounts Receivable	260,921	555,612	816,533
Interest Receivable	913,339	110,991	1,024,330
Due from Other Agencies	4,896,999	3,949,913	8,846,912
Due from Fiduciary Funds	122,632		122,632
Short-term Internal Balances	1,279,745	(751,411)	528,334
Long-term Internal Balances	3,185,000	(3,185,000)	-
Assessments Receivable	25,245,000		25,245,000
Loans Receivable	12,383,357		12,383,357
Inventory	14,894		14,894
Deferred Charges	2,868,333	2,434,139	5,302,472
Capital Assets:			
Land and Nondepreciable Assets	21,541,039	3,629,739	25,170,778
Depreciable Assets-Net	120,980,830	147,314,332	268,295,162
Land Held for Resale	1,083,484		1,083,484
Total Assets	277,357,303	165,511,926	442,869,229
Liabilities:			
Accounts Payable	7,862,328	394,748	8,257,076
Accrued Leave	20,583	309,922	330,505
Prepaid Deposits		20,883	20,883
Matured Bonds & Interest Payable	95,000		95,000
Accrued Interest Payable	962,513	703,682	1,666,195
Deferred Revenues	26,043,548		26,043,548
Insurance Claims Payable	8,658,703		8,658,703
Unamortized Discount on Bonds	(160,539)		(160,539)
Long Term Debt-Due Within One Year	4,598,804	869,883	5,468,687
Long Term Debt-Due in More than One Year	57,827,318	42,795,854	100,623,172
Total Liabilities	105,908,258	45,094,972	151,003,230
Net Assets:			
Invested in Capital Assets, Net of Related Debt	90,720,790	107,278,334	197,999,124
Restricted for:			
Housing	16,486,798		16,486,798
Capital Projects	15,072,947		15,072,947
Highways and Streets	16,191,802		16,191,802
Debt Service	11,486,102	3,434,784	14,920,886
Special Programs	836,319		836,319
Total Restricted Assets	60,073,968	3,434,784	63,508,752
Unrestricted	20,654,287	9,703,836	30,358,123
Total Net Assets	\$ 171,449,045	\$ 120,416,954	\$ 291,865,999

The accompanying notes are an integral part of this statement.

**CITY OF SALINAS, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR FISCAL YEAR ENDED JUNE 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
General Government	\$ 13,820,028	\$ 5,158,951	\$ 7,485,986	\$ 49,960
Public Safety	46,432,796	1,249,385	1,896,739	7,978
Public Works	24,540,453	308,915	5,355,781	11,015,985
Recreation	3,648,214	436,923	190,367	
Library	706,967	18,217	143,549	128,636
Education (ERAF)	373,526			
Interest on long-term debt	3,330,858			
Total Governmental Activities	92,852,842	7,172,391	15,072,422	11,202,559
Business-Type Activities:				
Airport	1,231,111	957,489	18,049	2,235,042
Industrial Waste	1,120,218	1,236,876		
Golf Courses	2,610,943	994,582	578,258	35,965
Sanitary Sewer	3,269,614	2,143,718	324,872	377,569
Storm Sewer	3,774,192	451,722		576,029
Water Utility	162,156	22,135		
Downtown Parking	1,692,639	318,103	25,480	288,631
Total Business-Type Activities	13,860,873	6,124,625	946,659	3,513,236
Total Primary Government	\$ 106,713,715	\$ 13,297,016	\$ 16,019,081	\$ 14,715,795

General Revenues and Transfers:

Taxes
Licenses and Permits
Grants and Contributions not Restricted to Specific Programs
Unrestricted Investment Earnings
Miscellaneous
Gain (Loss) on Disposal of Assets/Debt
General Fund Advance to Golf Course Forgiven
Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning of Year

Parking District Net Assets Transfer Related to Enterprise Funds

Prior Year Adjustment (Note #25)

Net Assets - Beginning of Year, as restated

Net Assets - End of Year

The accompanying notes are an integral part of this statement.

**Net (Expense) Revenue and
Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (1,125,131)	\$	\$ (1,125,131)
(43,278,694)		(43,278,694)
(7,859,772)		(7,859,772)
(3,020,924)		(3,020,924)
(416,565)		(416,565)
(373,526)		(373,526)
(3,330,858)		(3,330,858)
<u>(59,405,470)</u>		<u>(59,405,470)</u>
	1,979,469	1,979,469
	116,658	116,658
	(1,002,138)	(1,002,138)
	(423,455)	(423,455)
	(2,746,441)	(2,746,441)
	(140,021)	(140,021)
	<u>(1,060,425)</u>	<u>(1,060,425)</u>
	<u>(3,276,353)</u>	<u>(3,276,353)</u>
<u>(59,405,470)</u>	<u>(3,276,353)</u>	<u>(62,681,823)</u>
71,124,516		71,124,516
13,881		13,881
1,062,899		1,062,899
954,210	913,874	1,868,084
93,099		93,099
10,261		10,261
(1,555,000)	1,555,000	-
645,265	(645,265)	-
<u>72,349,131</u>	<u>1,823,609</u>	<u>74,172,740</u>
12,943,661	(1,452,744)	11,490,917
161,098,472	119,018,412	280,116,884
(2,851,286)	2,851,286	-
<u>258,198</u>		<u>258,198</u>
<u>158,505,384</u>	<u>121,869,698</u>	<u>280,375,082</u>
<u>\$ 171,449,045</u>	<u>\$ 120,416,954</u>	<u>\$ 291,865,999</u>

Governmental Funds

GENERAL FUND

The General Fund is always classified as a major fund. It accounts for all financial resources necessary to carry out basic governmental activities of the City that are not accounted for in another fund. The General Fund supports essential City services such as police and fire protection, street maintenance, libraries, and parks and open space maintenance.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for a particular purpose. The following Special Revenue funds have been classified as major funds:

Community Development Block Grant Fund (Housing and Urban Development)

This fund accounts for the use of community development block grant funds received from the federal government. Other revenues in this fund include repayments of commercial and residential loans and rental income from City property. Funds are used for programs or projects that increase affordable housing and benefit people with special needs such as senior and handicapped citizens.

Development Fees Fund

By Resolution 3823 (N.C.S.), subdividers and developers of property are required to pay established fees covering traffic impact, annexation, use of existing or new sewers, storm drains, park facilities, library facilities and street trees.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Special Construction Assistance

The proceeds of long-term borrowings resulting from the sale of Certificates of Participation to finance the acquisition and construction of capital projects are reported under this fund.

Governmental Funds

DEBT SERVICE FUNDS

Debt Service Funds are used primarily to account for the accumulation of resources for the payment of principal and interest on general long-term debt of the City and the Redevelopment Agency. The following fund has been classified as a major fund.

Assessment District Debt Service Fund

This fund is used to accumulate monies for payment of the City's Assessment Districts Improvement Bonds. Debt service is financed with special assessments levied against property owners within the respective improvement districts.

**CITY OF SALINAS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006**

	General and Measure V	Housing & Urban Development	Development Fees
Assets:			
Cash and Investments	\$ 17,493,702	\$ 518,735	\$ 17,255,657
Cash and Investments Restricted	-	-	444,157
Taxes Receivable	8,558,471	-	-
Accounts Receivable	206,302	-	53,239
Interest Receivable	268,172	787	165,604
Assessments Receivable	-	-	-
Due from Other Agencies	-	654,487	-
Due from Fiduciary Funds	122,632	-	-
Due from Other Funds	1,047,057	-	-
Advances to Other Funds	3,185,000	-	-
Loans Receivable	29,800	6,129,008	-
Inventory	14,894	-	-
Land Held for Resale	-	-	-
Total Assets	<u>\$ 30,926,030</u>	<u>\$ 7,303,017</u>	<u>\$ 17,918,657</u>
Liabilities and Fund Balances:			
Liabilities			
Accounts Payable	\$ 4,556,279	\$ 229,279	\$ -
Due to Other Funds	1,177,461	508,897	477,533
Advance from Other Funds	-	-	-
Deferred Revenues	-	6,182,500	-
Matured Bonds & Interest Payable	-	-	-
Total Liabilities	<u>5,733,740</u>	<u>6,920,676</u>	<u>477,533</u>
Fund Balances:			
Reserved for:			
Operations	3,610,000	-	-
Structural Budget Deficit	2,425,000	-	-
Capital Projects	2,465,800	-	-
Capital Projects-Measure V	2,202,903	-	-
Encumbrances	760,847	382,341	3,752,134
Loans Receivable	29,800	-	-
Advances	3,185,000	-	-
Inventory	14,894	-	-
Condemnation Deposits	137,673	-	-
Carryover Appropriations	1,521,370	-	4,792,722
Future Budgets	-	-	8,896,268
Land Held for Resale	-	-	-
Parking Structure	-	-	-
Plaza Grande Operations	-	-	-
Debt Service	-	-	-
Unreserved, reported in:			
General Fund			
Designated	6,055,720	-	-
Undesignated	2,783,283	-	-
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Total Fund Balances	<u>25,192,290</u>	<u>382,341</u>	<u>17,441,124</u>
Total Liabilities and Fund Balances	<u>\$ 30,926,030</u>	<u>\$ 7,303,017</u>	<u>\$ 17,918,657</u>

The accompanying notes are an integral part of this statement.

<u>Construction Assistance</u>	<u>Assessment District Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,363,667	\$ 3,128,871	\$ 19,121,679	\$ 58,882,311
2,397,623	95,000	2,705,200	5,641,980
-	-	-	8,558,471
-	-	1,380	260,921
73,952	-	325,267	833,782
-	25,245,000	-	25,245,000
2,088,830	-	2,153,682	4,896,999
-	-	-	122,632
-	-	2,455,507	3,502,564
-	-	235,372	3,420,372
-	-	6,224,549	12,383,357
-	-	-	14,894
-	-	1,083,484	1,083,484
<u>\$ 5,924,072</u>	<u>\$ 28,468,871</u>	<u>\$ 34,306,120</u>	<u>\$ 124,846,767</u>
\$ 1,004,928	\$ 6,700	\$ 2,032,346	\$ 7,829,532
414,506	-	798,687	3,377,084
-	-	235,372	235,372
598,465	25,245,000	237,940	32,263,905
-	95,000	-	95,000
<u>2,017,899</u>	<u>25,346,700</u>	<u>3,304,345</u>	<u>43,800,893</u>
-	-	-	3,610,000
-	-	-	2,425,000
-	-	-	2,465,800
-	-	-	2,202,903
3,688,797	-	672,145	9,256,264
-	-	6,224,549	6,254,349
-	-	235,372	3,420,372
-	-	-	14,894
-	-	-	137,673
-	-	2,628,454	8,942,546
-	-	3,815,817	12,712,085
-	-	1,083,484	1,083,484
-	-	735,000	735,000
-	-	325,000	325,000
-	3,122,171	7,628,931	10,751,102
-	-	-	6,055,720
-	-	-	2,783,283
-	-	3,134,244	3,134,244
217,376	-	4,518,779	4,736,155
<u>3,906,173</u>	<u>3,122,171</u>	<u>31,001,775</u>	<u>81,045,874</u>
<u>\$ 5,924,072</u>	<u>\$ 28,468,871</u>	<u>\$ 34,306,120</u>	<u>\$ 124,846,767</u>

CITY OF SALINAS
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2006

Total Fund Balances - Total Governmental Funds	\$ 81,045,874
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital assets used in governmental funds are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet	142,521,869
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	(962,513)
Deferred revenues are adjusted as follows:	
Deferred revenues resulting from revenues that are not available to liquidate liabilities of the current period in governmental fund financial statements are reclassified as revenues in government-wide financial statements	6,220,357
Internal Service Funds are used by management to charge the costs of insurance programs to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Government-Wide Statement of Net Assets	2,020,708
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet	(62,265,583)
Deferred charges for bond issuance costs are not reported in the Governmental Funds Balance Sheet	<u>2,868,333</u>
Net Assets of Governmental Activities	<u>\$ 171,449,045</u>

The accompanying notes are an integral part of this statement.



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CITY OF SALINAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR FISCAL YEAR ENDED JUNE 30, 2006

	<u>General and Measure V</u>	<u>Housing & Urban Development</u>	<u>Development Fees</u>
Revenues:			
Taxes	\$ 66,017,531	\$ -	\$ -
Taxes - Special Assessment	-	-	-
Licenses and Permits	13,881	-	-
Intergovernmental	2,323,758	6,318,392	-
Charges for Services	6,176,344	-	1,784,204
Interest	820,620	3,165	686,179
Fines and Forfeits	-	-	-
Developer Contributions	-	-	-
Miscellaneous	318,707	815,564	-
Total Revenues	<u>75,670,841</u>	<u>7,137,121</u>	<u>2,470,383</u>
Expenditures:			
Current:			
General Government	8,922,789	4,717,884	-
Public Safety	43,270,684	-	-
Public Works	11,264,475	-	-
Recreation	2,085,212	-	-
Library	537,790	-	-
Education (ERAF payment)	-	-	-
Capital Outlay	172,455	17,023	-
Debt Service:			
Principal Retirement	-	-	-
Interest and Fiscal Charges	-	-	-
Pass Through Tax	-	-	-
Total Expenditures	<u>66,253,405</u>	<u>4,734,907</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,417,436</u>	<u>2,402,214</u>	<u>2,470,383</u>
Other Financing Sources (Uses):			
Interfund Loans	-	-	-
Bond Proceeds	-	-	-
Refunding 1997 COP Bonds	-	-	-
Bond Issuance Cost	-	-	-
General Fund Advance Forgiven	(1,555,000)	-	-
Operating Transfers In	1,125,000	-	-
Operating Transfers Out	(2,510,157)	(2,404,048)	(1,883,143)
Total Other Financing Sources (Uses)	<u>(2,940,157)</u>	<u>(2,404,048)</u>	<u>(1,883,143)</u>
Net Change in Fund Balances	6,477,279	(1,834)	587,240
Fund Balances at Beginning of Year, as restated	<u>18,715,011</u>	<u>384,175</u>	<u>16,853,884</u>
Fund Balances at End of Year	<u>\$ 25,192,290</u>	<u>\$ 382,341</u>	<u>\$ 17,441,124</u>

The accompanying notes are an integral part of this statement.

<u>Construction Assistance</u>	<u>Assessment District Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 5,967,080	\$ 71,984,611
-	3,432,591	-	3,432,591
-	-	-	13,881
2,468,933	-	7,591,423	18,702,506
-	-	1,056,022	9,016,570
120,831	-	844,078	2,474,873
-	-	841,112	841,112
382,706	-	-	382,706
-	-	394,245	1,528,516
<u>2,972,470</u>	<u>3,432,591</u>	<u>16,693,960</u>	<u>108,377,366</u>
-	-	313,202	13,953,875
-	-	2,509,303	45,779,987
-	-	-	11,264,475
-	-	899,846	2,985,058
-	-	98,094	635,884
-	-	373,526	373,526
2,707,915	-	12,368,892	15,266,285
-	2,735,000	2,532,604	5,267,604
-	1,541,352	1,524,827	3,066,179
-	-	750,703	750,703
<u>2,707,915</u>	<u>4,276,352</u>	<u>21,370,997</u>	<u>99,343,576</u>
<u>264,555</u>	<u>(843,761)</u>	<u>(4,677,037)</u>	<u>9,033,790</u>
-	-	1,460,000	1,460,000
-	-	11,705,000	11,705,000
-	-	(11,091,221)	(11,091,221)
-	-	(671,225)	(671,225)
-	-	-	(1,555,000)
1,108,618	-	10,447,495	12,681,113
-	-	(5,147,824)	(11,945,172)
<u>1,108,618</u>	<u>-</u>	<u>6,702,225</u>	<u>583,495</u>
1,373,173	(843,761)	2,025,188	9,617,285
<u>2,533,000</u>	<u>3,965,932</u>	<u>28,976,587</u>	<u>71,428,589</u>
<u>\$ 3,906,173</u>	<u>\$ 3,122,171</u>	<u>\$ 31,001,775</u>	<u>\$ 81,045,874</u>

CITY OF SALINAS
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 9,617,285
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount of capital asset additions recorded in the current period.	6,742,684
Governmental Funds do not include cost of capital outlay paid by Developers' for subdivision improvements accepted for maintenance. However, in the Government-Wide Statement of Activities the cost of those assets is allocated over the estimated useful lives as depreciation. This is the amount of Developers' capital asset additions recorded in the current period.	138,045
Governmental Funds do not include recognition of Taxes Receivable for a period longer than ninety days from the closing year date. VLF Recievable FY 2004-05	(529,124)
Revenues that have not met the revenues recognition criteria in the Fund Financial statements are recognized as revenue in the Government-Wide Financial Statements such as housing loan recognized as receivable in prior years.	(45,000)
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(6,964,124)
Deferred Revenues of new housing loans are reported in the Government-Wide Statement of Net Assets	2,479,200
Deferred Revenues of principal payments are reported in the Government-Wide Statement of Net Assets	(1,007,833)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. The following represent debt transactions:	
Increase in Benefits' Liability	(195,125)
Interfund Loan Proceeds	(1,460,000)
Bond Proceeds 2005B Refunding COP	(11,705,000)
Transfer to Business-type Long-term debt of COP 2004	(16,630,000)
Bond Issuance Cost 2005 B COP	773,232
Principal Repayments on Long-Term Debt	5,032,445
Long-term debt repayments	25,032,112
Capital leases repayments	266,182
Interest payable expense on long-term debt is reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, interest payable expense is not reported as expenditures in Governmental Funds. This amount represents the accrued interest payable expense at June 30, 2005.	287,473
Internal Service Funds are used by management to charge the costs of insurance programs to individual funds. The net income (loss) of the Internal Service Funds is reported with Governmental Activities.	591,716
Bond issuance costs are expenditures in governmental funds but are deferred and amortized in Government-Wide Statements. Following are debt related deferred transactions:	
Bond issuance expenditures deferred	671,225
Amortization expense for Cost of Issuance	(142,813)
Amortization expense for Bond Discount	(8,919)
Change in Net Assets of Governmental Activities	<u>\$ 12,943,661</u>

Proprietary Funds

Proprietary Funds are used to account for a government's business-type activities (activities supported, at least in part, by fees or charges). Proprietary funds are segregated into Enterprise Funds and Internal Service Funds. Enterprise Funds are used to report business-type activities for which a fee is charged to external users for goods or services. Internal Service Funds on the other hand are used primarily for services provided to internal users (other departments or agencies).

The City has the following Enterprise Funds:

Airport Fund - This fund is used to account for the enterprise operations of the City-owned airport.

Industrial Waste Fund - This fund is used to account for enterprise operations of the City-operated Industrial Wastewater treatment facility.

Municipal Golf Courses Fund - This fund is used to account for the enterprise operations of the Fairways and Twin Creeks golf courses.

Sanitary Sewer Fund - This fund is used to account for the maintenance of the City's sanitary sewer collection system, which is funded from a surcharge on the Monterey Regional Water Pollution Control Agency sewer user fees.

Storm Sewer Fund - This fund is used to account for the maintenance of the City's storm drainage system and the street sweeping program. This program was funded with a storm sewer fee that was declared by the Court as invalid under Proposition 218. Until alternative funding is secured, the program is funded with a combination of general funds and gas tax funds. In addition, the program is funded with a 9% street sweeping surcharge on garbage collection billings.

Landfill Garbage Surcharge Fund - This fund is used to account for the installment sale of the Crazy Horse landfill site to the Salinas Valley Solid Waste Authority.

Water Utility Fund - This fund is used to account for the repairs and maintenance of the water well located at Hitchcock Road. This project started in September 2003, after the well shaft had collapsed and emergency repairs were required. Water users fund the costs of the water well repairs and annual operating costs.

Downtown Parking District Fund - This fund was established to account for revenues, operating expenses and debt service associated with the City's parking facilities. The City's paid parking facilities include the Monterey Street Parking Structure, the Salinas Street Garage and four parking lots.

CITY OF SALINAS
Statement of Net Assets
Proprietary Funds
June 30, 2006

Business-type Activities - Enterprise Funds

	<u>Airport</u>	<u>Industrial Waste</u>	<u>Municipal Golf Courses</u>	<u>Sanitary Sewer</u>
Assets:				
Current Assets:				
Cash and Investments	\$ 1,494,188	\$ 1,266,303	\$ 114,741	\$ 3,103,320
Cash and Investments Restricted	-	-	972,593	1,289,148
Accounts Receivable	16,052	352,575	-	121,149
Interest Receivable	15,636	12,293	14,735	55,838
Deferred Charges	-	22,286	1,129,966	227,135
Due from General Fund	-	-	-	-
Total Current Assets	<u>1,525,876</u>	<u>1,653,457</u>	<u>2,232,035</u>	<u>4,796,590</u>
Noncurrent Assets:				
Due from Other Agencies	-	-	-	-
Capital Assets:				
Nondepreciable	1,925,768	740,536	-	956,735
Depreciable buildings, property, and infrastructure, net	8,014,864	4,997,972	7,777,644	42,091,935
Total Capital Assets	<u>9,940,632</u>	<u>5,738,508</u>	<u>7,777,644</u>	<u>43,048,670</u>
Total Noncurrent Assets	<u>9,940,632</u>	<u>5,738,508</u>	<u>7,777,644</u>	<u>43,048,670</u>
Total Assets	<u>11,466,508</u>	<u>7,391,965</u>	<u>10,009,679</u>	<u>47,845,260</u>
Liabilities:				
Current Liabilities:				
Accounts Payable	36,084	97,703	42,822	55,504
Deposits	20,883	-	-	-
Due to Other Funds	37,321	-	975	709,684
Insurance claims Payable	-	-	-	-
Interest Payable	-	12,080	167,219	282,145
Long Term Debt - Due Within One Year	-	55,000	395,311	345,000
Total Current Liabilities	<u>94,288</u>	<u>164,783</u>	<u>606,327</u>	<u>1,392,333</u>
Noncurrent Liabilities:				
Accrued Leave	26,923	29,945	92,092	84,701
Advance from General Fund	-	-	2,835,000	-
Long Term Debt - Due in More than One year	-	600,000	11,883,168	13,565,000
Total Noncurrent Liabilities	<u>26,923</u>	<u>629,945</u>	<u>14,810,260</u>	<u>13,649,701</u>
Total Liabilities	<u>121,211</u>	<u>794,728</u>	<u>15,416,587</u>	<u>15,042,034</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	9,940,632	5,083,508	(4,500,835)	29,138,670
Restricted	-	-	972,593	1,289,148
Unrestricted	1,404,665	1,513,729	(1,878,666)	2,375,408
Total Net Assets	<u>\$ 11,345,297</u>	<u>\$ 6,597,237</u>	<u>\$ (5,406,908)</u>	<u>\$ 32,803,226</u>

The accompanying notes are an integral part of this statement.

Business-type Activities - Enterprise Funds					Governmental
Storm	Landfill		Downtown	Totals	Activities -
Sewer	Garbage	Water	Parking		Internal
	Surcharge	Utility	District		Service Funds
\$ 1,291,609	\$ -	\$ -	\$ 658,711	\$ 7,928,872	\$ 9,029,445
-	-	-	1,262,998	3,524,739	469,523
29,539	-	5,635	30,662	555,612	-
11,899	-	-	590	110,991	79,557
-	-	-	1,054,752	2,434,139	-
-	-	-	-	-	1,154,265
1,333,047	-	5,635	3,007,713	14,554,353	10,732,790
-	3,949,913	-	-	3,949,913	-
-	-	-	6,700	3,629,739	-
68,131,279	-	179,883	16,120,955	147,314,332	-
68,131,279	-	179,883	16,127,655	150,944,071	-
68,131,279	3,949,913	179,883	16,127,655	154,893,984	-
69,464,326	3,949,913	185,318	19,135,368	169,448,337	10,732,790
41,005	-	1,247	120,383	394,748	32,796
-	-	-	-	20,883	-
1,218	-	2,213	-	751,411	-
-	-	-	-	-	8,658,703
4,631	-	-	237,607	703,682	-
74,572	-	-	-	869,883	-
121,426	-	3,460	357,990	2,740,607	8,691,499
61,324	-	-	14,937	309,922	20,583
-	-	-	350,000	3,185,000	-
117,686	-	-	16,630,000	42,795,854	-
179,010	-	-	16,994,937	46,290,776	20,583
300,436	-	3,460	17,352,927	49,031,383	8,712,082
67,939,021	-	179,883	(502,345)	107,278,334	-
-	-	-	1,173,043	3,434,784	9,957
1,224,869	3,949,913	2,175	1,111,743	9,703,836	2,010,751
\$ 69,163,890	\$ 3,949,913	\$ 181,858	\$ 1,782,441	\$ 120,416,954	\$ 2,020,708

CITY OF SALINAS
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For Fiscal Year Ended June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Airport</u>	<u>Industrial Waste</u>	<u>Municipal Golf Courses</u>	<u>Sanitary Sewer</u>
Operating Revenues:				
Charges for Services	\$ 957,489	\$ 1,236,876	\$ 994,582	\$ 2,143,718
Total Operating Revenues	<u>957,489</u>	<u>1,236,876</u>	<u>994,582</u>	<u>2,143,718</u>
Operating Expenses:				
Personnel Services	307,887	211,528	931,302	745,297
Administration	78,353	115,329	181,825	147,308
Contractual Services	159,184	214,993	49,624	28,714
Supplies	44,255	25,148	65,874	76,998
Insurance	20,798	17,700	26,600	-
Insurance Claims	-	-	-	-
Fees and Permits (Taxes)	-	9,404	-	-
Utilities	98,641	290,411	30,854	101,353
Depreciation	469,647	173,966	562,314	1,432,380
Amortization	-	2,476	59,105	9,875
Land Rent	-	-	75,804	-
Other	52,346	9,185	70,237	41,013
Total Operating Expenses	<u>1,231,111</u>	<u>1,070,140</u>	<u>2,053,539</u>	<u>2,582,938</u>
Operating Income (Loss)	<u>(273,622)</u>	<u>166,736</u>	<u>(1,058,957)</u>	<u>(439,220)</u>
Nonoperating Revenues (Expenses):				
Interest Revenue	64,144	44,693	48,623	221,916
Interest Expense	-	(50,078)	(557,404)	(686,676)
Other Nonoperating Revenues (Expenses)	18,049	-	578,258	324,872
Total Nonoperating Revenues(Expenses)	<u>82,193</u>	<u>(5,385)</u>	<u>69,477</u>	<u>(139,888)</u>
Income (Loss) Before				
Contributions and Transfers	(191,429)	161,351	(989,480)	(579,108)
Contributed Assets	2,235,042	-	35,965	377,569
General Fund Advance Forgiven			1,555,000	
Transfers In	-	-	750,000	-
Transfers Out	(24,243)	(370,834)	(770,221)	(121,188)
Change in Net Assets	<u>2,019,370</u>	<u>(209,483)</u>	<u>581,264</u>	<u>(322,727)</u>
Total Net Assets - Beginning of Year, as restated	<u>9,325,927</u>	<u>6,806,720</u>	<u>(5,988,172)</u>	<u>33,125,953</u>
Total Net Assets - End of Year	<u>\$ 11,345,297</u>	<u>\$ 6,597,237</u>	<u>\$ (5,406,908)</u>	<u>\$ 32,803,226</u>

The accompanying notes are an integral part of this statement.

Business-type Activities - Enterprise Funds					Governmental
Storm	Landfill	Water	Downtown	Totals	Activities -
Sewer	Garbage	Utility	Parking		Internal
	Surcharge		District		Service Funds
\$ 451,722	\$ -	\$ 22,135	\$ 318,103	\$ 6,124,625	\$ 4,462,174
451,722	-	22,135	318,103	6,124,625	4,462,174
743,360	-	-	91,088	3,030,462	311,090
107,658	-	726	39,793	670,992	-
72,603	-	7,561	231,002	763,681	496,981
94,392	-	-	8,303	314,970	989
-	-	-	-	65,098	1,023,227
-	-	-	-	-	2,340,139
-	-	-	-	9,404	-
2,057	-	-	34,901	558,217	-
2,736,441	-	10,268	284,700	5,669,716	-
-	-	-	36,371	107,827	-
-	-	-	-	75,804	-
17,681	-	-	6,235	196,697	3,907
3,774,192	-	18,555	732,393	11,462,868	4,176,333
(3,322,470)	-	3,580	(414,290)	(5,338,243)	285,841
50,344	316,550	-	167,604	913,874	305,875
-	-	-	(960,246)	(2,254,404)	-
-	-	(143,601)	25,480	803,058	-
50,344	316,550	(143,601)	(767,162)	(537,472)	305,875
(3,272,126)	316,550	(140,021)	(1,181,452)	(5,875,715)	591,716
576,029	-	-	288,631	3,513,236	-
500,000	-	-	-	1,555,000	-
(47,658)	(385,097)	-	(176,024)	(1,895,265)	-
(2,243,755)	(68,547)	(140,021)	(1,068,845)	(1,452,744)	591,716
71,407,645	4,018,460	321,879	2,851,286	121,869,698	1,428,992
\$ 69,163,890	\$ 3,949,913	\$ 181,858	\$ 1,782,441	\$ 120,416,954	\$ 2,020,708

CITY OF SALINAS
Statement of Cash Flows
Proprietary Funds
For Fiscal Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds			
	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer
Cash Flows from Operating Activities:				
Receipts from Customer and Users	\$ 958,997	\$ 1,545,456	\$ 994,582	\$ 2,142,998
Receipts from interfund services provided	-	-	-	-
Payments to Suppliers	(444,996)	(684,824)	(571,999)	(393,105)
Payments to Employees	(295,825)	(207,643)	(924,143)	(734,725)
Payments to Claimants	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>218,176</u>	<u>652,989</u>	<u>(501,560)</u>	<u>1,015,168</u>
Cash Flows from Non-Capital				
Financing Activities:				
Other Non-Operating Revenue	18,049	-	578,258	324,872
Deposits	(875)	(755)	-	-
Advance Received from General Fund	-	-	925,000	-
Payment on Advance from General Fund	-	-	-	-
Operating Transfers In	-	-	750,000	-
Operating Transfers Out	(24,243)	(370,834)	(770,221)	(121,188)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(7,069)</u>	<u>(371,589)</u>	<u>1,483,037</u>	<u>203,684</u>
Cash Flows from Capital and				
Related Financing Activities:				
Acquisition of Capital Assets	(2,575,023)	(18,037)	(112,340)	(3,476,495)
Proceeds from Capital Debt	-	-	-	-
Deferred Bond Issuance Costs	-	2,476	59,105	9,875
Capital Contributions (from developers/other funds)	-	-	35,965	377,569
Capital Grants Received	2,235,043	-	-	-
Capital Lease Payment, including interest	-	-	-	-
Principal paid on Capital Debt	-	(50,000)	(371,227)	(330,000)
Interest paid on Capital Debt	-	(51,000)	(576,202)	(692,245)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(339,980)</u>	<u>(116,561)</u>	<u>(964,699)</u>	<u>(4,111,296)</u>
Cash Flows from Investing Activities:				
Interest Received	59,138	41,714	49,027	233,921
Increase (Decrease) in Fair Value of Investments	987	1,068	-	8,042
Transfer (to) from Restricted Cash	-	-	(1,197)	(208,369)
Net Cash Provided by Investing Activities	<u>60,125</u>	<u>42,782</u>	<u>47,830</u>	<u>33,594</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(68,748)	207,621	64,608	(2,858,850)
Cash and Cash Equivalents at Beginning of Year	<u>1,562,936</u>	<u>1,058,682</u>	<u>50,133</u>	<u>5,962,170</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,494,188</u>	<u>\$ 1,266,303</u>	<u>\$ 114,741</u>	<u>\$ 3,103,320</u>

The accompanying notes are an integral part of this statement.

Business-type Activities - Enterprise Funds					Governmental
Storm Sewer	Landfill Garbage Surcharge	Water Utility	Downtown Parking District	Totals	Activities - Internal Service Funds
\$ 483,871	\$ -	\$ 30,647	\$ 287,441	\$ 6,443,992	\$ 329,221
-	-	-	-	-	5,691,297
(295,825)	-	(7,040)	(328,356)	(2,726,145)	(1,549,969)
(742,075)	-	-	(73,972)	(2,978,383)	(305,223)
-	-	-	-	-	(3,257,328)
<u>(554,029)</u>	<u>-</u>	<u>23,607</u>	<u>(114,887)</u>	<u>739,464</u>	<u>907,998</u>
-	-	-	25,480	946,659	-
-	-	-	-	(1,630)	-
-	-	2,213	350,000	1,277,213	-
-	-	(25,820)	-	(25,820)	-
500,000	-	-	-	1,250,000	-
<u>(47,658)</u>	<u>(385,097)</u>	<u>-</u>	<u>(176,024)</u>	<u>(1,895,265)</u>	<u>-</u>
<u>452,342</u>	<u>(385,097)</u>	<u>(23,607)</u>	<u>199,456</u>	<u>1,551,157</u>	<u>-</u>
(466,724)	-	-	(2,889,816)	(9,538,435)	-
-	68,547	-	-	68,547	-
-	-	-	36,371	107,827	-
576,029	-	-	325,000	1,314,563	-
-	-	-	-	2,235,043	-
-	-	-	-	-	-
(108,087)	-	-	-	(859,314)	-
<u>(2,387)</u>	<u>-</u>	<u>-</u>	<u>(722,639)</u>	<u>(2,044,473)</u>	<u>-</u>
<u>(1,169)</u>	<u>68,547</u>	<u>-</u>	<u>(3,251,084)</u>	<u>(8,716,242)</u>	<u>-</u>
46,881	316,550	-	167,080	914,311	274,332
857	-	-	(65)	10,889	3,172
-	-	-	2,584,168	2,374,602	(94,855)
<u>47,738</u>	<u>316,550</u>	<u>-</u>	<u>2,751,183</u>	<u>3,299,802</u>	<u>182,649</u>
(55,118)	-	-	(415,332)	(3,125,819)	1,090,647
<u>1,346,727</u>	<u>-</u>	<u>-</u>	<u>1,074,043</u>	<u>11,054,691</u>	<u>7,938,798</u>
<u>\$ 1,291,609</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 658,711</u>	<u>\$ 7,928,872</u>	<u>\$ 9,029,445</u>

Continued

CITY OF SALINAS
Statement of Cash Flows
Proprietary Funds
For Fiscal Year Ended June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Airport</u>	<u>Industrial Waste</u>	<u>Municipal Golf Courses</u>	<u>Sanitary Sewer</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating Income (Loss)	\$ (273,622)	\$ 166,736	\$ (1,058,957)	\$ (439,220)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Depreciation	469,647	173,966	562,314	1,432,380
(Increase) Decrease in Accounts Receivable	1,508	308,580	-	(720)
(Increase) Decrease in Prepaid Insurance	-	-	-	-
(Increase) Decrease in Due from General Fund	-	-	-	-
Increase (Decrease) in Accounts Payable	12,217	259	(7,088)	12,510
Increase (Decrease) in Insurance Claims	-	-	-	-
Increase (Decrease) in Accrued Leave	8,426	3,448	2,171	10,218
Increase (Decrease) in Restricted Cash	-	-	-	-
Transfer to Restricted Cash	-	-	-	-
Total Adjustments to Net Income	<u>491,798</u>	<u>486,253</u>	<u>557,397</u>	<u>1,454,388</u>
Net Cash Provided by Operating Activities	<u>\$ 218,176</u>	<u>\$ 652,989</u>	<u>\$ (501,560)</u>	<u>\$ 1,015,168</u>
Noncash investing, capital, and financing activities:				
Borrowing under capital lease	-	-	-	-
Contributions of capital assets from government	2,235,043	-	35,965	365,609
Contributions of capital assets from developers	-	-	-	11,960
Lease-Purchase payments on equipment	-	-	(14,712)	-
Increase (Decrease) in fair value of investments	987	1,068	-	8,042

The accompanying notes are an integral part of this statement.

Business-type Activities - Enterprise Funds					Governmental
Storm Sewer	Landfill Garbage Surcharge	Water Utility	Downtown Parking District	Totals	Activities - Internal Service Funds
\$ (3,322,470)	\$	\$ 3,580	\$ (414,290)	\$ (5,338,243)	\$ 285,841
2,736,441	-	10,268	284,700	5,669,716	-
32,149	-	8,512	(30,662)	319,367	-
-	-	-	-	-	-
(529)	-	1,247	30,428	49,044	1,264,624
-	-	-	-	-	(8,211)
380	-	-	14,937	39,580	(639,626)
-	-	-	-	-	5,370
-	-	-	-	-	94,855
-	-	-	-	-	(94,855)
2,768,441	-	20,027	299,403	6,077,707	622,157
\$ (554,029)	\$ -	\$ 23,607	\$ (114,887)	\$ 739,464	\$ 907,998

-	-	-	-	-	-
576,029	-	-	325,000	3,537,646	-
-	-	-	-	11,960	-
(108,087)	-	-	-	(122,799)	-
857	-	-	(65)	10,889	3,172
					Concluded



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Fiduciary Funds

Fiduciary Funds are used to account for assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The City maintains the following Fiduciary Funds:

Private Purpose Trust Funds - These funds are used to account for any trust arrangement not properly reported in a pension trust fund under which principal and income benefit individuals, private organizations, or other governments. The City accounts for the following trust funds: Community Center, Sherwood Hall, Monterey Regional Water Pollution Control Agency (MRWPCA) Fees, Sales Tax, Payroll Taxes, Developer Deposits, Construction Bonds, Golf Courses Merchandise Sales, Peacebuilders, "Rally Salinas" Library donations and Miscellaneous.

Pension Trust Funds - These funds are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans. The City's only pension trust fund is the Deferred Compensation Fund which allows City employees to invest in trust deeds that are managed by the City with the oversight of an investment committee that is made up of representatives from each of the bargaining units.

Agency Funds - These funds are used to account for assets held in an agency capacity by the City for individuals, private organizations, other governments and/or other funds. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City accounts for the following agency funds: Sherwood Hall Box Office, Sunrise House, Second Chance Youth Program, Cafeteria Plan, Retirees Health Insurance, Business Improvement District and Salinas Valley Solid Waste Authority.

CITY OF SALINAS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust Funds	Pension Trust Funds	Agency Funds
Assets:			
Cash and Investments	\$ 1,519,618	\$ 38,914,229	\$ 10,465,107
Cash and Investments Restricted	-	-	21,613,137
Deposits	786,799		-
Accounts Receivable	19,130	-	1,603,032
Interest Receivable	198	47,301	353,317
Due from Other Agencies	-	-	133,470
Bond Issuance Costs	-	-	1,807,196
Capital Assets, Net	-	-	28,396,350
Total Assets	2,325,745	38,961,530	64,371,609
Liabilities:			
Accounts Payable	881,262	1,651	3,154,330
Accrued Leave	-	-	139,211
Due to Outside Agencies	-	-	79,832
Deferred Revenues	-	-	205,915
Interest Payable	-	-	935,709
Long term debt	-	-	61,456,927
Due to SVSWA (Fiduciary Liability)	-	-	(1,600,315)
Total Liabilities	881,262	1,651	64,371,609
Net Assets:			
Held in trust for pension benefits and other purposes	<u>\$ 1,444,483</u>	<u>\$ 38,959,879</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2006

	Private Purpose Trust Funds	Pension Trust Funds
Additions:		
Contributions:		
Plan members	\$ -	\$ 2,973,580
Private Donations	2,672,739	-
Total contributions	2,672,739	2,973,580
Investment earnings:		
Interest	-	2,838,983
Net investment earnings	-	2,838,983
Total Additions	2,672,739	5,812,563
Deductions:		
Benefit payments	-	3,469,497
Payments on behalf of trustees	2,388,686	-
Total Deductions	2,388,686	3,469,497
Change in Net Assets	284,053	2,343,066
Net Assets - Beginning	1,160,430	36,616,813
Net Assets - Ending	\$ 1,444,483	\$ 38,959,879

The accompanying notes are an integral part of this statement.



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CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#1. Summary of Significant Accounting Policies:

The basic financial statements of the City of Salinas 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 City of Salinas (City) are described below.

A. *Reporting Entity*

The City of Salinas was incorporated as a charter city on March 4, 1874. The City operates under a Council-Manager form of government and provides the following services as authorized: Public Safety, Public Works, Recreation-Parks, Library and General Government Administrative Services. The City also operates an Airport, a Golf Course, a Sanitary Sewer System, a Water Utility, a Storm Sewer System and an Industrial Waste Facility.

As required by GAAP, these basic financial statements present the City of Salinas (the primary government) and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, parts of the City's operations, therefore, data from these units are combined with the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined basic financial statements to emphasize their legal separateness from the City. Each blended component unit has a June 30 year-end. The City has no discretely presented component units. The following entities are reported as blended component units:

Salinas Redevelopment Agency (Agency)

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. Additionally, on July 27, 1999 the Agency adopted the amendment to the Central City Redevelopment project. On August 17, 2004, the Agency adopted ordinances amending redevelopment plans of the Buena Vista, Central City and Sunset Avenue project areas to delete the debt incurrence time limit from the plans and to extend the plans one year.

The Agency is financed by property tax increments according to the State Community Redevelopment Law. The Agency's purpose is to eliminate blighted areas by encouraging the development of residential, including low and moderate-income housing, commercial and industrial facilities. The Redevelopment Agency is a legally separate entity; however, the City Council has appointed its members to serve as the governing board of the Agency, and is fully accountable for its fiscal matters. The City Council, acting as Agency Board, appoints the Agency Executive Director, Legal Counsel and Treasurer. In the attached statements, the Agency is presented in the Special Revenue, Debt Service and Capital Projects Funds and Capital Assets. A separate Annual Financial Report of the Salinas Redevelopment Agency is published

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

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

and is available from the Agency Treasurer at the Agency's Finance Department located at 200 Lincoln Avenue, Salinas, CA 93901.

Salinas Public Financing Authority (Authority)

The Authority was established October 6, 1992 pursuant to a Joint Exercise of Powers Agreement by and between the City and the Agency. It was established to refund Central City Revitalization Project tax allocation bonds. The Authority was used on April 19, 1994 to issue a site lease to finance the expansion of the industrial waste facility, on September 17, 1996 to issue Central City Revitalization Project Tax Allocation Bonds, Series A 1996, on March 25, 1997 to issue Variable Rate Lease Revenue Bonds, Series A and B 1997, on October 24, 1997 to issue Certificates of Participation, Series A 1997 on February 25, 1999 to issue Certificates of Participation, Series A 1999, on December 17, 2003 to issue Certificates of Participation, Series A 2004, and on September 1, 2005 to issue Refunding Certification of Participation, series 2005 A and B. The Authority is reported in Debt Service and Enterprise Funds. A financial report is not issued by the Authority.

Other organizations. The City of Salinas acts as fiscal agent for Sunrise House and Second Chance Youth Program; therefore, financial information for these agencies is included in the accompanying financial statements as Fiduciary fund types. The City also acts as fiscal agent for the Salinas Valley Solid Waste Authority. A separate annual financial report of the Authority is published and is available from the Authority's Finance Dept. located at 200 Lincoln Avenue, Salinas, CA 93901.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. City resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Fiduciary Activities of the City are not included in these statements.

The basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure 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. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

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

for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The City has presented all major funds that met the qualifications for major fund reporting.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. 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. In order to create the basis for the accrual and revenue recognition of the true-up payment associated with the State's reallocation of sales tax, a change in revenue recognition policy extends the availability period for sales tax revenue recognition to seven to twelve months. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, taxpayer-assessed tax revenues (sales taxes, transient occupancy taxes, franchise taxes, etc.) and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

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

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and nonmajor funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with governmental activities in the Government-Wide Financial Statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the City applies all GASB pronouncements currently in effect as well as Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure that do not conflict with or contradict GASB pronouncements.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets, and a Statement of Changes in Fiduciary Net Assets. The City's Fiduciary funds represent agency funds, pension trust funds, and private-purpose trust funds. The Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting as are the governmental funds explained above.

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 City's policy is to apply restricted net assets first.

D. Budgeting

The budget is prepared by the City Manager and adopted by the City Council. Formal budgetary integration was employed as a management control device during the fiscal year for the General Fund, Special Revenue Funds and Capital Projects Funds.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

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

The City Manager may transfer budget appropriations between departments and Department Directors may transfer appropriations between programs and accounts within their individual departments and divisions, but only the Council by resolution may appropriate funds from reserves or fund balances.

Budgets for General, Special Revenue and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Reserves for future lease purchase commitments have been established for accounting purposes and the fund balance is reserved for the total lease commitment consistent with budget policies.

Budget policy excludes taxes, interest, and accounts receivable assets, which 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 department level. Budgeted amounts shown are as originally adopted or as amended by the City Council during the year. During the year, several supplementary appropriations were necessary.

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

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

E. Interest Earnings

Interest received on time deposits and investments is prorated to the following funds generally based on their month end cash balance. Interest earned by other funds under this method is allocated to the General Fund.

- General Fund
- Airport Fund
- Industrial Waste Fund
- Municipal Golf Courses Fund
- Asset Seizure Fund
- Local Public Safety Fund
- Community Development Act of 1997 Fund
- Lighting, Landscape and Maintenance District Funds
- Storm Sewer Fund
- Sanitary Sewer Fund
- Development Fee Fund
- Special Gas Tax Improvement Fund
- Special Aviation Fund
- Certificates of Participation Debt Service Funds

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

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

Internal Service Self Insurance Funds
Downtown Parking District Fund
Agency Funds
Deferred Compensation Fund
Assessment District Funds
Central City Revitalization Project, Debt Service and Housing Funds
Sunset Avenue Merged Redevelopment Project, Debt Service and Housing Funds
Salinas Valley Solid Waste Authority

F. Cash and Cash Equivalents

The City 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 City's intent to hold investments until maturity. However, the City may, in response to market conditions, sell investments prior to maturity in order to improve the quality, liquidity or yield of the portfolio. Interest earnings are apportioned among funds based on ending accounting period cash and investment balances.

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

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

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

G. Property Tax

State Constitution Article 13A provides for a maximum general property tax rate statewide of \$1.00 per \$100 of assessed value. Assessed value is calculated at 100% of market value as defined by the above-referenced Article 13A. The State Legislature has determined the method of distribution of receipts from \$1.00 tax levy among the county, cities, school districts, and other districts. Counties, cities, and school districts may levy such additional tax rate as is necessary to provide for voter approved debt service.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

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

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

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

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

Property tax 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. The City has elected not to participate in the "Teeter Plan" offered by the County, thereby retaining the right to any interest and penalties collected on the related delinquent taxes.

H. Interfund-fund Balances/Internal Balances

Advances to and advances from other funds represent interfund loans in the fund financial statements. Advances between funds are offset by a fund balance reservation or by deferred revenue 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.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as "internal balances."

I. Inventory of Supplies

Inventory is valued at average cost, which approximates cost as determined on a first-in-first-out basis. Inventory in the General Fund consists of expendable supplies held for consumption by all departments of the City. The cost is recorded as an expenditure or expense in the appropriate fund at the time individual inventory items are withdrawn for use (consumption method). The General Fund inventory amount is equally offset by a fund balance reservation, which indicates that it does not constitute expendable available financial resources.

J. Land Held for Resale

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

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

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 for the infrastructure subsystem. 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 for the business-type activities and proprietary funds as part of the asset cost.

L. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General, Special Revenue, and Capital Projects Funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

M. Compensated Absences

Accrued annual leave for all regular City employees and paid time-off for management employees is reported as a long-term liability in the governmental activities of the Government-Wide Financial Statements and as a current liability in the business-type activities of the Government-Wide Financial Statements.

Effective January 1, 1988, approximately seventy percent of all City employees stopped earning vacation and sick leave and instead earn annual leave, which can be used for any purpose. Effective January 1, 1995, Firefighters converted all vacation hours accumulated on an hour for hour basis to annual leave. All sick leave hours are maintained as sick leave hours in the employee's accrual bank.

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. The City also pays all City employees twenty percent of their sick leave balances upon normal (not early or disability) retirement or ten percent for other than a normal retirement.

N. Deferred Revenue

In the Government-Wide Financial Statements, deferred revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as deferred revenues in the Government-Wide Financial Statements are long-term assessments, long-term loans receivable, and prepaid charges for services.

In the Fund Financial Statements, deferred revenue is also recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting, when revenues have not been earned, or funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, interest on interfund advances receivable, long-term assessments and loans receivable.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

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

O. *Claims and Judgments*

Claims and judgments are recognized as expenditures when it is probable that the liability has been incurred and the amount of the loss can be reasonably estimated. The City performs an actuarial study of claims and judgments to determine liabilities on a biannual basis.

P. *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 governmental fund financial statements do not present long-term debt. Long-Term Debt is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Q. *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 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/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

Fund Equity – Reservations and designations of fund balances of governmental funds and unrestricted net assets of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or to identify the portion of the fund equity not available for future expenditures.

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

Unreserved Fund Balance - Unreserved fund balance indicates that portion of fund equity which is available for budgeting in future periods, although a portion of these funds may be designated by City Council in multi-year budgets or may not be available in the current period because of accrual transactions.

R. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

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

of contingent assets and liabilities. In addition, estimates affect the reported amount of expenditures and expenses. Actual results could differ from these estimates and assumptions.

S. Future GASB Implementation

In July of 2004, the GASB issued Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, with required implementation for the City during the 2006-2007 fiscal year. The new statement will significantly change the way state and local governments report their "other post employment benefits" to the public. As a result of GASB 45, state and local governments will be required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer's cash flow.

#2. Cash and Investments:

The City's cash and investments at June 30, 2006 are included in the accompanying basic financial statements as follows:

	Government-Wide Statement of Net Assets			Funds Financials	
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Assets	Total
Cash and Investments	\$ 67,911,756	\$ 7,928,872	\$ 75,840,628	\$ 50,898,954	\$ 126,739,582
Restricted Cash and Investments	6,111,503	3,524,739	9,636,242	21,613,137	31,249,379
Total Cash and Investments	<u>\$ 74,023,259</u>	<u>\$ 11,453,611</u>	<u>\$ 85,476,870</u>	<u>\$ 72,512,091</u>	<u>\$ 157,988,961</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#2. Cash and Investments: (Continued)

Cash and Investments at June 30, 2006 consisted of the following:

CASH:	
Demand Accounts at Banks	\$ 352,966
Petty Cash and Revolving Fund	15,000
Micro Loans-Sunset Avenue	56,105
State Condemnation Deposits Fund	137,673
	<u>561,744</u>
INVESTMENTS:	
State Local Agency Investment Fund	55,353,145
American Beacon	22,500,000
Certificates of Deposits	16,850,000
Investments held in trust by Fiscal Agent	23,809,843
	<u>118,512,988</u>
DEFERRED COMPENSATION:	
Cash in State Local Agency Investment Fund	4,428,037
Hartford	1,703,080
Central Coast Federal Credit Union	656,776
Trust Deeds	32,126,336
	<u>38,914,229</u>
Total Cash Investments	<u>\$ 157,988,961</u>

The City's investment policy also governs the investment of all funds including those of the Salinas Redevelopment Agency and Salinas Valley Solid Waste Authority. 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 City of Salinas follows the practice of pooling cash and investments of all funds including Agency funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures. Earnings from these investments are allocated quarterly to each fund based on average monthly cash balances. Investment income from cash and investments held by fiscal agents is credited directly to the related fund.

Investments are stated at cost or fair value as required by Government Accounting Standards Board Statement No. 31. Investments shown at fair value are used 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, 2006 includes a portion of the pool funds invested in Structured Notes and Asset-Backed securities.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#2. Cash and Investments: (Continued)

Under provisions of the City's Investment Policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

Certificates of Deposit	Repurchase Agreements
Bankers Acceptances	Guaranteed Investment Contracts
U.S. Treasury Bills and Notes	State of California Local Agency Investment Fund
Government Agency Securities	Passbook Savings Accounts
Mutual Funds	Interest Bearing Checking Accounts
Commercial Paper	

The Deferred Compensation Plan is permitted by City resolution to invest in deeds of trust secured by real or personal property. Management believes that the market value of the trust deed portfolio at June 30, 2006 is sufficient to offset the estimated 4% cost to liquidate the portfolio.

Deposits

At June 30, 2006, the carrying amount of the City's deposits was \$561,745. The bank balance was \$2,468,618. The difference is due to outstanding checks and deposits in transit. All bank balances are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits.

The City has waived collateral requirements for deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#2. Cash and Investments: (Continued)

Investments:

As of June 30, 2006 the City had the following investments and maturities:

	Fair Value	0-6 months	6-12 months	1-5 years	over 5 years
Local Agency Investment Fund	\$ 72,911,092	\$ 72,911,092	\$	\$	\$
Money Market	22,500,000	22,500,000			
Certificates of Deposits	16,850,000	6,100,000	10,750,000		
Investment Agreements	7,897,086				7,897,086
Mutual Funds	2,305,923	2,305,923			
Insurance Reserves	469,523	469,523			
Trust Deeds-Def Comp	32,126,336			32,126,336	
Hartford/CCFCU-Def Comp	2,359,856			2,359,856	
	<u>\$ 157,419,816</u>	<u>\$ 104,286,538</u>	<u>\$ 10,750,000</u>	<u>\$ 34,486,192</u>	<u>\$ 7,897,086</u>

Credit Risk:

The Local Agency Investment Fund managed by the California State Treasurer, representing 46.15% of the portfolio is not rated. Investments in money market funds are limited by Government Code Section 53601 to those that have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations. At June 30, 2006, mutual funds were rated Aaa by Moody's and AAA by S & P. The investments agreement providers were rated from AAA to AA by S&P and from Aaa to Aa2 by Moody's.

The American Beacon Money Market fund is managed by American Beacon Advisors Inc. The fund invests all of its investable assets exclusively in high quality variable or fixed rate, US dollar denominated short-term Money Market investments. The fund only buys securities with the following credit qualities:

- Rated in the highest short-term categories by two rating organizations, such as "AAAm" by Standard and Poor's rating services and "Aaa" by Moody's investors' services, at time of purchase.
- Rated in the highest short-term categories by one rating organization, or
- Unrated Securities that are determined to be of equivalent quality by the Manager pursuant to guidelines approved by the Board of Trustees.

Concentration of Credit Risk

The Local Agency Investment Fund, representing 46.15% of the portfolio and the Money Market Fund, representing 14.24% of the portfolio are not considered a concentrated risk.

Interest Rate Risk:

As a means of limiting exposure to fair value losses arising from rising interest rates, the City'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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#2. Cash and Investments: (Continued)

requirements. Because the Local Agency Investment Fund as of June 30, 2006 had an average life of 196 days, it was presented as an investment with a maturity of 0-6 months. However, LAIF allows the City to make withdrawals of any amount within 24 hours.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy limits safekeeping of investments to third-party custody. The amount of \$23,809,842 is held by various fiscal agents in a trustee capacity. These funds represent bond proceeds held by trustees per the indentures of trust and funds held by third-party administrators for the City's workers compensation and liability insurance programs.

#3. Restricted Assets:

Cash and investments of \$31,249,379 are recorded as restricted assets at June 30, 2006 and they are summarized as follows:

Development Fees - restricted for construction retentions	\$	444,157	
Construction Assistance - restricted for the construction of the Monterey Street Parking and for COP 2005B Projects			2,397,623
Assessment District Debt Service - restricted for unrepresented matured bonds of the North East Salinas Assessment District			95,000
Maintenance District - restricted for construction retentions			7,402
Gas Tax - restricted for construction retentions			8,400
Debt Service Fund - restricted to cover expenses of debt service			2,633,293
Capital Projects Fund - restricted for small business loans			56,105
Enterprise Fund - restricted to cover expenses of debt service			
Golf Courses Fund	\$	972,593	
Sanitary Sewer		1,289,148	
Downtown Parking District		<u>1,262,998</u>	3,524,739
Internal Service Fund - restricted for liability expenses and workers compensation claims			469,523
Salinas Valley Solid Waste Authority, an Agency Fund:			
- restricted by the California Integrated Waste Management Board for the eventual closure of the landfills	\$	9,977,724	
- restricted to cover expenses of debt service		2,821,420	
- bond proceeds restricted for capital improvement projects		<u>8,813,993</u>	<u>21,613,137</u>
Total Restricted Assets			<u><u>\$ 31,249,379</u></u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#4. Taxes Receivable:

Taxes receivable recorded in the General Funds of \$8,558,471 represent amounts due for the quarter ending June 30, 2006 for the following taxpayer - assessed taxes:

Sales Tax	\$ 3,419,446
Transaction And Use Tax	1,697,059
In-lieu Sales Tax	1,483,881
Utility Users Tax	1,189,853
Franchise Tax	160,717
Transient Occupancy Tax	386,003
Other Taxes	111,955
Property Transfer Tax	<u>109,557</u>
	<u>\$8,558,471</u>

#5. Assessments Receivable:

Debt Service Fund - Assessments receivable recorded in the Assessment District Debt Service Fund of \$25,245,000 at June 30, 2006, will be collected from property owners to retire outstanding bond principal issued for improvements in special assessment districts. Cash and investments at June 30, 2006 of \$3,128,871 are available to make bond and interest payments of \$2,667,638 that are due on September 1, 2006.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#6. Due From Other Agencies:

Due from other agencies consists of the following:

	Federal	State	Other	Total
Government Activities:				
General Fund:				
Salinas Valley Solid Waste Authority	\$	\$	\$ 42,800	\$ 42,800
Second Chance Youth Program			79,832	79,832
			<u>122,632</u>	<u>122,632</u>
Special Revenue Funds:				
Dept. of Housing & Urban Dev C.D. Act of 1974:				
Neighborhood Improvement Program	560,524			560,524
Emergency Shelter Program	37,378			37,378
Home Investment Program	56,585			56,585
US Department of Justice	173,312			173,312
California Dept of Motor Vehicles		96,101		96,101
California Highway Users Tax		231,551		231,551
California Office of Traffic Safety		90,877		90,877
County of Monterey			234,552	234,552
	<u>827,799</u>	<u>418,529</u>	<u>234,552</u>	<u>1,480,880</u>
Capital Projects Funds:				
Federal Aviation Administration	1,327,289			1,327,289
Federal Highway Administration	8,850			8,850
Federal Hazard Elimination Safety	35,064			35,064
Economic Development Administration	201,259			201,259
CA Dept.of Transportation (Caltrans)		449,498		449,498
State AB 2766			926,276	926,276
Developers			423,833	423,833
Steinbeck Foundation			44,050	44,050
	<u>1,572,462</u>	<u>449,498</u>	<u>1,394,159</u>	<u>3,416,119</u>
Total Government Activities	<u>2,400,261</u>	<u>868,027</u>	<u>1,628,711</u>	<u>4,896,999</u>
Business-Type Activities:				
Enterprise Funds:				
Salinas Valley Solid Waste Authority			3,949,913	3,949,913
Trust and Agency Funds:				
Sunrise House:				
Monterey County			29,625	29,625
Other Grants & Contributions			23,789	23,789
Second Chance Youth Program:				
Salinas Union High School	11,000			11,000
County Probation Grant	5,762			5,762
Payroll Deposits			786,799	786,799
	<u>16,762</u>		<u>840,213</u>	<u>856,975</u>
Salinas Valley Solid Waste Authority:				
Tri-Cities Disposal			51,133	51,133
Burn Dump			12,161	12,161
			<u>63,294</u>	<u>63,294</u>
Primary Government Totals	<u>\$ 2,417,023</u>	<u>\$ 868,027</u>	<u>\$ 6,604,763</u>	<u>\$ 9,889,813</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#7. Interfund Transactions:

Due To/From Other Funds - Interfund receivables and payables consist of the following:

	Due To			Total
	Governmental Activities			
<u>Due From:</u>	General	Capital Projects	Internal Service	
Primary Government				
Governmental Activities:				
Major Funds:				
General Fund	\$ 290,220	\$ 23,196	\$ 1,154,265	\$ 1,177,461
Comm Dev Act of 1974 Fund		218,677		508,897
Development Fee Fund		477,533		477,533
Non-Major Funds:				
EMS		57,456		57,456
Asset Seizure		36,319		36,319
Lighting,Landscape & Maintenance	17,767			17,767
Local Public Safety Fund	271,189			271,189
Gas Tax Fund		354,662		354,662
SRA Housing Fund		6,993		6,993
SRA Project Fund		3,139		3,139
Grants Fund	33,919			33,919
Special Aviation	17,243			17,243
Special Constr Assist Fund	414,506			414,506
Total Governmental Activities	<u>1,044,844</u>	<u>1,177,975</u>	<u>1,154,265</u>	<u>3,377,084</u>
Business Type Activities:				
Airport Fund		37,321		37,321
Municipal Golf Course Fund		975		975
Sanitary Sewer Fund		709,684		709,684
Storm Sewer Fund		1,218		1,218
Water Utility Fund	2,213			2,213
	<u>2,213</u>	<u>749,198</u>		<u>751,411</u>
Total Primary Government	<u>1,047,057</u>	<u>1,927,173</u>	<u>1,154,265</u>	<u>4,128,495</u>
Fiduciary Funds:				
Salinas Valley Solid Waste Authority		528,334		528,334
Total Fiduciary Funds		<u>528,334</u>		<u>528,334</u>
	<u>\$ 1,047,057</u>	<u>\$ 2,455,507</u>	<u>\$ 1,154,265</u>	<u>\$ 4,656,829</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#7. Interfund Transactions: (Continued)

Interfund Transfers - Interfund transfers are legally authorized transfers between funds in which one fund is responsible for the initial receipt of funds and another fund is responsible for the actual disbursement. Examples include transfer of funds from the Gas Tax Fund to the General Fund for street purpose expenditures, and transfers to the Capital Projects Fund for project reimbursements. Listed below are the interfunds operating transfers for the year ended June 30, 2006:

	Operating Transfers In	Operating Transfers Out
General Fund	\$ 1,125,000	\$ 2,510,157
Special Revenue Funds:		
EMS	260,000	66,338
Asset Seizure Fund		72,984
Local Public Safety Fund	18,225	268,067
Community Development Act of 1974 Fund		2,404,048
Development Fee Fund		1,883,143
Gas Tax Fund		2,689,913
Traffic Safety Fund		700,000
Vehicle Abatement Fund	40,000	
Grants Fund	3,000	
Central City Housing Fund	574,017	240,466
Sunset Avenue Merged Housing Fund	536,039	
	<u>1,431,281</u>	<u>8,324,959</u>
Debt Service Funds:		
COPS 1997	785,097	
COPS 1999	84,000	
Central City Debt Service Fund	240,466	574,017
Sunset Avenue Merged Debt Service Fund		536,039
	<u>1,109,563</u>	<u>1,110,056</u>
Capital Projects Funds:		
Special Construction Assist Fund	1,108,618	
Capital Project Fund	7,906,651	
	<u>9,015,269</u>	
Total Governmental Activities	<u>12,681,113</u>	<u>11,945,172</u>
Enterprise Funds:		
Airport Fund		24,243
Industrial Waste Fund		370,834
Municipal Golf Courses Fund	750,000	770,221
Sanitary Sewer Fund		121,188
Storm Sewer Fund	500,000	47,658
Solid Waste Fund		385,097
Downtown Parking District Fund		176,024
Total Business Type Activities	<u>1,250,000</u>	<u>1,895,265</u>
Total Governmental & Business Activities	<u>13,931,113</u>	<u>13,840,437</u>
Expendable Trust Fund:		
Trust Deposits Fund	55,945	146,621
Total Expendable Trust Fund	<u>55,945</u>	<u>146,621</u>
	<u>\$ 13,987,058</u>	<u>\$ 13,987,058</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#7. Interfund Transactions: (Continued)

Advances to/from other funds

The Central City Debt Service Fund has a liability to the Central City Housing Fund of \$235,372 at June 30, 2006. The mandatory set-aside (20% of tax increment revenue) to the Low and Moderate Income Housing Fund was deferred from August 26, 1986 through June 30, 1992 for a total liability of \$1,299,637. The Agency adopted a plan that dedicates two percent of future tax increment revenue to pay this liability. The remaining balance of \$235,372 will be paid over the next 4 years. The set-aside requirement was made for the fiscal year ended June 30, 2006 and future requirements cannot be deferred.

Annual debt service requirements to maturity for the housing set-aside payable are as follows:

Fiscal Year Ending June 30,	
2007	\$ 57,400
2008	59,122
2009	60,896
2010	57,954
	<u>\$235,372</u>

Enterprise Advance

Cash flow advances of \$4,390,000 have been made from the City's General Fund to the Municipal Golf Courses to cover operating losses in fiscal year 2001-02 through 2005-06. The City's accumulated General Fund advance of \$1,555,000 to the Twin Creeks Golf Course was forgiven during fiscal year 2005-06 leaving a General Fund advance balance to the Golf Course Fund of \$2,835,000 at the end of the year. Twin Creek Golf Course subsidy has been eliminated with the twenty-year lease of Twin Creeks Golf Course to First Tee of Monterey in an annual amount of \$575,000. City Council is exploring alternatives to continuing the Fairways Golf Course subsidy, including rate adjustments and reducing costs by contracting for maintenance and/or operations of the courses.

This advance is recorded in the General Fund – Advances to Other Funds and in the Enterprise Fund – Advances from Other Funds for the year ended June 30, 2006.

#8. Loans Receivable:

At June 30, 2006, the Government-Wide and Fund Financial Statements show the City had \$12,383,357 in long-term loans receivable. Transactions for the year are summarized as follows:

Beginning balance	\$ 9,721,939
New Housing Loans	3,325,000
Maya Cinemas Accrued Interest	44,825
Principal Repayments	(708,407)
Ending Balance	<u>\$ 12,383,357</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#8. Loans Receivable: (Continued)

General Fund

First time homebuyers loans with three percent interest forgiven if owner occupied for thirty years, which are due upon transfer of property title.	<u>\$ 29,800</u>
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Special Revenue Funds

Loans recorded in the Community Development Act of 1974 for the following:

Deferred housing rehabilitation loans at three percent interest are reviewed for extension every five years, and are due upon transfer of property title.	2,288,612
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Direct housing rehabilitation loans at five to eight percent interest amortized over fifteen years, and due upon transfer of property title.	239,059
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First time homebuyers loans with three percent interest forgiven if owner occupied for thirty years, are due upon transfer of property title.	1,700,000
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Deferred payment loan to Community Housing Improvement Systems and Planning Association Systems (CHISPA) for Sherwood Seniors Village bearing simple interest at an annual rate of three percent (3%) for 30 years. Interest charges will accrue beginning July 1, 2006. Repayment of principal and interest is due no later than July 1, 2036.	1,700,000
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Small business loans with various terms.	43,837
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Loan to the Salinas Redevelopment Agency for the purchase of the Green Gold Inn Homeless Shelter at no interest, due transfer of property title or cessation of homeless center and one half to be forgiven in ten years (2005).	<u>157,500</u>
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Total Community Development Act of 1974 Loans Receivable.	<u>6,129,008</u>
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Central City Housing Fund

Eight 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
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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.	180,000
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Housing Construction Loan at 6% for 30 years due and payable upon transfer or sale of property.	33,532
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Housing Construction Loan at 5% for 20 years due and payable upon transfer or sale of property.	162,292
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CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#8. Loans Receivable: (Continued)

Loan to Community Housing Improvement Systems and Planning Association (CHISPA) to provide down payment assistance loans to farm worker families. Loans bear interest at 3.5% annually, are subordinate to the primary mortgage, and are due upon transfer of title. If owner occupies property for 45 years, the 3.5% interest is forgiven.	775,500
Loan to the Plaza Grande, a 92-unit very low-income residential project. Loan bears no interest and requires no payments until due in forty years.	250,000
Loan made during August 2005 to First Community Housing, Inc. for land acquisition, interest free due in two years.	910,000
Loan to Lupine Housing, Inc., for construction of a 20-unit apartment complex for persons with very low income and mental health disabilities. The loan is due in 2 years and bears interest of 2% the first year, 3% the second year, and 10% thereafter.	<u>400,000</u>
Total Central City Housing Fund Loans Receivable	<u>2,806,324</u>

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. 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
Eight 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.	110,000
Loan made during May 2005 to CHISPA for Los Abuelitos Senior Housing Project, no interest for 55 years	300,000
Loan to Community Housing Improvement Systems and Planning Association (CHISPA) to provide down payment assistance loans to farm worker families. Loans bear no interest, are subordinate to the primary mortgage, and are due upon transfer of title.	<u>224,500</u>
Total Sunset Avenue Merged Housing Fund Loans Receivable	<u>2,134,500</u>

Capital Projects 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 until due at end of term. 10 loans have monthly payments amortized over 25 years.	379,075
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CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#8. Loans Receivable: (Continued)

The Note Receivable of \$815,000 is a promissory note from the sale of downtown land to Maya Cinemas for the development of a 14-screen movie theater. The note bears interest at 5.5% and matures on June 23, 2006. The note was extended on September 5, 2006 and is now due on December 23, 2006. The Note Receivable includes accrued interest of \$89,650, through June 30, 2006. Principal and accrued interests are due upon refinancing of the construction loan. It is secured by a deed of trust.

	904,650
Total Central City Project Fund Loans Receivable	1,283,725
Total Loans Receivable	\$12,383,357

No allowance for doubtful accounts is presented in the accompanying financial statements as management considers all receivables to be collectible.

#9. Land Held for Resale:

The Salinas Redevelopment Agency is holding for resale land and buildings. The properties are recorded at their appraised market value, as follows:

Central City Project Fund

111 Main St – Parking lot – future hotel site	\$ 391,140
117 Main St – Alley by Steinbeck	24,445
150 Main St – Vacant lot – future hotel site	473,292
Total land available for sale in Central City Capital Project Fund	888,877

Central City Low and Moderate Income Housing Fund

5, 7 & 11 Soledad St	194,607
Total land held for resale	\$1,083,484

#10. Capital Assets:

In 2003, the City of Salinas hired American Appraisal Associates, Inc., to inventory and value the City and Agency Capital Assets for GASB 34 reporting purposes. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of 2 years or greater. The capitalization threshold is applied to individual units of capital assets rather than groups.

Per GASB Statement 34, which the City implemented in fiscal year 2003, the City has capitalized and reported major general infrastructure assets that were acquired (purchased, constructed, or donated), or that received major renovations, restorations, or improvements since fiscal year 2003.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#10. Capital Assets: (Continued)

A. Value of Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. The cost includes all ancillary charges necessary to place the asset in its intended location and condition for use. Contributed capital assets are valued at their estimated fair market value on the date contributed.

Major outlays for capital assets and improvements are capitalized as projects and are constructed. Repairs to existing capital assets will generally not be subject to capitalization unless the repair extends the useful life of the asset.

B. Depreciating Capital Assets

All depreciable capital assets are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro-rata share of the cost of capital assets. Depreciation is provided using straight-line depreciation using the half-year convention. Depreciation is calculated for half a year on the year of acquisition and the year of disposition. The City has assigned the useful lives listed below to capital assets:

Buildings 20 to 50 years
Improvements 15 to 45 years
Infrastructure 10 to 50 years
Machinery and Equipment 5-20 years

C. Capital Asset Contributions

Some capital assets may be acquired using federal and state grant funds, or they may be contributed by developers. These contributions are accounted for as revenues at the time the capital assets are contributed.

D. Assets not Capitalized

Art Collections, Library Reserve Collections, and Museum and Historical Collections, that are considered inexhaustible in that their value does not diminish over time, are not required to be capitalized. The City maintains a policy that requires proceeds from sales to be used to acquire other items for collection. Living things will not be capitalized due to the high level of ongoing maintenance and/or training (animals) to extend its life and/or add usefulness. Some examples are; trees, grass/sod, other vegetation, police dogs, horses or other animals. Street related infrastructure items such as regular road maintenance with an expected life of less than 5 years (slurry seals) or traffic calming measures (street striping, speed bumps, medians, vegetation) are items that do not materially add to the value of the assets or extend its useful life.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#10. Capital Assets: (Continued)

	Balance June 30, 2005	Parking Assets Transferred	Additions	Adjustments/ Retirements	Balance June 30, 2006
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 20,322,466	\$ (6,700)	\$ 350,266	\$ (962)	\$ 20,665,070
Construction in progress	15,112,799	(14,765,283)	528,453	-	875,969
Total assets not being depreciated	<u>35,435,265</u>	<u>(14,771,983)</u>	<u>878,719</u>	<u>(962)</u>	<u>21,541,039</u>
Capital assets, being depreciated:					
Buildings and improvements	28,528,359	(1,319,995)	323,958		27,532,322
Improvements other than buildings	8,576,027	(58,900)	708,794		9,225,921
Machinery and equipment	16,612,279	(7,568)	1,068,254	(287,390)	17,385,575
Infrastructure	180,641,988	-	4,068,906	-	184,710,894
Total assets being depreciated	<u>234,358,653</u>	<u>(1,386,463)</u>	<u>6,169,912</u>	<u>(287,390)</u>	<u>238,854,712</u>
Less accumulated depreciation:	<u>(111,854,524)</u>	<u>824,316</u>	<u>(6,964,124)</u>	<u>120,450</u>	<u>(117,873,882)</u>
Total capital assets being depreciated, net	<u>122,504,129</u>	<u>(562,147)</u>	<u>(794,212)</u>	<u>(166,940)</u>	<u>120,980,830</u>
Governmental Activities capital assets, net	<u>\$ 157,939,394</u>	<u>\$ (15,334,130)</u>	<u>\$ 84,507</u>	<u>\$ (167,902)</u>	<u>\$ 142,521,869</u>
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 3,623,039	\$ 6,700	\$ -	\$ -	\$ 3,629,739
Construction in progress	-	-	-	-	-
Total assets not being depreciated	<u>3,623,039</u>	<u>6,700</u>	<u>-</u>	<u>-</u>	<u>3,629,739</u>
Capital assets, being depreciated:					
Buildings and improvements	8,079,338	16,085,278	1,052,131		25,216,747
Improvements other than buildings	11,914,567	58,900	2,510,191	-	14,483,658
Machinery and equipment	5,406,694	7,568	214,121		5,628,383
Infrastructure	207,271,750	-	4,060,369	-	211,332,119
Total assets being depreciated	<u>232,672,349</u>	<u>16,151,746</u>	<u>7,836,812</u>	<u>-</u>	<u>256,660,907</u>
Less accumulated depreciation:	<u>(102,852,543)</u>	<u>(824,316)</u>	<u>(5,669,716)</u>	<u>-</u>	<u>(109,346,575)</u>
Total capital assets being depreciated, net	<u>129,819,806</u>	<u>15,327,430</u>	<u>2,167,096</u>	<u>-</u>	<u>147,314,332</u>
Business-type Activities capital assets, net	<u>\$ 133,442,845</u>	<u>\$ 15,334,130</u>	<u>\$ 2,167,096</u>	<u>\$ -</u>	<u>\$ 150,944,071</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 236,071
Police	569,126
Fire	327,036
Public Works, including infrastructure assets	5,078,413
Recreation and Parks	679,017
Library	74,461
Total depreciation expense - Governmental Activities	<u>\$ 6,964,124</u>

Business-type Activities:

Airport	\$ 469,647
Industrial Waste	173,966
Golf Courses	562,314
Sanitary Sewer	1,432,380
Storm Sewer	2,736,441
Water Utility	10,268
Downtown Parking	284,700
Total depreciation expense - Business-type Activities	<u>\$ 5,669,716</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#11. Contingent Assets:

The City has made land acquisition advances totaling \$737,602 to the Community Housing Improvement Systems and Planning Association, Inc.

The City holds two long term (15 years), non-interest bearing, deferred payment notes in the amount of \$682,904. The notes are secured by deeds of trust, which may be subordinated to the construction lender to build affordable housing. The balance of the advances is secured by the eventual sale proceeds of the La Terraza Project, \$54,698.

#12. Deferred Revenues:

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenues are stated at \$26,043,548 in the Governmental-Wide Statements and \$32,263,905 in the Fund Statements. The difference of \$6,220,357 represents long-term loans in the Special Revenue Funds recorded as deferred revenue. These are not available resources. Deferred revenues of \$32,263,905 at June 30, 2006 consists of the following:

Governmental Activities:	
Major Funds:	
Community Development Act of 1974 Fund	
Housing Rehab Loans	\$ 2,527,670
First Time Homebuyers Loans	1,700,000
Salinas Redevelopment Agency Loan	157,500
Small Business Loans	43,837
Home Program Deferred Revenue	1,753,493
	<hr/>
	6,182,500
Construction Assistance	598,465
	<hr/>
Assessment District Debt Service Fund	
Assessments Receivable	25,245,000
	<hr/>
Non-major Funds:	
Special Revenue and Capital Projects grants, advances	237,940
Total Governmental Activities	<hr/> <u>\$ 32,263,905</u>
Fiduciary Funds:	
Agency Fund	<hr/> <u>\$ 251,528</u>

#13. Deferred Compensation Plan:

The City has two deferred compensation plans created in accordance with Internal Revenue Code Section 457. Recently enacted Small Business Job Protection Act of 1996 requires the establishment of a trust or similar vehicle to ensure that the assets of the Deferred Compensation Plans under the Internal Revenue Code Section 457 are protected and used exclusively for the benefit of Plan participants and/or their beneficiaries. According to these law changes, the City established Employer Trust arrangements for each of the Plans before January 1, 1999.

The City established in November of 1997 an Employer Trust through the Plan Document adopted with the ICMA Retirement Corporation. On December 15, 1998 the City Council adopted a Resolution amending the City administered deferred compensation plan to also conform to the new law. Under the Trust arrangement, individual accounts maintained by the record-keeper used for receiving contributions and

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#13. Deferred Compensation Plan: (Continued)

paying distributions must be subject to the Trust. The existence of the trust does little to change the Plan structure except to add a layer of protection for money set aside for the employee against claims of the Employer's creditors. The law also allows an increase in the amount a participant may differ each year, based on changes in the consumer price index.

The International City Manager's Association Retirement, Inc., plan has a balance of \$15,943,593 at June 30, 2006. All employees are eligible to participate through voluntary salary reduction. Some management employees participated in lieu of participation in the New York Life Retirement Program until June 19, 1995 when a qualified 401(a) retirement program was established. These assets are not reported on the City's financial statements at June 30, 2006 pursuant to the Employer Trust established by the City with ICMA Retirement Corporation during November 1997.

The City administers a Trust Deposit Fund that includes a second deferred compensation plan funded solely by voluntary salary reductions. All employees are eligible to participate. The plan has \$38,959,879 in cash and investments at June 30, 2006. The balance in these plans is available to employees only upon termination, retirement, death or unforeseen emergency. While the Employer Trust established by the City on December 15, 1998 protects these funds from creditors of the City, because the City administers the plan assets they are included in the City's financial statements at June 30, 2006.

The following is a summary of the increases and decreases of the Deferred Compensation Plan administered by the City for the fiscal year ended June 30, 2006:

Fund assets (at market value), July 1, 2005	\$	36,616,813
Deferrals of compensation		1,846,102
Investment earnings		2,838,983
Payments to eligible participants & beneficiaries		(1,962,688)
Employee and retiree Inter Plan Transfers		(245,635)
Loss on Hartford & Trust		(33,739)
Plan Management Expenses		(99,957)
Fund assets (at market value), June 30, 2006	\$	38,959,879

#14. Retirement Programs:

As of June 30, 2006, the City was contributing to three employee retirement programs. Total pension expenses for the fiscal year were \$11,684,037, including employee contributions, normal costs and annual amortization of prior service costs.

Public Employees Retirement System

Plan Description The City of Salinas' defined benefit pension plans, Safety Fire Plan, Safety Police Plan and Miscellaneous Plan, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#14. Retirement Programs: (Continued)

other requirements are established by State statutes within the Public Employees' Retirement Law. The City of Salinas selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

The City amended its contract with CalPERS effective June 1, 2001 to provide 3% at 50 for the Police Public Safety Group and 2% at 55 for Local Miscellaneous Members. The City contract with CalPERS for the Fire Public Safety Group, provided 2% at 50 through November 1, 2005. A contract amending the benefits for the Fire Public Safety Group providing 3% at 50 went in effect as of December 1, 2005. All CalPERS participant benefits vest after five years of service. Local Police Safety and Local Fire Safety Employees who retire at or after age 50 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount that equals 3 percent at age 50 of the single highest year's salary for each year of credited service. Those Miscellaneous members under CalPERS who retire at or after age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount that varies from 2 percent at age 55 to a maximum 2.418 percent at age 63 and over of the single highest year's salary for each year of credited service.

Under the authority of recently approved legislation, the CalPERS Board of Administration created a Risk pooling system for plans with less than 100 participants. The Fire Public Safety Group qualified under the guidelines to be moved into the new risk pool. Risk pooling consists of pooling assets and liabilities from several employers to produce a large risk sharing pool that will dramatically reduce or eliminate the large fluctuations in the employer's contribution rate caused by unexpected demographic events. Supplementary information includes the Fire Public Safety Group risk pool history as available from CalPERS.

Funding Policy Active plan members are required to contribute 9% (7% for miscellaneous employees) of their annual covered salary. The City of Salinas is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2005/06 was 32.661% for firefighters, 28.315% for police officers and 10.611% for miscellaneous employees of their annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is actuarially determined annually by CalPERS.

Annual Pension Cost For fiscal year 2005/06, the City of Salinas' annual pension cost of \$9,874,831 was equal to the City's required and actual contributions. The City of Salinas actually contributed \$7,147,467 while the employees contributed \$2,727,364. The required contribution for fiscal year 2005/06 was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumption included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service ranging from 3.25% to 13.15% for

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#14. Retirement Programs: (Continued)

safety members (3.25% to 14.45% for miscellaneous members), and (c) 3.25% payroll growth. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments, spreading the unrealized and realized gain/(loss) over a three-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of assumed future payroll on a closed basis.

THREE-YEAR TREND INFORMATION

<u>Fiscal Year</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005/06	\$ 9,874,831	100%	\$ 0
2004/05	8,186,555	100%	0
2003/04	5,548,684	100%	0

Historical Three-Year Trend of Funding Progress is presented in the Required Supplementary Information section of this report.

New York Life

Plan Description The New York Life is a closed single-employer defined benefit pension plan that covers Non-Public Safety Employees. The Plan was established on September 1, 1954 and has been amended and restated from time to time since that date. Prior Plan amendments eliminated the six-month service requirement for entry into the plan and credited participants with up to six-months of service from hire to plan entry prior to time change. The Plan was amended and restated effective September 1, 1996 to bring the Plan into compliance with the Internal Revenue Code and Regulations promulgated thereby to provide for the City's pick-up of employee eligible participants equal to the present value of vested accrued benefits. The most recent plan amendment effective June 13, 2005 eliminated the six month service requirement for entry into the Plan and credited participants with up to six month of service from hire to plan entry prior to the change. Effective June 1, 2001, the Plan amended its benefit formula to one that uses an average salary computed from the twelve month period, replacing an old formula that uses an average salary computed from a thirty six month period.

As of June 19, 1995, all new regular non-public safety employees are enrolled in the Public Employees Retirement System (PERS).

The City of Salinas has an agreement with New York Life Insurance Company to hold and invest plan assets of the Retirement Plan, which covers employees other than Police and Fire. The total covered payroll for employees participating in the Plan for fiscal year ended June 30, 2006 was \$4,578,741.

All Miscellaneous personnel benefits vest after five years of service. The vested benefit would be in the form of a pension beginning after attaining age 60 equal to the benefits accrued at time of termination, or for a reduced amount if an election is made to have payments commence before attaining the normal retirement age of 60. City employees who retire at or after age of 60 with five years of credited service are entitled to an

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#14. Retirement Programs: (Continued)

annual retirement benefit payable: monthly for life, as a straight life annuity, as a ten year certain and life annuity, or as a lump sum, in an amount equal to 2% of the average earnings paid to the employee during the twelve consecutive months of service with the City during which his earnings were highest, multiplied by the number of years and completed months of plan participation. The plan allows early retirement after reaching age 55 and completing five years of plan participation. The plan also provides death and survivor benefits.

Funding Policy The contribution requirements of Plan members and the City are established and may be amended by the City Council. Prior to January 1, 1979, participants were required to make specified levels of contributions to the plan in order to accrue benefits under the Plan. For the period commencing January 1, 1979 through December 31, 1993, there were no participants contributions under this Plan. For the period commencing January 1, 1994, participants were required to contribute 4.5% of their compensation to the Plan. After September 1, 1996, participant contributions were made by the City under the employee pretax pick-up provision for government-sponsored plans allowed under the Internal Revenue Code.

Annual Pension Cost The annual pension cost is actuarially determined by the valuation based on a plan year that starts on September 1st and ends on August 31st. The required actuarially determined city contribution for the period ending in August 31, 2006 was \$1,213,477. During fiscal year 2005/06, the City contributed \$1,213,477 to the New York Life retirement plan, while the employees contributed \$153,687. The City also contributed \$56,981 on behalf of employees represented by SEIU.

The Net Pension Obligation as determined by the Actuarial valuation of September 1, 2005 is (\$169,465) and is included in the General Long Term Debt.

The annual required contribution for the current year was determined as part of the September 1, 2005 actuarial valuation using the Frozen Entry Age Actuarial Cost Method. The actuarial assumptions included (a) 7.0% investment return (net of administrative expenses) (b) projected salary increases of 3.0% per year and (c) projected cost of living adjustments of 2.0%. The assumptions include post-retirement benefit increases, which are adjusted by the lesser of the average Consumer Price Index or 2.0%. Assets are valued at cash value on September 1, 2005 as reported by New York Life Insurance Company, using an estimation of interest and expense which is equal to two-thirds of the prior contract year's interest and expense. The actuarial liability represents the actuarial present value of all benefits accrued as of the valuation date, based on service and salary at that date. The Plan will amortize the unfunded frozen actuarial accrued liability over a 30-year period.

<u>THREE-YEAR TREND INFORMATION</u>			
<u>Fiscal Year</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/05	\$1,112,863	121.54%	\$ (169,465)
06/30/04	876,865	100.92%	70,250
06/30/03	1,097,859	100.92%	78,339

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#14. Retirement Programs: (Continued)

Historical Three-year Trend of funding progress is presented in the Supplementary Information section of this report.

ICMA Retirement Corporation Defined Contribution Plan

Plan Description - On June 19, 1995, the City established a qualified retirement program in accordance with Internal Revenue Code Section 401(a). This defined contribution 401(a) Money Purchase Retirement Plan was established with International City Managers Association Retirement Corporation (ICMA). Non-Public Safety Mid-Management employees that were participating in the ICMA 457 non-qualified deferred compensation plan in-lieu of participation in the New York Life Retirement Program, were required to transfer to one of the other City's three qualified retirement plans. The City's contribution for July 1, 2005 through April 28, 2006 was 22.02% of the participant's covered payroll, and 26.8% for April 29, 2005 through June 30, 2006. During the fiscal year 2005-06, the City's contribution to this plan was \$208,566 while the employees contributed \$41,084. At June 30, 2006, there were 9 employees with an annual payroll totaling \$919,925 participating in this program. Since June 29, 1998, participants are required to contribute 4.5% of their compensation to the plan.

Significant Accounting Policies

Basis of Accounting - Financial statements are prepared using the cash basis of accounting. Employer contributions are recognized in the period that the contributions are made.

Method Used to Value Investments - Participants direct their investments, without restriction, among various investment options available under the ICMA 401 (a) Plan. Plan investments are reported at fair market value. At June 30, 2006, the total Plan Assets totaling \$2,606,368 consisted of \$2,123,962 of earnings and employer contributions, \$429,367 of employee mandatory contributions, \$48,022 of employee after-tax voluntary contributions and, \$5,017 rollover from another qualified plan. Earnings include dividends, interest, and realized and unrealized gains and losses.

Retirement Buyback Program

During Fiscal Year 1995-96, the City established a deferred compensation retirement buyback program for Department Directors where the City contributes a flat dollar amount based on tenure with the City. The 401(a) Money Purchase Retirement Plan is administered by the ICMA Retirement Corporation. The program requires employee-matching contributions for every dollar contributed by the City. At June 30, 2006, there were 8 participants in this program and the City's annual contribution was \$67,705.

#15. Post Employment Benefits:

Effective September 29, 1995, pursuant to Memorandum of Understanding adopted on September 1, 1994, the City established certain post-retirement health care benefit provisions to pay twenty-five percent of premium or \$100 per month (whichever is less) of the employee and spouse medical insurance premium for Public Safety employees retiring from the City with a normal service retirement. This benefit is provided for no more than ten years for each employee of the Salinas Police Officers Association and until employees of the other Public Safety bargaining units become eligible for Medicare

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#15. Post Employment Benefits: (Continued)

coverage. As of June 30, 2006, there were sixty employees receiving this benefit for a total cost of \$60,804. The City recognizes costs as expenditures on a pay-as-you-go basis.

The City participates in the CalPERS PEMHCA (Public Employees Medical and Hospital Care Act) health benefit program that requires a minimum contribution from the City to be applied against the monthly cost of health insurance for any employee retiring from the City of Salinas. The minimum cost to the City per employee during calendar year 2006 was \$10.66 per month, and is schedule to be adjusted in 2007 to \$14.70 per month.

Recently the Governmental Accounting Standard Board (GASB) issued Statement 45, which addresses plan and employer reporting of Post-Employment Benefit Plans Other Than Pensions (OPEB). GASB 45 requires the city to account for OPEB liabilities much like the city already accounts for pension liabilities, generally adopting the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that the city has not set aside any funds against this liability.

Until now, these benefits have been administered on a pay-as-you-go basis and have not been reported as a liability on the City's financial statements.

The City will conform to the new reporting requirement starting with the year ending June 30, 2007.

#16. Self Insurance:

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

Liabilities for estimated claims payable for the self-insurance programs represent settled claims, claims incurred but not paid and claims incurred but not reported based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2006 is dependent on future developments, City management has determined the desired reserve level for each self-insurance program as follows and believes the estimates are adequate to cover such losses.

1. Worker's Compensation insurance liability of \$10,478,947 includes \$8,383,157 for claims incurred but not paid and \$2,095,790 for claims incurred but not reported which is based on expected claims and past claims history as recommended by the City's Risk Management consultant. At June 30, 2006, Worker's Compensation insurance liability of \$10,478,947 is reported on the statement of net assets. The worker's compensation fund was established as an Internal Service Fund on July 1, 1991. The portion of the worker's compensation insurance liability since July 1, 1991, at June 30, 2006 is \$8,064,454 and is reported in the Internal Service Fund; \$2,414,493 of this is treated as long-term debt. Amount due from General Fund of \$1,154,265 is recorded at June 30, 2006.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#16. Self Insurance: (Continued)

2. General Liability insurance liability at June 30, 2006 of \$594,249 includes \$226,109 for claims incurred but not paid and \$368,140 for claims incurred but not reported which is based on expected claims and past claims history. Unreserved retained earnings is \$1,615,059 at June 30, 2006 and is short the City's goal of reserving three times the self-insured retention plus full funding of all past claims history. The City's self-insured retention is \$1,000,000.

The following table presents reconciliation of the changes in total claims liability.

	<u>Workers Compensation</u>	<u>General Liability</u>
Beginning balance of claims liability	\$ 10,389,749	\$982,020
Less beginning provision for incurred but not reported claims	<u>(2,077,950)</u>	<u>(351,254)</u>
Beginning provision for incurred but not paid claims	8,311,799	630,766
Increase (decrease) in claims incurred and reported	2,726,649	197,380
Claim expenses paid	<u>(2,655,291)</u>	<u>(602,037)</u>
Ending balance provision for incurred but not paid claims	8,383,157	226,109
Provision for incurred but not reported claims	<u>2,095,790</u>	<u>368,140</u>
Ending balance of claims liability	<u>\$10,478,947</u>	<u>\$ 594,249</u>

#17. Lease Obligations:

The City has commitments under various long-term operating lease agreements. Future minimum lease payments are approximately as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Redevelopment Total</u>
2007	\$ 46,071
2008	47,333
2009	48,634
2010	49,974
	<u>\$ 192,012</u>

Police - Lease of office space at 90 West Alisal Street and 261 Lincoln Avenue. The lease provides for an initial term of five years with an option to extend for an additional five years and will increase based on the change in the CIP with a floor of three percent and a ceiling of seven percent. Total cost for the lease was \$53,583 for the year ended June 30, 2006.

Redevelopment Agency – The Agency leases office facilities at 159 Main Street under a five-year lease with an option to extend for five years. Total cost for the lease was \$43,654 for the year ended June 30, 2006.

Community Development Block Grant – Office space at 65 W. Alisal (Room 220) was leased by the City of Salinas to the Community Development Block Grant program from July through December 2005. Total cost of the lease for the six-month period was \$12,125.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#17. Lease Obligations: (Continued)

Police – Office space lease at 100 West Alisal Street, Steinbeck Post Office is currently on a month-to-month lease. Rent is at \$1,425 per month as of January 1, 2006. Cost of the lease was \$16,281 for the year ended June 30, 2006.

#18. Long Term Debt:

The following is a summary of Long Term Debt transactions for the fiscal year ended June 30, 2006.

	June 30, 2005	Increases	Decreases	June 30, 2006	Due Within One Year
Governmental Activities:					
Annual Leave	\$ 6,092,619	\$ 294,900	\$ 201,112	\$ 6,186,407	\$ 1,237,281
Estimated Insurance claims	2,073,440	341,053		2,414,493	
Net Pension Obligation	70,250		239,715	(169,465)	(45,350)
Capital Leases	604,231		266,182	338,049	276,607
Loans and Notes Payable:					
City Loan - Homeless Shelter	157,500			157,500	
Breadbox Gym Note Payable	248,852		26,229	222,623	28,853
Total Loans & Notes Payable	406,352		26,229	380,123	28,853
Certificates of Participation					
Series A-1997	10,785,000		10,785,000		
Series B-2005		11,705,000		11,705,000	330,000
Series A-1999	1,128,491		28,491	1,100,000	35,105
Series A-2002	2,695,000		55,000	2,640,000	55,000
Total Certificates	14,608,491	11,705,000	10,868,491	15,445,000	420,105
Tax Allocation Refunding Bonds:					
Series A-1996	7,930,000		505,000	7,425,000	525,000
Series A-1992	3,434,240		222,725	3,211,515	206,308
Total Bonds Payable	11,364,240		727,725	10,636,515	731,308
Assessment District 1915 Act Bonds	29,930,000		2,735,000	27,195,000	1,950,000
Government Activities	\$ 65,149,623	\$ 12,340,953	\$ 15,064,454	\$ 62,426,122	\$ 4,598,804
Business-type Activities					
Capital Leases	363,540		122,803	240,737	89,988
Bonds Payable:					
Industrial Waste Lease	705,000		50,000	655,000	55,000
Sanitary Sewer Revenue Bonds	14,240,000		330,000	13,910,000	345,000
Certificates of Participation A-1999	11,791,509		7,566,509	4,225,000	134,895
Certificates of Participation A-2005		8,005,000		8,005,000	245,000
Certificates of Participation A-2004	16,630,000			16,630,000	
Total Bonds Payable	43,366,509	8,005,000	7,946,509	43,425,000	779,895
Business-type Activities	\$ 43,730,049	\$ 8,005,000	\$ 8,069,312	\$ 43,665,737	\$ 869,883

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#18. Long Term Debt: (Continued)

The annual requirements to amortize capital leases loans, notes, certificates of participation and bonds outstanding as of June 30, 2006 by activity are as follows:

Fiscal Year Ending June 30,	Governmental-Wide Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 3,406,874	\$ 2,735,645	\$ 869,883	\$ 1,956,396
2008	3,210,058	2,605,790	1,292,664	1,916,358
2009	3,279,114	2,474,436	1,298,744	1,868,945
2010	3,379,435	2,338,308	1,275,765	1,819,076
2011	3,394,731	2,185,489	1,328,700	1,768,549
2012-2016	17,042,504	9,452,297	7,430,621	7,944,791
2017-2021	9,291,626	8,549,072	8,748,671	6,169,951
2022-2026	7,757,845	3,633,476	10,965,689	3,896,277
2027-2031	2,900,000	303,516	7,470,000	1,452,983
2032-2036	332,500	8,750	2,985,000	216,956
Later Years	-	-	-	-
	<u>\$ 53,994,687</u>	<u>\$ 34,286,779</u>	<u>\$ 43,665,737</u>	<u>\$ 29,010,282</u>

The debt for annual leave, estimated insurance claims and net pension obligation does not have an amortization schedule and is therefore not included in the above schedules.

Accrued Annual Leave

Accrued leave for governmental activities is reported in Long-Term Debt on the Government-Wide Statements and in current liabilities for business-type activities. The cost of Annual Leave as accumulated at fiscal year end is recorded as a current liability within Proprietary and Fiduciary Funds. At June 30, 2006 the liability for all compensated absences totaled \$6,615,539. It includes \$6,583,752 in annual leave and \$31,787 in sick leave. These amounts are reported on the financial statements in the following funds:

	June 30, 2005	Increases	Decreases	June 30, 2006	Due Within One Year
Governmental Fund Types:					
General Fund	\$ 5,972,808	\$ 243,381	\$ 176,342	\$ 6,039,847	\$ 1,207,969
Special Revenue Funds	105,029	51,519	23,878	132,670	26,534
Debt Service Funds	14,782		892	13,890	2,778
Capital Project Fund	-			-	-
	<u>\$ 6,092,619</u>	<u>\$ 294,900</u>	<u>\$ 201,112</u>	<u>\$ 6,186,407</u>	<u>\$ 1,237,281</u>
Proprietary Fund Types:					
Enterprise Funds	\$ 270,342	\$ 39,580	\$	\$ 309,922	\$ 61,984
Internal Service Funds	15,213	5,370		20,583	4,117
	<u>\$ 285,555</u>	<u>\$ 44,950</u>	<u>\$ -</u>	<u>\$ 330,505</u>	<u>\$ 66,101</u>
Fiduciary Fund Type:					
Agency Funds	\$ 93,830	\$ 5,070	\$ 274	\$ 98,626	\$ 19,725

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#18. Long Term Debt: (Continued)

Estimated Insurance Claims

At June 30, 2006, the Estimated Insurance Claims liability recorded in the Internal Service Funds is as follows:

Worker's Compensation	\$ 8,064,454
General Liability	<u>594,249</u>
Total	<u>\$ 8,658,703</u>

An additional \$2,414,493 of Worker's Compensation Claims liability is reported in the Long-Term Debt.

Net Pension Obligation

At June 30, 2006, a negative Net Pension Obligation of \$169,465 is reported as determined by the September 1, 2005 actuarial valuation of the New York Life retirement plan.

Capital Leases – Governmental Activities

Capital Leases consist of the following:

	Principal	Interest	Total
Fire Trucks (3.955%), annual payments, expiring February 1, 2008	<u>\$ 338,049</u>	<u>\$ 15,647</u>	<u>\$ 353,696</u>

Annual debt service requirements to maturity for these leases is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 276,607	\$ 13,240	\$ 289,847
2008	61,442	2,407	63,849
	<u>\$ 338,049</u>	<u>\$ 15,647</u>	<u>\$ 353,696</u>

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 would 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#18. Long Term Debt: (Continued)

Debt service requirements for Green Gold Inn homeless center/shelter no interest loan is as follows:

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

Breadbox Gym Note Payable

On August 9, 1991, the Salinas Redevelopment Agency entered into an installment purchase agreement with Franklin C. & Dorothy G. Walt Trust for the purchase of property at 745 No. 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. Debt service payments are made from the Sunset Avenue Merged Project tax increments.

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 28,853	\$ 22,262	\$ 51,115
2008	31,738	19,377	51,115
2009	34,913	16,203	51,116
2010	38,404	12,712	51,116
2011	42,244	8,871	51,115
2012	46,471	4,645	51,116
	<u>\$ 222,623</u>	<u>\$ 84,070</u>	<u>\$ 306,693</u>

Certificates of Participation, Series A-1997 (Refunded by Series B-2005)

On October 24, 1997, the Salinas Public Financing Authority issued City of Salinas Certificates of Participation (Certificates) Series A-1997 totaling \$11,960,000. The purpose of this financing was to raise money for capital improvement projects, \$8,000,000, and refund the Authority's Variable Rate Lease Revenue Bonds, which were issued to purchase the 65 W. Alisal Building. The Variable Rate Lease Revenue Bonds Series A-1997 and Series B-1997 were fully retired on November 20, 1997. The outstanding Certificates of \$10,785,000 were secured by a lien on City owned assets based on the following appraised values; City Hall (\$3,820,000); Public Safety Building (\$1,990,000); Steinbeck Library (\$2,350,000) and 65 W. Alisal Building (\$2,805,000).

On September 14, 2005, the Salinas Public Financing Authority issued City of Salinas Refunding Certificates of Participation Series 2005 B (1997 Capital Improvement Projects). The Refunding Certificates were issued to refund Series A-1997 Certificates. Series 2005 B Refunding Certificates were issued in the amount of \$11,705,000 for 24 years at 4.22%. Maximum annual debt service is \$795,705. The net present value savings of the refunding is \$517,645. The Refunding Certificates are secured by a lien on the Salinas Community Center with an appraised value of \$13,415,000. With this refunding liens were removed from the City's Public Safety Building, 65 West Alisal Building and Steinbeck Library. Refunding Certificates B 2005 are rated AAA (insured by Ambac) with an underlying A rating from Standard & Poor's. In conjunction with this refunding, Standard & Poor's affirmed the City's issuer's credit rating of A+.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#18. Long Term Debt: (Continued)

The annual debt service requirements to maturity for the certificates is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 330,000	\$ 445,955	\$ 775,955
2008	355,000	435,680	790,680
2009	365,000	424,880	789,880
2010	375,000	413,780	788,780
2011	390,000	401,330	791,330
2012-2016	2,135,000	1,791,137	3,926,137
2017-2021	2,540,000	1,366,553	3,906,553
2022-2026	3,060,000	805,429	3,865,429
2027-2031	2,155,000	144,266	2,299,266
2032-2036	-	-	-
	<u>\$ 11,705,000</u>	<u>\$ 6,229,010</u>	<u>\$ 17,934,010</u>

Certificates of Participation, Series A-1999- Animal Shelter

The City of Salinas Certificates of Participation (Certificates) Series 1999 were issued by the Salinas Public Financing Authority on March 16, 1999 in the amount of \$14,315,000. The Certificates were issued to complete an animal shelter (\$1,250,338) and golf course improvements (\$13,064,662). The outstanding Certificates of \$12,920,000 were secured by a lien on City owned assets based on the following appraised values; Salinas Community Center (\$9,840,000) and Twin Creeks Golf Course (\$4,800,000).

On September 14, 2005, the Salinas Public Financing Authority issued \$8,005,000 of City of Salinas Refunding Certificates of Participation Series 2005 A (Twin Creeks Golf Course). The Refunding Certificates were issued to refund the portion of Series A-1999 Certificates attributable to Twin Creeks Golf Course (\$7,210,000). The outstanding Refunding Certificates Series 2005 A of \$8,005,000 is reported in the Golf Course Enterprise Fund.

The portion of Series A 1999 Certificates attributable to the Animal Shelter (\$1,100,000) and Fairways Golf Course (\$4,225,000) were not refunded. The remaining portion of Series A 1999 Certificates total \$5,325,000 and are secured by a lien on City Hall with an appraised value of \$5,300,000. The outstanding portion of Series A 1999 Certificates allocated to the Animal Shelter (\$1,100,000) is reported as Governmental activities and the outstanding portion allocated to Fairways Golf Course (\$4,225,000) is reported as Business-type activities.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#18. Long Term Debt: (Continued)

Debt service requirements to maturity are as follow:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 35,105	\$ 51,817	\$ 86,922
2008	36,138	50,392	86,530
2009	38,203	48,886	87,089
2010	39,235	47,279	86,514
2011	41,300	45,567	86,867
2012-2016	234,379	198,011	432,390
2017-2021	296,329	133,167	429,496
2022-2026	379,311	49,277	428,588
	<u>\$ 1,100,000</u>	<u>\$ 624,396</u>	<u>\$ 1,724,396</u>

Certificates of Participation, Series A-2002 – Steinbeck Center

On May 2, 2002, the Salinas Public Financing Authority issued City of Salinas Certificates of Participation Series A-2002, in aggregate principle amount of \$2,855,000 to finance the acquisition by the Agency of a leasehold interest in the Steinbeck Center site. This financing provided funds to repay the \$2,300,000 in bank loans of the Steinbeck Center and release the collateral posted by the Agency. In addition, the funds repaid an advance in the amount of \$267,000 to the City of Salinas, funded a reserve to pay the final payment on the Certificates in the amount of \$183,750, and paid certain costs of issuance. The Steinbeck Center makes annual lease payments to the City in an amount equivalent to the required payments of the Certificates of Participation.

The outstanding Certificates of \$2,695,000 are secured by the City taking possession of the Steinbeck Center building pursuant to a ground lease, if the Steinbeck Center defaults on its lease payments. In case of default by the Steinbeck Center the City would become responsible for the payments on the Certificates.

Debt service requirements to maturity are as follow:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 55,000	\$ 124,401	\$ 179,401
2008	60,000	122,641	182,641
2009	60,000	120,601	180,601
2010	65,000	118,426	183,426
2011	65,000	115,989	180,989
2012-2016	370,000	537,144	907,144
2017-2021	460,000	445,692	905,692
2022-2026	585,000	321,000	906,000
2027-2031	745,000	159,250	904,250
2032-2026	175,000	8,750	183,750
	<u>\$ 2,640,000</u>	<u>\$ 2,073,894</u>	<u>\$ 4,713,894</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#18. Long Term Debt: (Continued)

Tax Allocation Bonds

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

The annual debt service requirements for the bonds at June 30, 2006 are as follows:

Fiscal Year Ending June 30,	Series A - 1996		Series A - 1992	
	Principal	Interest	Principal	Interest
2007	\$ 525,000	\$ 388,773	\$ 206,308	\$ 298,692
2008	555,000	361,427	190,739	314,262
2009	580,000	331,836	175,998	329,002
2010	610,000	299,996	161,796	346,451
2011	645,000	265,788	151,187	356,822
2012-2016	2,335,000	820,464	931,656	3,023,863
2017-2021	550,000	526,079	1,060,297	5,018,584
2022-2024	1,625,000	201,714	333,534	2,096,727
	<u>\$ 7,425,000</u>	<u>\$ 3,196,077</u>	<u>\$ 3,211,515</u>	<u>\$ 11,784,403</u>

The Series A-1996 bond issue has a term bond of \$4,510,000 that matures on November 1, 2023. Debt service payments beginning in fiscal year 2011-2012 are deposits into a sinking fund. The term bonds are subject to redemption prior to maturity from the sinking fund installments on each November 1 on and after November 1, 2011 without premium according to a specified schedule, which is used in these debt service requirements. The Series A-1992 bond issue has a term bond of \$2,638,475 that matures on November 1, 2022. Debt service payments beginning in fiscal year 2009-2010 are deposits into a sinking fund. The term bonds are subject to redemption prior to maturity from the sinking fund installments on each November 1 on and after November 1, 2009 without premium according to a specified schedule that is used in these debt service requirements.

Assessment Districts Bonds

At June 30, 2006, outstanding Assessment District Bonds totaled \$27,195,000. Bonds issued for improvements in special assessment districts are liabilities of the property owners and are secured by liens against the assessed property. In the case of default, the City has the authority to advance bond payments from the special reserve fund and to foreclose on delinquent property.

Annual debt service requirements to maturity for assessment district bonds is as follows:

Business-Type Activities

Capital Lease-Street Sweeper

On March 31, 2002, the City of Salinas purchased a street sweeper using lease purchase financing. Annual payments are \$38,514, including interest at 5.59%, for 5 years. On July 16, 2003, the City of Salinas purchased an additional street sweeper using lease purchase financing. Annual payments are \$40,833, including interest at

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#18. Long Term Debt: (Continued)

3.9% for five years. On August 17, 2004, the City of Salinas purchased a third street sweeper using lease purchase financing. Annual payments are \$41,750, including interest at 4.29% for five years. Debt payable of \$192,257 is recorded in the Storm Sewer Enterprise Fund at June 30, 2006.

Debt Service requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 74,571	\$ 8,011	\$ 82,582
2008	77,654	4,929	82,583
2009	40,033	1,717	41,750
	<u>\$ 192,258</u>	<u>\$ 14,657</u>	<u>\$ 206,915</u>

Capital Lease-Golf Course Equipment

On November 2, 2004, the City of Salinas purchased a lawn mower and spray rig for the Fairways Golf Course using lease purchase financing. Annual payments are \$17,718, including interest at 4.75% for 5 years. Debt payable of \$48,479 is recorded in the Municipal Golf Course Enterprise Fund at June 30, 2006.

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 15,416	\$ 2,302	\$ 17,718
2008	16,148	1,570	17,718
2009	16,915	803	17,718
	<u>\$ 48,479</u>	<u>\$ 4,675</u>	<u>\$ 53,154</u>

Debt Service Requirements to maturity is as follows:

Industrial Waste Lease

On May 1, 1994, the City sold a lease in the amount of \$1,050,000 to finance the construction of the industrial waste facility expansion. This is a twenty-year lease at 7.5% interest per annum. Annual lease payments are secured by the City's obligation to make lease payments from any lawful available source of funds and by the pledge of net revenues of the City's Industrial Waste System. Debt payable of \$655,000 is recorded in the Industrial Waste Enterprise Fund at June 30, 2006.

Debt Service requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 55,000	\$ 47,063	\$ 102,063
2008	60,000	42,750	102,750
2009	60,000	38,250	98,250
2010	65,000	33,563	98,563
2011	70,000	28,500	98,500
2012-2014	345,000	54,187	399,187
	<u>\$ 655,000</u>	<u>\$ 244,313</u>	<u>\$ 899,313</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#18. Long Term Debt: (Continued)

Sanitary Sewer Revenue Bonds

On July 30, 1998, the City of Salinas issued Sanitary Sewer System Revenue Bonds, Series 1998 in the amount of \$16,000,000 to finance capital replacement of existing sewer mains and other sewer related capital replacement. Maximum annual debt service is \$1,047,890, including interest at 5.14%, for 30 years. The City is authorized under Chapter 36, Article II, Division 5 of the Salinas City Code, to levy a sewer fee for the purpose of paying sanitary sewer related expenses of the City. In May 1998, the fee was increased from 15% to 35% of the sewer service charge levied by the Monterey Regional Water Pollution Control Agency. The additional 20% fee generates about \$1,200,000 annually to pay debt service on the Sanitary Sewer System Revenue Bonds. Debt payable of \$13,910,000 is recorded in the Sanitary Sewer Enterprise Fund at June 30, 2006.

Debt service requirements and maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 345,000	\$ 678,235	\$ 1,023,235
2008	360,000	663,250	1,023,250
2009	375,000	646,135	1,021,135
2010	390,000	627,010	1,017,010
2011	410,000	607,933	1,017,933
2012-2016	2,365,000	2,719,347	5,084,347
2017-2021	3,015,000	2,054,125	5,069,125
2022-2026	3,845,000	1,200,625	5,045,625
2027-2029	2,805,000	214,875	3,019,875
	<u>\$ 13,910,000</u>	<u>\$ 9,411,535</u>	<u>\$ 23,321,535</u>

Certificates of Participation, Series A-1999 – Golf Courses (Portion Refunded by Series A-2005)

On March 16, 1999, the Salinas Public Financing Authority issued City of Salinas Certificates of Participation (Certificates) Series A-1999 totaling \$14,315,000. A portion of the Certificates was allocated for the construction of an animal shelter, \$1,250,338, and the balance of the Certificates, \$13,064,662, was allocated for construction of the new Twin Creeks (9-hole) Golf Course, \$8,221,604 and the renovation of Fairways Golf Course, \$4,843,058

On August 24, 2004, the City entered into a sublease agreement with the Monterey Peninsula Foundation and its related foundation, Future Citizens Foundation, dba the First Tee of Monterey County providing for the lease of the Twin Creeks golf course to Future Citizens Foundation. As a condition of the lease, the City repaid the portion of the 1999 Certificates attributable to the Twin Creeks golf course facility (about 57.5% of the lease payments or \$575,000) and refinanced that golf course portion with a new Refunding issue of Certificate of Participation.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#18. Long Term Debt: (Continued)

On September 14, 2005, the Salinas Public Financing Authority issued City of Salinas Refunding Certificates of Participation Series 2005 A, in the amount of \$8,005,000, to refund the portion of the 1999 Certificates attribute to Twin Creeks. With the closing of this financing, the sublease agreement with First Tee of Monterey County was finalized. Annual debt service for the 2005 A Certificates (\$572,308) will be paid by the annual lease payments (\$575,000) from Future Citizen's Foundation and guaranteed by the Monterey Peninsula Foundation. As with most City issued debt, the General Fund of the City backs the new Certificates and payment of debt service is the ultimate responsibility of the City.

Refunding Certificates Series 2005 A were issued in the amount of \$8,005,000 for 24 years at 4.22%. Maximum annual debt service is \$572,308. The net present value expense of the refunding is \$117,298. The refunding was completed to issue qualified 501 (c) 3 bonds to provide for the operation of Twin Creeks golf course by First Tee of Monterey County. Refunding Certificates Series 2005 A are secured by a lien on Twin Creeks golf course.

Refunding Certificates 2005 A are rated AAA (insured by Ambac) with an underlying A rating from Standard & Poor's. In conjunction with this refunding, Standard & Poor's affirmed the City's issuer's credit rating of A+.

The portion of Certificates Series A 1999 attributable to the Animal Shelter (\$1,100,000) and Fairways Golf Course (\$4,225,000) were not refunded. The remaining portion of Certificates Series A 1999 total \$5,325,000 and are secured by a lien on City Hall with an appraised value of \$5,300,000.

Debt service requirements to maturity for the Golf Courses (Twin Creeks Series 2005 A and Fairways remaining portion Series 1999 A) are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 379,895	\$ 498,146	\$ 878,041
2008	413,862	484,871	898,733
2009	431,797	470,685	902,482
2010	440,765	455,884	896,649
2011	458,700	439,706	898,406
2012-2016	2,565,621	1,916,006	4,481,627
2017-2021	3,123,671	1,336,163	4,459,834
2022-2026	3,870,689	572,602	4,443,291
2027-2031	545,000	11,920	556,920
	<u>\$ 12,230,000</u>	<u>\$ 6,185,983</u>	<u>\$ 18,415,983</u>

Certificates of Participations, Series A-2004 – Monterey Street Parking Structure

On December 17, 2003, the Salinas Public Financing Authority issued City of Salinas Certificates of Participation Series A-2004, with a principle amount of \$16,630,000 an aggregate interest of 4.68%, for a term of thirty years to finance the acquisition and construction of a five level (with one below grade) 452-space public parking garage adjacent to the National Steinbeck Center and the planned Maya Cineplex Theater.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#18. Long Term Debt: (Continued)

On November, 2001, the City and the Salinas Redevelopment Agency entered into a Disposition and Development Agreement with Maya Cinema Holding Company LLC for the development of a 14-screen, 2,916-seat multiplex movie theatre complex in the 100 block of Main Street. To serve this and other developments within the 100 blocks, the Disposition Agreement committed the City/Agency to construct a five-level public parking structure. The public parking structure and multiplex movie theatre complex were completed and opened during July 2005.

Maximum annual debt service of \$1,091,950 will be paid from capitalized interest in the first three years, proceeds of Agency land sale to Maya Cinema, increased tax increment revenue associated with the development of the Theater and eventually the Hotel and parking fees from the parking structure. Pursuant to a reimbursement agreement the Salinas Redevelopment Agency (Central City Project) is responsible for the debt service.

The annual debt service requirements to maturity for the certificates is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	\$ 722,639	\$ 722,639
2008	365,000	718,989	1,083,989
2009	375,000	711,354	1,086,354
2010	380,000	702,620	1,082,620
2011	390,000	692,410	1,082,410
2012-2016	2,155,000	3,255,250	5,410,250
2017-2021	2,610,000	2,779,663	5,389,663
2022-2026	3,250,000	2,123,050	5,373,050
2027-2031	4,120,000	1,226,188	5,346,188
2032-2036	2,985,000	216,956	3,201,956
	<u>\$ 16,630,000</u>	<u>\$ 13,149,118</u>	<u>\$ 29,779,118</u>

Conduit Debt:

In June of 1999, the City of Salinas issued Multifamily Housing Revenue Bonds, Series 1999A (\$5,310,000 tax-exempt) and 1999A-T (\$390,000 taxable) for the construction of a 132-unit senior apartment project. Twenty percent (20%) of the project is designated to be affordable to seniors.

As of June 30, 2006 the total conduit debt outstanding related to these bonds is \$5,420,000.

Pursuant to the bond purchase agreement, the City of Salinas has no obligation related to the repayment of these bonds.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#19. Legal Liability on Assessment Bonds Payable:

In accordance with Governmental Accounting Standards Board Statement No. 6, the City included its assessment bonds payable within the Long-term Debt Account Group. Bonds issued for improvements in special assessment districts are liabilities of the property owners and are secured by liens against the assessed property. In the case of default, the City has the authority to advance bond payments from the special reserve fund and to foreclose on the delinquent property owner. As of June 30, 2006, assessment bonds outstanding are \$27,195,000. The September 2, 2006 principal payment of \$1,950,000 has already been collected. The balance of \$25,245,000 is recorded as Assessments Receivable in the Assessment District Debt Service Fund. The Assessment District Reserve Fund balance is \$2,776,893 at June 30, 2006.

#20. Deficit Fund Equities:

The following are deficit fund equities at June 30, 2006:

Enterprise Funds - Municipal Golf Courses Fund \$5,406,908.

The deficit net assets in Municipal Golf Courses Fund of \$5,406,908 represents the amount that debt issued for the purchase of capital assets exceed the value of those capital assets net of accumulated depreciation. In addition, cash flow advances totaling \$2,835,000 have been made from the City's General Fund to cover operating losses at Fairways Golf Course in fiscal years 2001-02 through 2005-06.

As part of the City Council efforts to find alternatives to the continuance of General Fund subsidies, contracting for operations of the Twin Creeks Golf Course was finalized and the General Fund subsidy of Twin Creeks Golf Course has been eliminated.

On August 24, 2004 the City Council entered into a sub-lease agreement with the Future Citizens Foundation, dba The First Tee of Monterey County to operate and manage the Twin Creek Golf Course. The term of the Sublease is for a period of twenty years commencing November 1, 2004.

During September 2005, the Twin Creek's portion of the 1999 Certificates of Participation were refunded with Certificates of Participation Series 2005 A. The lease term and annual payments coincides with the Refunding Certificates of Participation Series 2005 A and runs for 20 years (15 years with a 5-year option) with base annual rent of \$575,000. The lease provides for City participation in annual golf course revenues, beginning in years six through the last year of the option in 20 years. The Monterey Peninsula Foundation guarantees the lease payments to the City and First Tee of Monterey County operates the golf course. As part of the lease arrangement, General Fund advances totaling \$1,555,000 were forgiven. This lease arrangement has eliminated the General Fund subsidy of Twin Creeks Golf Course.

City Council is exploring alternatives to continuing the Fairways Golf Courses subsidy, including increasing rounds with rate specials and advertising and reducing costs by exploring contracting for maintenance of the course. The City has received maintenance contract proposals for Fairways Golf Course and the City Council will review the bid results during January and February 2007.

#21. Joint Venture-Salinas Valley Solid Waste Authority:

The Authority is a joint exercise of powers authority, created pursuant to an agreement dated as of January 1, 1997 (the "Authority Agreement") among the County of Monterey,

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#21. Joint Venture-Salinas Valley Solid Waste Authority: (Continued)

and the cities of Salinas, Gonzales, Greenfield, Soledad, and King City (the "Members"). The Authority was established to acquire and manage the landfill assets of each member, ensure long-term landfill capacity of the Authority service area and provide a unified and coordinated solid waste management for the members.

The Authority is governed by a nine member governing board, consisting of three members of the Salinas City Council, two members of the Monterey County Board of Supervisors, and one City Council member each from the cities of Gonzales, Greenfield, King City and Soledad. Pursuant to the Authority Agreement, while the City of Salinas does not have unilateral control over the activities of the Authority, the affirmative vote of at least one member of the Authority Board who is a member of the Salinas City Council is required to approve Board actions. The day-to-day operations of the Authority are conducted by the employees of the City of Salinas through interagency agreements between the Authority and the City of Salinas. The Interim Chief Administrative Officer of the Authority is the City Manager of the City of Salinas.

With the formation of the Authority, each participating jurisdiction contractually agreed to its responsibilities. In addition, the Authority adopted waste supply agreements with each Member of the Authority. Each has committed to deliver waste generated within its boundaries to Authority's solid waste facilities, to direct its franchise/permitted solid waste haulers to dispose of waste at these facilities, and to pay tipping fees set by the Authority to cover all Authority-related costs.

The commitments provided by the Members are for a period of 15 years (2012) from the date of the Authority Agreements, may be terminated under specific terms of withdrawal, which includes a majority vote of the board. Repayment of all outstanding debt and funding of closure and post closure and site remediation costs must be provided for upon withdrawal from or termination of the Authority. The members have made no equity contributions, or have sold their interest in their assets to the Authority, and there is no explicit, measurable equity interest in this joint venture.

The City has ongoing financial responsibility in the joint venture and administers the Authority's assets pursuant to an interagency agreement. Such assets are reported in the Salinas Valley Solid Waste Authority Fund (an Agency fund). The City has no measurable equity interest in the Authority and does not receive a share of operating results.

On September 5, 2006, the City Council approved Amendment No. 5 to the Interagency Agreement relieving the City of its administrative and fiscal service responsibilities as of September 1, 2006.

The Authority was reported in the City's financial statements as a discretely presented component unit in prior years. Pursuant to GASB Statement No. 39, Determining Whether Certain Organizations are Component Units-an amendment of GASB Statement No. 14, it has been determined that the Authority does not meet the criteria of a component unit of the City of Salinas. The City does not have access and is not the primary beneficiary of the economic resources of the Authority.

A separate Annual Financial Report of the Salinas Valley Solid Waste Authority is published and is available from the Authority Treasurer at the Authority's Finance Department located at 200 Lincoln Avenue, Salinas, CA 93901.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#22. Commitments and Contingent Liabilities:

Various claims and lawsuits are pending against the City. Although the outcome of these claims and lawsuits are not presently determinable, in the opinion of the City Attorney the resolution of these matters are within the self-insured retention and are not likely to have a material adverse effect on the financial condition of the City, except as otherwise noted.

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.

The amount of these future estimated contingent payments are due according to the following schedule:

<u>Due in the year ended June 30,</u>	<u>Amount</u>	<u>Due in the year ended June 30,</u>	<u>Amount</u>
2007	\$ 659,116	2014	\$ 867,480
2008	634,550	2015	893,167
2009	747,236	2016	919,440
2010	770,576	2017	946,305
2011	794,476	2018	973,668
2012	817,339	2019	1,001,532
2013	842,172		

Adoption of Debt Incurrence Time Limit Deletion On August 17, 2004 the City Council approved an ordinance deleting the debt incurrence time limit from the Redevelopment Plan, thus allowing the Agency to incur debt past the current time limits of January 1, 2004 in the Central City and Buena Vista Plan area and past July 7, 2007 in the Sunset Avenue Plan Area. This action requires the Agency to make statutory pass-through payments pursuant to Health and Safety Code Section 33607.7 to each affected taxing entity with which the Agency does not already have a pre-1994 pass-through agreement required pursuant to this amendment. Statutory pass-through payments totaled \$91,740 for fiscal year ending June 30, 2006.

Commitment to Steinbeck Center Foundation

On May 2, 2002, the City of Salinas issued Certificates of Participation, Series A of 2002, in aggregate principal amount of \$2,855,000 to finance the acquisition by the Agency of a leasehold interest in the Steinbeck Center site. This financing provided funds to repay the \$2,300,000 in bank loans of the Steinbeck Center used to construct the Steinbeck Center building and release the collateral posted by the Agency. In addition, the funds repaid an advance in the amount of \$267,000 to the City of Salinas, funded a reserve to pay the final payment on the Certificates in the amount of \$183,750, and paid certain costs of issuance. The Steinbeck Center's annual lease payments of \$183,750 support the payments of the Certificates of Participation. If the Steinbeck Center defaults on its lease payments, the City of Salinas can take possession of the Steinbeck Center building pursuant to a ground lease

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#22. Commitments and Contingent Liabilities: (Continued)

and would thereby become responsible for the payments on the Certificates of Participation. The Steinbeck Center leases the site to the Agency. The Agency subleases the site to the City. The Agency also has assigned to the Trustee, for the benefit of the owners of the Certificates, substantially all of its rights, title and interest in and to the lease, including the right to receive lease payments under the lease. The City subleases the site to the Steinbeck Center.

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 blocks, 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 planned Maya Cineplex Theater. The Monterey Street parking structure and the Maya Cineplex were completed and opened during July 2005.

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

The COP issue included capitalized interest and \$409,159 is available for debt service at June 30, 2006. Debt service due during fiscal year 2006-07 will be made using the balance of capitalized interest, investment earnings and Agency funds. At June 30, 2006 the Agency has reserved \$735,000 of fund balance for the purpose of making debt service payments.

The Certificates have an insured rating of "AAA" from Standard and Poors (S&P) and an uninsured rating of "A" also from S&P.

Beginning with fiscal year 2005-06, the Monterey Street Parking Structure debt is included in the Parking District Fund that is being reported under the Proprietary funds.

State Budget Implications – Redevelopment Agency The State of California 2005-06 fiscal year budget included another Educational Revenue Augmentation Fund (ERAF) shift of property tax increments to schools. A payment of \$373,526 to the Monterey County Auditor was paid during April 2006 by the Agency.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#22. Commitments and Contingent Liabilities: (Continued)

The State's approved 2006-07 fiscal year budget does not include ERAF shifts from local government, including redevelopment agencies. Proposition 1A does not protect redevelopment agencies from future State ERAF shifts.

State Budget Implications – City of Salinas The State continues to struggle with its budget imbalance. Their tendency to take resources from local government to balance their budget has always been the City's biggest budgetary unknown. The passage of Proposition 1A in the November 2004 election will help to reduce the ability of the State to make up its shortfalls through revenue shifts away from local government. This law requires the state legislature to get a two-thirds vote before revenues can be borrowed and stipulates that the state can only borrow twice in a 10-year period. Nevertheless, it is still likely that the State would, when given the option of getting two-thirds of the legislature to vote for a tax increase; program cuts, or to borrow from local government revenues, opt to borrow from local governments.

The State continued the annual shift of City of Salinas property tax to the Education Revenue Augmentation Fund (ERAF). Property tax revenue has been reduced by "ERAF III", the State's take of \$1,549,336. While "ERAF III" ends beginning in fiscal year 2006-07, "ERAF I & II" continues shifting over \$3,400,000 of annual property tax to the State.

The State of California Legislature also implemented a permanent reduction in the monthly Vehicle in-lieu fees and replaced the fees with property tax payable twice a year. In-lieu Vehicle License Fees received with property tax payments was \$10,007,961 for the fiscal year ended June 30, 2006. This is in addition to the .25% reduction in the City's share of the 1% Bradley-Burns statewide sales tax (the "Triple Flip") that was replaced with property tax. The .25% reduction in the City's share of sales tax received with property tax was \$5,991,643 for the fiscal year ended June 30, 2006.

#23. Subsequent Events:

Initiative to Provide Additional General Fund Revenues On November 8, 2005, Salinas' voters approved Measure V, a ½ cent transaction and use tax for General Fund services. The additional tax effective April 1, 2006 began to be distributed to the City in June 2006. The tax will provide approximately \$10,000,000 in fiscal year 2006-07. The tax will sunset in ten (10) years.

Salinas Valley Solid Waste Authority Fiduciary Responsibility

The City had ongoing financial responsibility and administered the Authority's assets pursuant to an Interagency Agreement dated January 16, 1997. Such assets are reported in the Salinas Valley Solid Waste Authority Fund (an Agency fund).

As of September 1, 2006, the City does not perform any of the day-to-day operations of the Authority and no longer provides administrative and fiscal services. Authority in-house staff conducts all day-to-day operations of the Authority including administrative and financial duties. On September 5, 2006, the City Council approved Amendment No. 5 to the Interagency Agreement relieving the City of its administrative and fiscal service responsibilities.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2006

#23. Subsequent Events: (Continued)

A separate Annual Financial Report of the Salinas Valley Solid Waste Authority is published and is available from the Authority Treasurer at the Authority's Finance Department located at 200 Lincoln Avenue, Salinas, CA 93901.

#24. Change in Accounting Principle:
Funds Financial Statements

June 30, 2005 fund balances were restated to reflect the transfer of beginning balances to the newly created Downtown Parking Enterprise Fund.

	<u>Fund Balances, as Previously Reported</u>	<u>Transfers</u>	<u>Fund Balances, As Restated</u>
Major Governmental Fund:			
Construction Assistance	\$ 4,504,346	\$ (1,971,346)	\$ 2,533,000
Nonmajor Governmental Fund:			
Debt Service-COP 2004 Fund	<u>2,175,810</u>	<u>(2,175,810)</u>	<u>-</u>
Total	<u>\$ 6,680,156</u>	<u>\$ (4,147,156)</u>	<u>\$ 2,533,000</u>
	<u>Net Assets, as Previously Reported</u>	<u>Transfers</u>	<u>Net Assets As Restated</u>
Major Enterprise Fund:			
Downtown Parking District	\$	\$	\$
From:			
Construction Assistance		1,971,346	1,971,346
Debt Service		2,175,810	2,175,810
Beginning Net Assets Transferred			<u>(1,295,870)</u>
Total	<u>\$</u>	<u>\$ 4,147,156</u>	<u>\$ 2,851,286</u>

#25. Prior Period Adjustments:

June 30, 2005 fund balances were restated as follows:

Government-Wide Financial Statements-Statement of Net Assets

<u>As Originally Stated</u>	<u>Prior Period Adjustment</u>	<u>As Restated</u>
<u>\$161,098,472</u>	<u>\$258,198</u>	<u>\$161,356,670</u>

Fund Financial Statements

Nonmajor Governmental Fund:

Sunset Avenue Merged Housing Fund Balance

<u>As Originally Stated</u>	<u>Prior Period Adjustment</u>	<u>As Restated</u>
<u>\$3,031,999</u>	<u>\$258,198</u>	<u>\$3,290,197</u>

Payment of \$258,198 to Los Abuelitos Senior Housing in fiscal year ended June 30, 2005 was reclassified from Expenditures to Loans Receivable.

**REQUIRED
SUPPLEMENTARY
INFORMATION**



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CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Information
Fiscal Year Ended June 30, 2006

BUDGETING

The budget is prepared by the City Manager and adopted by the City Council. The City Council approves operating appropriations at the department and fund level prior to July 1, each year and may amend the budget during the fiscal year. Budgetary control is maintained at the program level. Formal budgetary integration was employed as a management control device during the fiscal year for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, Enterprise Funds and Internal Service Funds.

Budgets are legally adopted for all Governmental and Proprietary Fund Types. Fiduciary Funds and Agency Funds have no adopted budgets because the City is only required to make payments to the extent funds are available. Agency Fund budgets that are approved by their respective governing boards are recorded in the City's accounting system.

The City Manager may transfer budget appropriations between departments and Department Directors may transfer appropriations between programs and accounts within their individual departments and divisions, but only the Council may appropriate funds from reserves or fund balances.

Budget policy excludes the use of taxes, accounts receivable, interest receivable assets and long-term advances that are not currently available resources for budget purposes. Condemnation deposits, are also excluded because they are returned upon right of way acquisition.

Expenditures may not legally exceed budgeted appropriations at the department level. Budgeted amounts shown are as originally adopted and as amended by the City Council during the year. During the year, Council amends the budget with the approval of supplemental appropriations and reviews and amends the budget at mid-year and at year-end.

Appropriations lapse at fiscal year end to the extent they have not been expended. New budget appropriations are approved for the coming year. Project-length financial plans are adopted for all capital projects funds and appropriations are carried forward until project completion. Grant funds are carried forward until the grant expires.

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

BUDGET ADOPTION

On June 7 and 14, 2005, the City Council was presented and reviewed a recommended one (1) year operating budget for the City of Salinas and Salinas Redevelopment Agency. The Salinas City Council and Salinas Redevelopment Agency unanimously adopted fiscal year 2005-06 Annual Operating Budgets on June 14, 2005. An updated

CITY OF SALINAS
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Six-Year Capital Improvement Budget for fiscal year 2005-06 was adopted on June 14, 2005. The Capital Improvement Budget is generally updated every two years.

BUDGETARY HIGHLIGHTS

General Fund

The General Fund appropriations budget (outflows) was amended during the year to reflect carryover of unspent capital projects appropriations, carryover of encumbrance appropriations and unanticipated expenditure requirements. The original budget includes capital project carryover appropriations of \$1,489,183 and encumbrance carryover appropriations of \$1,190,324. The amended budget includes \$3,770,530 that was appropriated by Council during the year, at mid-year and at year-end to cover unanticipated expenditure requirements. Budget appropriations made by Council during the year include; \$700,000 to fund library services through June 30, 2006 (until Measure V funds became available); \$1,346,100 appropriated at mid-year to fund liability claims (\$300,000), capital project requirements (\$683,600), an increased advance to the Emergency Services Fund (\$150,000) and other operating requirements (\$212,500); and \$1,555,000 was appropriated at year-end to record prior year General Fund advances to Twin Creeks golf course that were forgiven with the lease of the golf course to First Tee of Monterey County. Other appropriations made during the year totaled \$169,430 including police grants (\$51,800), contractual services (\$48,000), zoning code updates (\$60,000) and other requirements (\$9,630). All budget amendments were funded from current year resources.

Resources (inflows) of the General Fund were also amended by Council at mid-year and at year-end reflecting economic changes, State and County actions and other unanticipated factors effecting revenue estimates. Revenue estimates were increased \$5,137,800 during the fiscal year. Intergovernmental revenue estimates were increased for a one-time interest refund associated with the sale of the "Vehicle License Fee Loan" to the State (\$132,500) and a one-time Vehicle License Fee "true up" payment from the State (\$529,000). With a 12.9% growth in the City's property assessed values, revenue estimates were increased for Property Taxes (\$1,432,000) and Property Tax In-lieu of Vehicle License Fees (\$1,073,500). Sales Tax and In-lieu Sales Tax revenue estimates were increased \$1,000,000 reflecting 5.5% growth over the prior year. Other estimated revenue increases included Utility Users Tax (\$230,000), Charges for Services (\$373,300) and Interest Earnings (\$505,000).

Property tax revenue of \$12,840,068 has been reduced by "ERAF III", the State's take of \$1,549,336. While "ERAF III" ends beginning in fiscal year 2006-07, "ERAF I & II" continues shifting over \$3,000,000 of annual property tax to the State.

On November 8, 2005, the voters of Salinas approved Measure V, a 0.50% transactions and use tax. Measure V is a general tax and is reported as part of the General Fund. The tax was effective April 1, 2005, with first the first advance payment received from the State Board of Equalization in June 2006. First quarter tax receipts and investment earnings total \$2,202,903.

The General Fund fund balance increased \$6,477,279 to \$25,192,290, of which \$16,353,287 is reserved and \$8,839,003 is unreserved.

CITY OF SALINAS
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Fiscal Year Ended June 30, 2006

The General Fund unreserved fund balance of \$8,839,003 includes designated funds of \$6,055,720 and undesignated funds of \$2,783,283. The designated fund balance of \$6,055,720 include taxes receivable, accounts receivable, interest receivable and other accrued resources, less long-term liabilities due to the Workers Compensations Fund. These funds are designated for future year budgets: when the funds are available for expenditure or when the long-term liabilities become payable.

The June 30, 2006 undesignated fund balance estimated in fiscal year 2005-06 budget was \$53,442. The undesignated fund balance at June 30, 2006 pursuant to the audited financial statements is \$2,783,283. The difference of \$2,729,841 is the general fund carryover at June 30, 2006. The General Fund carryover of \$2,729,841 was reported to Council with the year-end budget review during October 2006.

The General Fund undesignated fund balance of \$2,783,283 is available for allocation and expenditure at June 30, 2006. General Fund reserves available for expenditure at June 30, 2006 total \$8,500,800, including the operating reserve of \$3,610,000, the structural budget deficit reserve of \$2,425,000 and the capital projects reserve of \$2,465,800. General Fund reserves have been set-aside by Council for specific purposes.

During the mid-year budget review in February 2007 staff will recommend the allocation of the June 30, 2006 undesignated fund balance of \$2,783,283 as follows; 1) \$1,390,000 to the Operating Reserve; and 2) \$1,393,283 to the Capital Projects Reserve.

The General Fund Operating Reserve is \$3,610,000 (5%) at June 30, 2006. Experience from the three-year (2003-2005) budget shortfalls has proven that a 5% operating reserve is insufficient. In fact, prior to the start of the budget shortfalls, on June 30, 2003 General Fund reserves totaled \$10,363,291. While this reserve allowed Council to gradually reduce the budget, in the end \$15.3 million (24%) and 123 positions had to be eliminated. Staff will recommend that \$1,390,000 be allocated to the operating reserve, increasing this reserve to \$5,000,000. Additionally, staff will recommend that Council's Fiscal Policies be amended to provide a minimum 10% operating reserve goal (about \$7.5 million).

After the allocation of June 30, 2006 undesignated fund balance of \$2,783,283 with the mid-year budget review during February 2007, General Fund reserves to end fiscal year 2006-07 are estimated at \$9,812,683, inclusive of a capital projects reserve for projects budgeted in both fiscal years 2007-08 and 2008-09 of \$4,812,683 and an operating reserve of \$5,000,000. A \$5,000,000 operating reserve represents about 7% of the General Fund FY 06-07 operating budget.

This allocation is integrated in the City's three-year budget (FY2006-07, 2007-08 & 2008-09) projections and is pursuant to Council's previously approved budget actions, fiscal policies and past practice.

Housing and Urban Development Fund

The Housing and Urban Development Fund appropriations budget (outflows) was amended during the year to reflect carryover of unspent operating and capital projects appropriations, carryover of encumbrance appropriations and unanticipated expenditure

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Information
Fiscal Year Ended June 30, 2006

requirements. The original budget includes operating carryover appropriations of \$2,975,519, capital project carryover appropriations of \$1,455,282 and encumbrance carryover appropriations of \$863,116. The amended budget includes \$2,312,001 that was appropriated during the fiscal year for unanticipated expenditure requirements. Council approved budget amendments included \$2,000,000 for Tynan Village multi-use project and \$400,000 for Sherwood Village senior housing project. Other projects were approved by Council during the year and funded from the contingency budget including American Disability Act improvements, Municipal Pool improvements, Chavez Library improvements and a lighted crosswalk at Market and Wood streets. These budget amendments were funded from additional program and grant revenue.

Resources (inflows) of the Housing and Urban Development Fund were also amended by Council during the mid-year budget review process. Revenue estimates were increased \$7,623,430 during the fiscal year. This increase resulted from recording carryover grants of \$7,347,430 and increases in program income of \$276,000.

Development Fees Fund

The Development Fees Fund appropriations budget (outflows) was amended during the year to reflect carryover of unspent capital projects appropriations, carryover of encumbrance appropriations and unanticipated expenditure requirements. The original budget includes capital project carryover appropriations of \$10,582,305 and encumbrance carryover appropriations of \$1,478,441. The amended budget includes a net decreased appropriation of \$4,079,872. The decrease includes projects appropriations cancelled or rebudgeted of \$4,688,672 coupled with increase appropriations for Rossi Street sewer main (\$100,000), Carr Lake flood study (\$7,000), Street Tree replacements (\$1,800) and Sanborn Road Improvements (\$500,000). These amendments were funded from current year resources.

Resources (inflows) of the Development Fees Fund were also amended by Council during the mid-year budget review process. Revenue estimates were increased \$411,600 during the fiscal year. This increase resulted from revised estimates for development impact fees coupled with an increase in investment earnings.

The Development Fees Fund Balance of \$17,441,124 at July 1, 2006 is budgeted in the City's six-year Capital Improvement Program budget for sewer, storm drain, park, and street improvement projects related to the impact of development.



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CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
General Fund and Measure V
Fiscal Year Ended June 30, 2006

	2006			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2005,	\$ 18,715,011	\$ 18,715,011	\$ 18,715,011	\$
Resources (inflows):				
Taxes:				
Sales	17,400,000	17,750,000	17,956,819	206,819
In-lieu Sales	5,000,000	5,650,000	5,991,643	341,643
Transactions and Use			2,202,903	2,202,903
Property	10,879,600	12,311,600	12,840,068	528,468
Property-Vehicle License Fees	8,934,500	10,008,000	10,007,961	(39)
Utility	7,870,000	8,100,000	8,228,800	128,800
Business License	3,700,000	3,800,000	3,865,786	65,786
Franchise	3,055,000	3,137,000	3,120,960	(16,040)
Other	1,700,000	1,725,000	1,802,591	77,591
Licenses and Permits	40,000	35,000	13,881	(21,119)
Intergovernmental	1,742,300	2,189,000	2,323,758	134,758
Charges for Services	5,128,900	5,502,200	6,176,344	674,144
Interest	245,000	750,000	820,620	70,620
Miscellaneous	448,000	323,000	318,707	(4,293)
Operating Transfers In	1,125,000	1,125,000	1,125,000	
Total Resources	<u>67,268,300</u>	<u>72,405,800</u>	<u>76,795,841</u>	<u>4,390,041</u>
Charges to Appropriations (outflows):				
General Government	9,391,517	9,719,907	8,922,789	797,118
Public Safety	44,476,051	44,554,712	43,270,684	1,284,028
Public Works	12,441,478	12,478,767	11,264,475	1,214,292
Recreation	2,386,004	2,451,804	2,085,212	366,592
Library	125,600	825,600	537,790	287,810
Capital Outlay	352,035	218,895	172,455	46,440
General Fund Advance Forgiven		1,555,000	1,555,000	
Transfers Out	3,645,122	4,783,652	2,510,157	2,273,495
Total Charges to Appropriations	<u>72,817,807</u>	<u>76,588,337</u>	<u>70,318,562</u>	<u>6,269,775</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(5,549,507)</u>	<u>(4,182,537)</u>	<u>6,477,279</u>	<u>10,659,816</u>
Fund Balance, July 1, 2006	<u>\$ 13,165,504</u>	<u>\$ 14,532,474</u>	<u>\$ 25,192,290</u>	<u>\$ 10,659,816</u>

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Housing and Urban Development Fund
Fiscal Year Ended June 30, 2006

	2006			Variance with Final Budget
	Original Budget	Amended Budget	Actual	
Fund Balance, July 1, 2005	\$ 384,175	\$ 384,175	\$ 384,175	\$ -
Resources (inflows):				
Intergovernmental	5,287,100	12,634,530	6,318,392	(6,316,138)
Interest	1,300	2,300	3,165	865
Miscellaneous	575,000	850,000	815,564	(34,436)
Total Resources	5,863,400	13,486,830	7,137,121	(6,349,709)
Charges to Appropriations (outflows):				
General Government	7,942,203	9,561,484	4,717,884	4,843,600
Capital Outlay	3,100	19,820	17,023	2,797
Transfers Out	3,035,664	3,711,664	2,404,048	1,307,616
Total Charges to Appropriations	10,980,967	13,292,968	7,138,955	6,154,013
Excess of Resources Over (Under)				
Charges to Appropriations	(5,117,567)	193,862	(1,834)	(195,696)
Fund Balance, July 1, 2006	\$ (4,733,392)	\$ 578,037	\$ 382,341	\$ (195,696)

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Development Fees Fund
Fiscal Year Ended June 30, 2006

	2006			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2005	\$ 16,853,884	\$ 16,853,884	\$ 16,853,884	\$ -
Resources (inflows):				
Charges for Services	1,378,400	1,430,000	1,784,204	354,204
Interest	245,500	605,500	686,179	80,679
Total Resources	<u>1,623,900</u>	<u>2,035,500</u>	<u>2,470,383</u>	<u>434,883</u>
Charges to Appropriations (outflows):				
Transfers Out	14,825,746	10,745,874	1,883,143	8,862,731
Total Charges to Appropriations	<u>14,825,746</u>	<u>10,745,874</u>	<u>1,883,143</u>	<u>8,862,731</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(13,201,846)</u>	<u>(8,710,374)</u>	<u>587,240</u>	<u>9,297,614</u>
Fund Balance, July 1, 2006	<u>\$ 3,652,038</u>	<u>\$ 8,143,510</u>	<u>\$ 17,441,124</u>	<u>\$ 9,297,614</u>

**SCHEDULE OF
FUNDING PROGRESS
RETIREMENT PROGRAMS**



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CITY OF SALINAS
Schedule of Funding Progress
For California Public Employees Retirement Plan
Last Three Years

ACTUARIAL VALUATION DATE	ENTRY AGE NORMAL ACCRUED LIABILITY	ACTUARIAL ASSET VALUE	UNFUNDED		ANNUAL COVERED PAYROLL	UNFUNDED
			ACTUARIAL ACCRUED LIABILITY	FUNDED RATIO		AS A PERCENTAGE OF COVERED PAYROLL
06/30/04						
Safety Fire *	996,203,370	885,549,650	110,653,720	88.9%	149,407,703	74.1%
Safety Police	116,203,568	97,161,493	19,042,075	83.6%	11,761,714	161.9%
Miscellaneous	23,116,325	17,781,186	5,335,139	76.9%	10,817,300	49.3%
06/30/03						
Safety Fire *	1,218,082,935	1,083,690,137	134,392,798	89.0%	184,098,257	73.0%
Safety Police	107,267,364	91,774,236	15,493,128	85.6%	11,668,009	132.8%
Miscellaneous	18,830,319	15,688,354	3,141,965	83.3%	10,866,831	28.9%
06/30/02						
Safety Fire	65,851,267	61,280,033	4,571,234	93.1%	6,184,857	73.9%
Safety Police	99,061,666	89,614,650	9,447,016	90.5%	10,257,193	92.1%
Miscellaneous	15,068,949	14,211,808	857,141	94.3%	11,070,167	7.7%

* As of July 1, 2005 the California Public Employees' Retirement System required the City to pool all of its assets and liabilities of the Fire Safety Group into the newly created risk pool for Public Safety. The data shown above reflects the new pooled report format including the assets and liabilities of other agencies required to participate in the risk pool. More specific information can be found on Note #14 of the notes to the Financial

CITY OF SALINAS
Schedule of Funding Progress
For New York Life Retirement Plan
Last Three Years

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Unamortized Portion of Initial Unfunded Actuarial Accrued Liability (IUAAL)</u>	<u>Unfunded Frozen Actuarial Accrued Liability (UFAAL) *</u>	<u>Covered Payroll</u>	<u>IUAAL as a Percentage of covered Payroll (b/d)</u>	<u>UFAAL as a Percentage of Covered Payroll (c/d)</u>
09/01/04	19,586,735	905,792	2,256,661	5,081,482	17.8%	44.4%
09/01/03	26,583,809	976,465	2,421,818	5,761,789	16.9%	42.0%
09/01/02	27,494,669	1,042,514	2,581,804	6,174,352	16.9%	41.8%

The plan uses the frozen initial liability (frozen entry age) actuarial cost method, under which the unfunded actuarial accrued liability is not explicitly determined each year.

* Includes the unamortized initial unfunded actuarial accrued liability re-established 9/1/83 plus the unamortized portion of other bases established for changes in plan provisions and changes in actuarial assumptions.

**CLAIMS DEVELOPMENT
SELF INSURANCE
PROGRAMS**

CITY OF SALINAS
 REQUIRED SUPPLEMENTARY INFORMATION
 CLAIMS DEVELOPMENT
 INTERNAL SERVICE FUNDS-WORKERS COMPENSATION INSURANCE
 LAST TEN FISCAL YEARS

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net earned required contribution and investment revenues	\$ 2,485,231	\$ 2,144,458	\$ 1,487,027	\$ 1,046,115	\$ 4,761,826	\$ 1,147,873	\$ 4,475,047	\$ 4,149,058	\$ 3,505,072	\$ 2,778,669
Unallocated expenses	249,531	216,844	233,854	242,998	280,917	213,935	238,297	298,405	190,140	333,401
Estimated incurred claims and expenses, end of policy year	872,400	845,725	1,441,423	683,596	1,437,162	803,863	1,638,917	884,881	365,761	573,047
Paid Claims as of:										
End of policy year	245,676	220,331	464,201	226,184	531,327	337,595	523,536	381,349	86,965	172,929
One year later	613,926	654,597	857,419	603,248	967,462	955,731	1,445,346	646,877	598,110	
Two years later	822,319	926,929	1,051,286	841,216	1,525,619	1,285,960	1,315,046	1,258,171		
Three years later	874,167	911,249	1,261,073	1,165,160	2,182,978	1,639,282	2,234,558			
Four years later	1,118,686	1,008,404	1,325,649	1,456,185	2,199,416	1,908,898				
Five years later	1,258,809	1,284,537	1,472,509	2,579,035	2,657,619					
Six years later	1,524,362	1,795,251	995,206	1,904,618						
Seven years later	1,644,836	1,749,538	1,603,979							
Eight years later	2,332,065	2,063,091								
Nine years later	1,801,602									
Ten years later										
Reestimated incurred claims and expenses:										
End of policy year	872,400	845,725	1,441,423	683,596	1,437,162	803,863	1,638,917	884,881	365,761	573,047
One year later	1,418,431	1,420,789	1,608,702	1,422,221	1,701,099	1,733,044	2,795,346	1,417,837	1,474,307	
Two years later	1,384,186	1,718,098	2,274,635	1,570,347	2,525,806	1,982,692	2,376,572	2,001,544		
Three years later	1,299,632	1,855,403	1,978,761	1,785,987	3,313,828	2,336,243	2,955,286			
Four years later	1,829,502	1,649,911	1,741,121	2,023,759	3,142,608	2,664,479				
Five years later	1,849,796	2,362,161	1,895,617	3,471,007	3,466,913					
Six years later	1,743,175	2,463,855	1,343,622	2,193,165						
Seven years later	1,951,965	2,089,207	1,828,759							
Eight years later	2,723,174	2,537,000								
Nine years later	1,964,660									
Ten years later										

CITY OF SALINAS
 REQUIRED SUPPLEMENTARY INFORMATION
 CLAIMS DEVELOPMENT
 INTERNAL SERVICE FUNDS-LIABILITY INSURANCE
 LAST TEN FISCAL YEARS

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net earned required contribution and investment revenues	\$ 798,565	\$ 323,777	\$ 154,252	\$ 467,389	\$ 632,196	\$ 849,782	\$ 522,712	\$ 497,091	\$ 792,050	\$ 1,070,533
Unallocated expenses	260,486	261,874	248,128	246,724	267,154	352,255	408,817	416,248	381,750	395,222
Estimated incurred claims and expenses, end of policy year	109,152	164,581	117,426	117,282	157,251	495,393	13,564	18,734	87,777	32,657
Paid Claims as of:										
End of policy year	26,442	19,252	12,408	8,692	2,211	13,724	9,381	12,823	27,599	7,560
One year later	211,064	147,311	70,836	54,067	77,900	55,162	34,073	86,364	174,067	
Two years later	383,384	267,432	181,671	184,800	48,917	75,637	384,408	103,591		
Three years later	700,662	471,164	254,000	520,517	48,917	200,433	438,986			
Four years later	706,522	471,164	224,136	520,517	3,762	576,931				
Five years later	706,522	644,817	224,136	391,866	3,762					
Six years later	706,522	644,817	224,136	391,866						
Seven years later	706,522	644,817	224,136							
Eight years later	706,522	644,817								
Nine years later	706,522									
Ten years later	706,522									
Reestimated incurred claims and expenses:										
End of policy year	109,152	164,581	117,426	117,282	157,251	495,393	13,564	18,734	87,777	32,657
One year later	452,321	227,324	233,623	184,880	96,693	600,238	315,468	90,628	332,764	
Two years later	508,778	437,727	331,228	185,900	60,293	625,823	428,290	125,215		
Three years later	743,705	504,626	256,600	570,517	48,917	722,874	459,677			
Four years later	706,522	471,164	224,136	520,517	3,762	576,931				
Five years later	706,522	644,817	224,136	391,866	3,762					
Six years later	706,522	644,817	224,136	391,866						
Seven years later	706,522	644,817	224,136							
Eight years later	706,522	644,817								
Nine years later	706,522									
Ten years later	706,522									

**SUPPLEMENTARY
INFORMATION**



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Non-Major Governmental Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for specified purposes. The Special Revenue Funds used by the City in this report are as follows:

Emergency Medical Services Fund - This fund accounts for monies received from County Service Area (CSA) 74. Funds are used to purchase emergency medical and safety equipment under the capital improvement program.

Asset Seizure - This fund accounts for the proceeds from sale of assets seized primarily from illegal narcotics activity. These funds are used for law enforcement.

Lighting, Landscape and Maintenance District - This fund accounts for monies received from the various maintenance districts throughout the City. Funds are used to pay for the lighting and landscape maintenance of the respective districts.

Local Public Safety Fund - This fund accounts for monies received from federal and state grants, which are expended to enhance law enforcement services.

Gas Tax - This fund accounts for gas tax revenues received from State apportionments of gasoline taxes. Expenditures are restricted to street maintenance and street improvements. No expenditures are made directly from this fund, but transfers are made to the General Fund for street maintenance and engineering salaries and to the Capital Projects Fund for street improvements based on actual expenditures.

Traffic Safety - This fund accounts for revenue derived from traffic violations whose use is restricted by State statute for traffic safety and street maintenance purposes. No expenditures are made directly from this fund, but transfers are made to the General Fund for traffic safety expenditures.

Vehicle Abatement - This fund accounts for monies allocated by the State to fund the vehicle abatement program.

Recreation Parks Fund - This fund accounts for revenue received from an admission fee charge imposed to events held at the Salinas Sports Complex (Rodeo Grounds Stadium). Funds are designated for Parks and Recreation activities.

Housing Fund - This fund accounts for funds designated by City Council to be used for housing activities.

Grants Fund - This fund accounts for various minor grants received for purposes ranging from library to police operations.

Central City Housing Fund - This fund accounts for the redevelopment requirement to set aside 20% of available tax increments received by the Salinas Redevelopment Agency from properties within the Central City Project area. These funds are used to improve and increase the supply of low and moderate income housing within the City.

Non-Major Governmental Funds

Sunset Avenue Merged Housing Fund - This fund accounts for the required 20% set-aside of tax increments received by the Salinas Redevelopment Agency from properties within the Sunset Avenue Merged Housing Project. These funds are used to improve and increase the supply of low and moderate income housing within the City.

Debt Service Funds are used for the accumulation and disbursement of financial resources that will be used to make principal and interest payments on general long-term debt. The debt service funds include the following debt issuances:

Assessment District Reserve Fund - This fund accounts for the reserves on outstanding Assessment Districts Bonds.

Assessment District Administration Fund - This fund accounts for the cost of administering the City's 18 assessment district bonds used to finance improvements within those districts. Funding is provided by an assessment equal to 5% of the assessment amount with a maximum \$16 levy per parcel per bond.

Certificates of Participation (1997) Fund - This fund is used to accumulate funds for the payment of principal and interest on the 1997 Certificates of Participation. Proceeds were used for capital improvements, refund the Salinas Public Financing Authority's Variable Rate Lease Revenue Bonds which were used to purchase the 65 W. Alisal building. Debt service is financed from installment payments from the SVSWA for the purchase of Crazy Horse Landfill and a lease on the 65 W. Alisal Building.

Certificates of Participation (1999) Fund - This fund is used to accumulate funds for the payment of principal and interest on the portion of the 1999 Certificates of Participation that were used to finance the construction of the City Animal Shelter. Debt service is used to finance the City's General Fund. A portion of the 1999 Certificates of Participation were used to finance Golf Course improvements and is reported in the Enterprise Funds.

Certificates of Participation (2002) Fund - This fund is used to accumulate funds for the payment of principal and interest on the 2002 Certificates of Participation. Proceeds were used to finance the acquisition by the Salinas Redevelopment Agency of a leasehold interest in the Steinbeck Center site. Debt service is financed from the Steinbeck Center's annual lease payments.

Certificates of Participation (2004) Fund - This fund is used to accumulate funds for the payment of principal and interest on the 2004 Certificates of Participation. Proceeds were used to provide funding to finance the cost of acquisition and construction of a five-level, 452-space public parking structure. Debt Service is to be funded by paid parking throughout the downtown area. Pursuant to a reimbursement agreement the Salinas Redevelopment Agency is responsible for the debt service. As with any City sponsored debt, the City's General Fund is

Non-Major Governmental Funds

pledged to make the bond payments if the Agency is financially unable to make the bond payments.

Central City Debt Service Fund - This fund is used to accumulate funds for the payment of principal and interest on the SRA's Tax Allocation Bonds Series A-1992 and Series B-1996 issued to complete project improvements in the Central City revitalization project area. Additionally, funds are also used to re-pay the City for loan advances. Debt service is financed from tax increments.

Sunset Avenue Merged Debt Service Fund - This fund is used to accumulate funds for the payment of principal and interest on the City's loan and a State Department of Commerce loan. Debt service is financed from tax increments.

Capital Projects Funds are used to account for major capital acquisition and construction activities. The Capital Projects Funds used by the City in this report are as follows:

Special Aviation Fund - This fund accounts for federal and state airport grants. Funds are used to reimburse the Capital Projects fund for airport capital expenditures.

Special Construction Assistance Fund - This fund accounts for numerous federal, state and county grants as well as developer contributions used for public improvements. Funds are used to reimburse the Capital Projects fund for capital project expenditures.

Capital Projects Fund - This fund accounts for all capital projects expenditures. Funds are transferred in from various other funds after expenditures are made. This revolving fund was established with \$2,000,000 and is used to advance capital project expenditures prior to reimbursement of Federal, State and other construction grants and bond financings.

Assessment District Projects Fund - This fund accounts for bond proceeds from assessment districts used for capital improvements. Funds are used to reimburse the Capital Projects fund for assessment district capital project expenditures.

Central City Project Fund - This fund accounts for financial resources for Central City Project Area Redevelopment Agency projects.

Sunset Avenue Merged Project Fund - This fund accounts for financial resources for Sunset Avenue Merged Project Area Redevelopment Agency projects.

**CITY OF SALINAS, CALIFORNIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006**

SPECIAL REVENUE FUNDS

	Emergency Medical Services	Asset Seizure	Lighting, Landscape and Maintenance District	Local Public Safety	Gas Tax
Assets:					
Cash and Investments	\$ 100,570	\$ 110,593	\$ 536,283	\$ 319,457	\$ 4,244,990
Cash and Investments Restricted	-	-	7,402	-	8,400
Accounts Receivable	-	-	-	-	-
Interest Receivable	-	1,475	4,425	984	40,418
Due from Other Agencies	82,917	-	-	373,492	231,551
Due from Fiduciary Funds	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Advance to Redevelopment	-	-	-	-	-
Loans Receivable	-	-	-	-	-
Land Held for Resale	-	-	-	-	-
Total Assets	\$ 183,487	\$ 112,068	\$ 548,110	\$ 693,933	\$ 4,525,359
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	\$ 16,168	\$ 9,220	\$ 74,777	\$ 59,448	\$ -
Due to Other Funds	57,456	36,319	17,767	271,189	354,662
Advance from Other Funds	-	-	-	-	-
Deferred Revenues	-	-	-	-	-
Total Liabilities	73,624	45,539	92,544	330,637	354,662
Fund Balances:					
Reserved for:					
Encumbrances	21,356	-	-	-	335,954
Future Budgets	-	-	-	-	-
Advances	-	-	-	-	-
Carryover Appropriations	-	-	-	-	2,572,055
Land	-	-	-	-	-
Debt Service	-	-	-	-	-
Parking Structure	-	-	-	-	-
Plaza Grande Operations	-	-	-	-	-
Loans Receivable	-	-	-	-	-
Unreserved					
Reported in SR	88,507	66,529	455,566	363,296	1,262,688
Reported in CP	-	-	-	-	-
Reported in DS	-	-	-	-	-
Total Fund Balances	109,863	66,529	455,566	363,296	4,170,697
Total Liabilities and Fund Balances	\$ 183,487	\$ 112,068	\$ 548,110	\$ 693,933	\$ 4,525,359

SPECIAL REVENUE FUNDS

<u>Traffic Safety</u>	<u>Vehicle Abatement</u>	<u>Recreation Parks</u>	<u>Housing Trust</u>	<u>Grants</u>	<u>Central City Housing</u>	<u>Sunset Avenue Merged Housing</u>
\$ 171,626	\$ 55,339	\$ 177,174	\$ 333,060	\$ 67,569	\$ 2,517,160	\$ 1,631,540
-	-	-	-	-	-	-
-	-	-	240	1,140	-	-
96,101	-	-	-	-	31,344	153,252
-	-	-	-	42,332	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	235,372	-
-	-	-	-	-	2,806,324	2,134,500
-	-	-	-	-	194,607	-
<u>\$ 267,727</u>	<u>\$ 55,339</u>	<u>\$ 177,174</u>	<u>\$ 333,300</u>	<u>\$ 111,041</u>	<u>\$ 5,784,807</u>	<u>\$ 3,919,292</u>
\$ -	\$ 4,139	\$ -	\$ -	\$ 8,865	\$ 4,329	\$ 2,886
-	-	-	-	33,919	6,993	-
-	-	-	-	-	-	-
-	-	-	-	-	-	139,091
-	4,139	-	-	42,784	11,322	141,977
-	-	-	-	-	-	48,700
-	-	-	-	-	2,212,182	1,594,115
-	-	-	-	-	235,372	-
-	-	-	-	-	-	-
-	-	-	-	-	194,607	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	325,000	-
-	-	-	-	-	2,806,324	2,134,500
267,727	51,200	177,174	333,300	68,257	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>267,727</u>	<u>51,200</u>	<u>177,174</u>	<u>333,300</u>	<u>68,257</u>	<u>5,773,485</u>	<u>3,777,315</u>
<u>\$ 267,727</u>	<u>\$ 55,339</u>	<u>\$ 177,174</u>	<u>\$ 333,300</u>	<u>\$ 111,041</u>	<u>\$ 5,784,807</u>	<u>\$ 3,919,292</u>

Continued

**CITY OF SALINAS, CALIFORNIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006**

DEBT SERVICE FUNDS

	<u>Assessment District Reserve</u>	<u>Assessment District Administration</u>	<u>Certificates of Participation (1997)</u>	<u>Certificates of Participation (1999)</u>
Assets:				
Cash and Investments	\$ 2,760,372	\$ 90,962	\$ 81,160	\$ 7,524
Cash and Investments Restricted	-	-	810,038	100,166
Accounts Receivable	-	-	-	-
Interest Receivable	16,521	-	12,695	1,458
Due from Other Agencies	-	-	-	-
Due from Fiduciary Funds	-	-	-	-
Due from Other Funds	-	-	-	-
Advance to Redevelopment	-	-	-	-
Loans Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
	<u>2,776,893</u>	<u>90,962</u>	<u>903,893</u>	<u>109,148</u>
Total Assets	\$ 2,776,893	\$ 90,962	\$ 903,893	\$ 109,148
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	\$ -	\$ 2,178	\$ 450	\$ 70
Due to Other Funds	-	-	-	-
Advance from Other Funds	-	-	-	-
Deferred Revenues	-	-	-	-
	<u>-</u>	<u>2,178</u>	<u>450</u>	<u>70</u>
Total Liabilities	-	2,178	450	70
Fund Balances:				
Reserved for:				
Encumbrances	-	-	-	-
Future Budgets	-	-	-	-
Advances	-	-	-	-
Carryover Appropriations	-	-	-	-
Land	-	-	-	-
Debt Service	2,776,893	88,784	903,443	109,078
Parking Structure	-	-	-	-
Plaza Grande Operations	-	-	-	-
Loans Receivable	-	-	-	-
Unreserved				
Reported in SR	-	-	-	-
Reported in CP	-	-	-	-
Reported in DS	-	-	-	-
	<u>2,776,893</u>	<u>88,784</u>	<u>903,443</u>	<u>109,078</u>
Total Fund Balances	2,776,893	88,784	903,443	109,078
Total Liabilities and Fund Balances	\$ 2,776,893	\$ 90,962	\$ 903,893	\$ 109,148

DEBT SERVICE FUNDS

Certificates of Participation (2002)	Central City Debt Service	Sunset Avenue Merged Debt Service
\$ 4,565	\$ 900,617	\$ 2,070,843
190,564	1,532,525	-
-	-	-
3,494	-	23,897
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>198,623</u>	<u>2,433,142</u>	<u>2,094,740</u>
\$ 2,700	\$ 2,700	\$ -
-	-	-
-	235,372	-
-	-	-
<u>2,700</u>	<u>238,072</u>	<u>-</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
195,923	1,460,070	2,094,740
-	735,000	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>195,923</u>	<u>2,195,070</u>	<u>2,094,740</u>
<u>\$ 198,623</u>	<u>\$ 2,433,142</u>	<u>\$ 2,094,740</u>

Continued

**CITY OF SALINAS, CALIFORNIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006**

CAPITAL PROJECT FUNDS

	<u>Special Aviation</u>	<u>Capital Projects</u>	<u>Assessment District Projects</u>	<u>Central City Project</u>	<u>Sunset Avenue Merged Project</u>	<u>Total Nonmajor Funds</u>
Assets:						
Cash and Investments	\$ 700,418	\$ 1,119,198	\$ 1,063,155	\$ 30,998	\$ 26,506	\$ 19,121,679
Cash and Investments Restricted	-	-	-	-	56,105	2,705,200
Accounts Receivable	-	-	-	-	-	1,380
Interest Receivable	14,948	-	10,129	10,227	-	325,267
Due from Other Agencies	1,327,289	-	-	-	-	2,153,682
Due from Fiduciary Funds	-	-	-	-	-	-
Due from Other Funds	-	2,455,507	-	-	-	2,455,507
Advance to Redevelopment	-	-	-	-	-	235,372
Loans Receivable	-	-	-	1,283,725	-	6,224,549
Land Held for Resale	-	-	-	888,877	-	1,083,484
	<u>\$ 2,042,655</u>	<u>\$ 3,574,705</u>	<u>\$ 1,073,284</u>	<u>\$ 2,213,827</u>	<u>\$ 82,611</u>	<u>\$ 34,306,120</u>
Total Assets						
Liabilities and Fund Balances:						
Liabilities:						
Accounts Payable	\$ 233,098	\$ 1,574,732	\$ 152	\$ 12,032	\$ 24,402	\$ 2,032,346
Due to Other Funds	17,243	-	-	3,139	-	798,687
Advance from Other Funds	-	-	-	-	-	235,372
Deferred Revenues	98,849	-	-	-	-	237,940
	<u>349,190</u>	<u>1,574,732</u>	<u>152</u>	<u>15,171</u>	<u>24,402</u>	<u>3,304,345</u>
Total Liabilities						
Fund Balances:						
Reserved for:						
Encumbrances	247,791	-	-	16,534	1,810	672,145
Future Budgets	-	-	-	9,520	-	3,815,817
Advances	-	-	-	-	-	235,372
Carryover Appropriations	-	-	-	-	56,399	2,628,454
Land	-	-	-	888,877	-	1,083,484
Debt Service	-	-	-	-	-	7,628,931
Parking Structure	-	-	-	-	-	735,000
Plaza Grande Operations	-	-	-	-	-	325,000
Loans Receivable	-	-	-	1,283,725	-	6,224,549
Unreserved						
Reported in SR	-	-	-	-	-	3,134,244
Reported in CP	1,445,674	1,999,973	1,073,132	-	-	4,518,779
Reported in DS	-	-	-	-	-	-
	<u>1,693,465</u>	<u>1,999,973</u>	<u>1,073,132</u>	<u>2,198,656</u>	<u>58,209</u>	<u>31,001,775</u>
Total Fund Balances						
Total Liabilities and Fund Balances	<u>\$ 2,042,655</u>	<u>\$ 3,574,705</u>	<u>\$ 1,073,284</u>	<u>\$ 2,213,827</u>	<u>\$ 82,611</u>	<u>\$ 34,306,120</u>

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CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR FISCAL YEAR ENDED JUNE 30, 2006

SPECIAL REVENUE FUNDS

	Emergency Medical Services Fund	Asset Seizure Fund	Lighting, Landscape and Maintenance District Fund	Local Public Safety Fund	Gas Tax Fund
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ 416,800	\$ -
Special Assessments	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Intergovernmental	424,786	-	-	1,969,383	2,634,119
Charges for Services	-	-	985,788	-	-
Interest	-	6,840	10,259	7,100	158,972
Fines and Forfeits	-	25,170	-	-	-
Developer Contributions	-	-	-	-	-
Miscellaneous	-	-	-	-	157,656
Total Revenues	424,786	32,010	996,047	2,393,283	2,950,747
Expenditures:					
Current:					
General Government	-	-	-	-	-
Public Safety	557,541	50,194	-	1,756,869	-
Public Works	-	-	-	-	-
Recreation	-	-	765,196	-	-
Library	-	-	-	-	-
Education (ERAF payment)	-	-	-	-	-
Capital Outlay	-	-	74,018	450,041	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Pass Through Tax	-	-	-	-	-
Total Expenditures	557,541	50,194	839,214	2,206,910	-
Excess(Deficiency) of Revenues					
Over(Under) Expenditures	(132,755)	(18,184)	156,833	186,373	2,950,747
Other Financing Sources (Uses):					
Interfund Loans	-	-	-	-	-
Bond Proceeds	-	-	-	-	-
Refunding 1997 COP Bonds	-	-	-	-	-
Bond Issuance Cost	-	-	-	-	-
Transfer Parking District to Enterprise Funds	-	-	-	-	-
Operating Transfers In	260,000	-	-	18,225	-
Operating Transfers Out	(66,338)	(72,984)	-	(268,067)	(2,689,913)
Total Other Financing Sources(Uses)	193,662	(72,984)	-	(249,842)	(2,689,913)
Excess (Deficiency) of Revenues and Other Sources Over(Under) Expenditures and Other Uses	60,907	(91,168)	156,833	(63,469)	260,834
Fund Balances at Beginning of Year, as restated	48,956	157,697	298,733	426,765	3,909,863
Fund Balances at End of Year	\$ 109,863	\$ 66,529	\$ 455,566	\$ 363,296	\$ 4,170,697

SPECIAL REVENUE FUNDS

Traffic Safety Fund	Vehicle Abatement Fund	Recreation Parks Fund	Housing Trust Fund	Grants Fund	Central City Housing Fund	Sunset Avenue Merged Housing Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	137,307	-	-	348,928	-	-
-	-	-	-	-	-	-
-	-	-	-	-	102,468	52,426
815,942	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	42,745	300	-	10,359	6,653
<u>815,942</u>	<u>137,307</u>	<u>42,745</u>	<u>300</u>	<u>348,928</u>	<u>112,827</u>	<u>59,079</u>
-	-	-	-	49,430	155,772	108,000
-	144,699	-	-	-	-	-
-	-	-	-	134,650	-	-
-	-	-	-	98,094	-	-
-	-	-	-	-	-	-
-	-	-	-	26,074	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	144,699	-	-	308,248	155,772	108,000
815,942	(7,392)	42,745	300	40,680	(42,945)	(48,921)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	40,000	-	-	3,000	574,017	536,039
(700,000)	-	-	-	-	(240,466)	-
<u>(700,000)</u>	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>333,551</u>	<u>536,039</u>
115,942	32,608	42,745	300	43,680	290,606	487,118
151,785	18,592	134,429	333,000	24,577	5,482,879	3,290,197
<u>\$ 267,727</u>	<u>\$ 51,200</u>	<u>\$ 177,174</u>	<u>\$ 333,300</u>	<u>\$ 68,257</u>	<u>\$ 5,773,485</u>	<u>\$ 3,777,315</u>

Continued

CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR FISCAL YEAR ENDED JUNE 30, 2006

	DEBT SERVICE FUNDS			
	Assessment District Reserve Fund	Assessment District Administration Fund	Certificates of Participation (1997) Fund	Certificates of Participation (1999) Fund
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-
Licenses and Permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for Services	-	70,234	-	-
Interest	99,088	-	47,246	6,022
Fines and Forfeits	-	-	-	-
Developer Contributions	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	<u>99,088</u>	<u>70,234</u>	<u>47,246</u>	<u>6,022</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Recreation	-	-	-	-
Library	-	-	-	-
Education (ERAF payment)	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal Retirement	-	-	230,000	33,649
Interest and Fiscal Charges	-	78,245	500,336	53,857
Pass Through Tax	-	-	-	-
Total Expenditures	<u>-</u>	<u>78,245</u>	<u>730,336</u>	<u>87,506</u>
Excess(Deficiency) of Revenues				
Over(Under) Expenditures	<u>99,088</u>	<u>(8,011)</u>	<u>(683,090)</u>	<u>(81,484)</u>
Other Financing Sources (Uses):				
Interfund Loans	-	-	-	-
Bond Proceeds	-	-	11,705,000	-
Refunding 1997 COP Bonds	-	-	(11,091,221)	-
Bond Issuance Cost	-	-	(671,225)	-
Transfer Parking District to Enterprise Funds	-	-	-	-
Operating Transfers In	-	-	785,097	84,000
Operating Transfers Out	-	-	-	-
Total Other Financing Sources(Uses)	<u>-</u>	<u>-</u>	<u>727,651</u>	<u>84,000</u>
Excess (Deficiency) of Revenues and Other Sources Over(Under) Expenditures and Other Uses	<u>99,088</u>	<u>(8,011)</u>	<u>44,561</u>	<u>2,516</u>
Fund Balances at Beginning of Year, as restated	<u>2,677,805</u>	<u>96,795</u>	<u>858,882</u>	<u>106,562</u>
Fund Balances at End of Year	<u>\$ 2,776,893</u>	<u>\$ 88,784</u>	<u>\$ 903,443</u>	<u>\$ 109,078</u>

DEBT SERVICE FUNDS

Certificates of Participation (2002) Fund	Central City Debt Service Fund	Sunset Avenue Merged Debt Service Fund
\$ -	\$ 2,870,085	\$ 2,680,195
-	-	-
-	-	-
-	-	-
-	-	-
10,318	84,524	80,723
-	-	-
-	-	-
176,413	-	-
<u>186,731</u>	<u>2,954,609</u>	<u>2,760,918</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	190,125	183,401
-	-	-
55,000	1,160,725	1,027,000
132,926	734,577	-
-	91,740	658,963
<u>187,926</u>	<u>2,177,167</u>	<u>1,869,364</u>
(1,195)	777,442	891,554
-	-	-
-	-	-
-	-	-
-	-	-
-	240,466	-
-	(574,017)	(536,039)
-	(333,551)	(536,039)
(1,195)	443,891	355,515
<u>197,118</u>	<u>1,751,179</u>	<u>1,739,225</u>
<u>\$ 195,923</u>	<u>\$ 2,195,070</u>	<u>\$ 2,094,740</u>

Continued

CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR FISCAL YEAR ENDED JUNE 30, 2006

CAPITAL PROJECTS FUNDS

	Special Aviation Fund	Capital Project Fund	Assessment District Project Fund	Central City Project Fund	Sunset Avenue Merged Project Fund	Total
Revenues:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,967,080
Special Assessments	-	-	-	-	-	-
Licenses and Permits	-	-	-	-	-	-
Intergovernmental	2,076,900	-	-	-	-	7,591,423
Charges for Services	-	-	-	-	-	1,056,022
Interest	69,937	-	42,233	65,292	630	844,078
Fines and Forfeits	-	-	-	-	-	841,112
Developer Contributions	-	-	-	-	-	-
Miscellaneous	-	-	-	-	119	394,245
Total Revenues	2,146,837	-	42,233	65,292	749	16,693,960
Expenditures:						
Current:						
General Government	-	-	-	-	-	313,202
Public Safety	-	-	-	-	-	2,509,303
Public Works	-	-	-	-	-	-
Recreation	-	-	-	-	-	899,846
Library	-	-	-	-	-	98,094
Education (ERAF payment)	-	-	-	-	-	373,526
Capital Outlay	2,235,043	7,902,139	9,222	542,416	1,129,939	12,368,892
Debt Service:						
Principal Retirement	-	-	-	-	26,230	2,532,604
Interest and Fiscal Charges	-	-	-	-	24,886	1,524,827
Pass Through Tax	-	-	-	-	-	750,703
Total Expenditures	2,235,043	7,902,139	9,222	542,416	1,181,055	21,370,997
Excess(Deficiency) of Revenues						
Over(Under) Expenditures	(88,206)	(7,902,139)	33,011	(477,124)	(1,180,306)	(4,677,037)
Other Financing Sources (Uses):						
Interfund Loans	-	-	-	433,000	1,027,000	1,460,000
Bond Proceeds	-	-	-	-	-	11,705,000
Refunding 1997 COP Bonds	-	-	-	-	-	(11,091,221)
Bond Issuance Cost	-	-	-	-	-	(671,225)
Transfer Parking District to Enterprise Funds	-	-	-	-	-	-
Operating Transfers In	-	7,906,651	-	-	-	10,447,495
Operating Transfers Out	-	-	-	-	-	(5,147,824)
Total Other Financing Sources(Uses)	-	7,906,651	-	433,000	1,027,000	6,702,225
Excess (Deficiency) of Revenues and						
Other Sources Over(Under)						
Expenditures and Other Uses	(88,206)	4,512	33,011	(44,124)	(153,306)	2,025,188
Fund Balances at Beginning of Year, as restated	1,781,671	1,995,461	1,040,121	2,242,780	211,515	28,976,587
Fund Balances at End of Year	\$ 1,693,465	\$ 1,999,973	\$ 1,073,132	\$ 2,198,656	\$ 58,209	\$ 31,001,775
						Concluded

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

Risk Management Fund - This fund is used to account for the City's Risk Management program which administers employee benefits and the Internal Service Funds insurance programs.

General Insurance Fund - This fund is used to account for City-wide safety programs, employee assistance programs, unemployment claims, biennial physical exams, and insurance for property, fine arts and reimbursable damages.

Health Insurance Fund - This fund is used to account for administration of the City's health insurance programs.

Workers Compensation Fund - This fund is used to account for the City's self-insured workers compensation program.

General Liability Fund - This fund is used to account for the City's self-insured liability insurance program.

CITY OF SALINAS
Combining Statement of Net Assets
Internal Service Funds
June 30, 2006

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Assets:					
Current Assets:					
Cash and Investments	\$ 63,271	\$ 392,819	\$ 6,456,935	\$ 2,116,420	\$ 9,029,445
Cash and Investments Restricted	-	-	396,106	73,417	469,523
Accounts Receivable					-
Interest Receivable	-	-	60,086	19,471	79,557
Due from General Fund	-	-	1,154,265	-	1,154,265
Total Assets	63,271	392,819	8,067,392	2,209,308	10,732,790
Liabilities:					
Current Liabilities:					
Accounts Payable	7,203	22,655	2,938	-	32,796
Insurance Claims Payable	-	-	8,064,454	594,249	8,658,703
Total Current Liabilities	7,203	22,655	8,067,392	594,249	8,691,499
Noncurrent Liabilities:					
Accrued Leave	20,583	-	-	-	20,583
Total Noncurrent Liabilities	20,583	-	-	-	20,583
Total Liabilities	27,786	22,655	8,067,392	594,249	8,712,082
Net Assets:					
Invested in Capital Assets	-	-	-	-	-
Restricted	9,252	705	-	-	9,957
Unrestricted	26,233	369,459	-	1,615,059	2,010,751
Total Net Assets	\$ 35,485	\$ 370,164	\$ -	\$ 1,615,059	\$ 2,020,708

CITY OF SALINAS
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For Fiscal Year Ended June 30, 2006

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Operating Revenues:					
Charges for Services	\$ 325,683	\$ 593,164	\$ 2,543,327	\$ 1,000,000	\$ 4,462,174
Total Operating Revenues	<u>325,683</u>	<u>593,164</u>	<u>2,543,327</u>	<u>1,000,000</u>	<u>4,462,174</u>
Operating Expenses:					
Personnel Services	311,090	-	-	-	311,090
Contractual Services	8,074	104,616	333,401	50,890	496,981
Supplies	989	-	-	-	989
Insurance	-	332,870	346,025	344,332	1,023,227
Insurance Claims	-	26,630	2,099,243	214,266	2,340,139
Other	3,907	-	-	-	3,907
Total Operating Expenses	<u>324,060</u>	<u>464,116</u>	<u>2,778,669</u>	<u>609,488</u>	<u>4,176,333</u>
Operating Income (Loss)	<u>1,623</u>	<u>129,048</u>	<u>(235,342)</u>	<u>390,512</u>	<u>285,841</u>
Nonoperating Revenues:					
Interest	-	-	235,342	70,533	305,875
Total Nonoperating Revenues	<u>-</u>	<u>-</u>	<u>235,342</u>	<u>70,533</u>	<u>305,875</u>
Income (Loss) Before Transfers	1,623	129,048	-	461,045	591,716
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	1,623	129,048	-	461,045	591,716
Total Net Assets-Beginning	<u>33,862</u>	<u>241,116</u>	<u>-</u>	<u>1,154,014</u>	<u>1,428,992</u>
Total Net Assets-Ending	<u><u>\$ 35,485</u></u>	<u><u>\$ 370,164</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,615,059</u></u>	<u><u>\$ 2,020,708</u></u>

CITY OF SALINAS
Combining Statement of Cash Flows
Internal Service Funds
For Fiscal Year Ended June 30, 2006

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Cash Flows from Operating Activities:					
Receipts from Customers and Users	\$ -	\$ 35,500	\$ 293,721	\$ -	\$ 329,221
Receipts from interfund services provided	325,683	557,663	3,807,951	1,000,000	5,691,297
Payments to Suppliers	(11,200)	(464,121)	(679,426)	(395,222)	(1,549,969)
Payments to Employees	(305,223)	-	-	-	(305,223)
Payments to Claimants	-	-	(2,655,291)	(602,037)	(3,257,328)
Net Cash Provided (Used) by Operating Activities	<u>9,260</u>	<u>129,042</u>	<u>766,955</u>	<u>2,741</u>	<u>907,998</u>
Cash Flows from Non-Capital Financing Activities:					
Operating Transfers In	-	-	-	-	-
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities:					
Interest Received	-	-	209,824	64,508	274,332
(Decrease) in Fair Value of Investments	-	-	1,879	1,293	3,172
Transfer (to) from Restricted Cash	-	-	(68,642)	(26,213)	(94,855)
Net Cash Provided by (Used for) Investing Activities	<u>-</u>	<u>-</u>	<u>143,061</u>	<u>39,588</u>	<u>182,649</u>
Net Increase(Decrease) in Cash and Cash Equivalents	9,260	129,042	910,016	42,329	1,090,647
Cash and Cash Equivalents - Beginning of Year	<u>54,011</u>	<u>263,777</u>	<u>5,546,919</u>	<u>2,074,091</u>	<u>7,938,798</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 63,271</u></u>	<u><u>\$ 392,819</u></u>	<u><u>\$ 6,456,935</u></u>	<u><u>\$ 2,116,420</u></u>	<u><u>\$ 9,029,445</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating Income (Loss)	\$ 1,623	\$ 129,048	\$ (235,342)	\$ 390,512	\$ 285,841
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:					
(Increase) Decrease in Accounts Receivable	-	-	-	-	-
(Increase) Decrease in Due from General Func	-	-	1,264,624	-	1,264,624
Increase (Decrease) in Accounts Payable	2,267	(6)	(10,472)	-	(8,211)
Increase (Decrease) in Insurance Claims	-	-	(251,855)	(387,771)	(639,626)
Increase (Decrease) in Accrued Leave	5,370	-	-	-	5,370
Increase (Decrease) in Restricted Cash	-	-	68,642	26,213	94,855
Transfer (to) from Restricted Cash	-	-	(68,642)	(26,213)	(94,855)
Total Adjustments to Net Income	<u>7,637</u>	<u>(6)</u>	<u>1,002,297</u>	<u>(387,771)</u>	<u>622,157</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 9,260</u></u>	<u><u>\$ 129,042</u></u>	<u><u>\$ 766,955</u></u>	<u><u>\$ 2,741</u></u>	<u><u>\$ 907,998</u></u>

Agency Funds

Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds operate as a clearing mechanism. Cash resources are collected, held for a brief period and then distributed to the proper recipients. The City has a fiduciary responsibility for the assets, which it does not own outright.

Sherwood Hall Box Office - This fund is used to account for ticket sales for events held at Sherwood Hall Community Center. When the cost of the event is determined, the deposit account is cleared by paying all parties involved.

Sunrise House - This fund is used to account for the assets held on behalf of Sunrise House. Monies are collected from various grants and used by Sunrise House to provide a half-way house for youths. Sunrise House has a separate Board of Directors.

Second Chance Youth Program - This fund is used to account for the assets held on behalf of Second Chance Youth Program. Monies are collected from various grants and used by Second Chance to provide various activities for "at-risk" youths. Second Chance has a separate Board of Directors.

Cafeteria Plan - This fund is used to account for the City's Cafeteria Plan for unreimbursed medical and dependent care payments (Flexible Spending Account) operated under Section 125 of the Internal Revenue Code. Pre-tax monies are deducted from employees in accordance with their Salary Redirection Agreements and used to reimburse employees for qualified unreimbursed medical and dependent care expenses after obtaining approval from the City's cafeteria plan administrator.

Retiree Health Insurance - This fund is used to account for monies collected from retired employees to pay for their health insurance premiums.

Business Improvements District Fund - This fund accounts for the business license surcharged assessment imposed on Old Town and Alisal businesses. These funds are used to promote and revitalize these two business districts. Expenditures are determined by the districts' Board of Directors and approved by the City Council.

Payroll Deposits Fund - This fund is used to account for payroll tax and deferred compensation employee payroll deductions. These funds are transmitted for deposit with the appropriate agencies.

Salinas Valley Solid Waste Authority - This fund is used to account for the assets of the Salinas Valley Solid Waste Authority. The Authority is a joint venture (joint exercise of powers authority), created pursuant to an agreement dated as of January 1, 1997, (the Authority Agreement") among the County of Monterey, and the cities of Salinas, Gonzales, Soledad, Greenfield and King City (the "Members"). The Authority was established to acquire and manage the landfill assets of each member, ensure long term landfill capacity of the Authority service area and provide a unified and coordinated solid waste management for the members. The Authority issues separate audited financial statements.

CITY OF SALINAS
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2006

	Sherwood Hall Box Office	Sunrise House	Second Chance Youth Program	Cafeteria Plan
Assets:				
Cash and Investments	\$ 5,118	\$ 116,139	\$ -	\$ 79,576
Restricted Cash	-	-	-	-
Deposits	-	-	-	-
Accounts Receivable	-	-	-	125,831
Interest Receivable	-	-	-	-
Due from Other Agencies	-	53,414	16,762	-
Bond Issuance Costs	-	-	-	-
Capital Assets, Net	-	-	-	-
Total Assets	<u>\$ 5,118</u>	<u>\$ 169,553</u>	<u>\$ 16,762</u>	<u>\$ 205,407</u>
Liabilities:				
Accounts Payable	\$ 8,940	\$ 64,686	\$ 19,669	\$ 171,444
Accrued Leave	-	3,194	7,713	-
Due to Other Funds	-	-	-	-
Due to Outside Agencies	-	-	79,832	-
Deferred Revenues	(3,822)	101,673	(90,452)	33,963
Interest Payable	-	-	-	-
Closure Payable	-	-	-	-
Installment Purchase Agreement	-	-	-	-
Long Term Debt	-	-	-	-
Due to SVSWA (Fiduciary Liability)	-	-	-	-
Total Liabilities	<u>\$ 5,118</u>	<u>\$ 169,553</u>	<u>\$ 16,762</u>	<u>\$ 205,407</u>

Retiree Health Insurance	Business Improvement District	Salinas Valley Solid Waste Authority	Totals
\$ 1	\$ 22,447	\$ 10,241,826	\$ 10,465,107
-	-	21,613,137	21,613,137
-	-	-	-
-	32,376	1,444,825	1,603,032
-	-	353,317	353,317
-	-	63,294	133,470
-	-	1,807,196	1,807,196
-	-	28,396,350	28,396,350
<u>\$ 1</u>	<u>\$ 54,823</u>	<u>\$ 63,919,945</u>	<u>\$ 64,371,609</u>

\$ -	\$ -	\$ 2,889,591	\$ 3,154,330
-	-	128,304	139,211
-	-	-	-
-	-	-	79,832
1	54,823	109,729	205,915
-	-	935,709	935,709
-	-	-	-
-	-	-	-
-	-	61,456,927	61,456,927
-	-	(1,600,315)	(1,600,315)
<u>\$ 1</u>	<u>\$ 54,823</u>	<u>\$ 63,919,945</u>	<u>\$ 64,371,609</u>



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“Rally Salinas” Library Donations

The following Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets for “Rally Salinas” are presented as supplementary information. This information is included in the City’s Private Purpose Trust Funds presented on pages 42 and 43 of the Basic Financial Statements.

In February 2005, Mayor Caballero announced “Rally Salinas!” a public fundraising campaign with a goal of \$500,000. To date, the Rally Salinas campaign has received \$799,637 with expenditures of \$580,225 and a fund balance at June 30, 2006 of \$219,412. The donations were used to maintain skeletal library services from July 1, 2005 through December 31, 2005.

As of January 2006, the Salinas libraries were operated under a Council approved \$700,000 General Fund budget appropriation.

CITY OF SALINAS
Statement of Fiduciary Net Assets
Fiduciary Fund-Rally Salinas
June 30, 2006

	Rally Salinas Private Purpose Trust Fund
Assets:	
Cash and Investments	\$ 220,495
Total Assets	220,495
Liabilities:	
Accounts Payable	1,083
Total Liabilities	1,083
Net Assets:	
Held in trust for Library purposes	\$ 219,412

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund-Rally Salinas
For the Year Ended June 30, 2006

	Private Purpose Trust Funds
Additions:	
Contributions:	
Private Donations	\$ 814,772
Total Contributions	<u>814,772</u>
Investment earnings:	
Interest	<u>-</u>
Net investment earnings	<u>-</u>
Total Additions	<u>814,772</u>
Deductions:	
Payments on behalf of trustees for Library services	580,225
Payments on behalf of trustees to Community Foundation for Monterey County's Administrative Services	<u>17,824</u>
Total Deductions	<u>598,049</u>
Change in Net Assets	216,723
Net Assets - Beginning	<u>2,689</u>
Net Assets - Ending	<u><u>\$ 219,412</u></u>

The accompanying notes are an integral part of this statement.



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**GENERAL
and
MEASURE V FUNDS**

**CITY OF SALINAS, CALIFORNIA
GENERAL AND MEASURE V FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	<u>General Fund</u>	<u>Measure V</u>	<u>Total</u>
Assets:			
Cash and Investments	\$ 16,989,431	\$ 504,271	\$ 17,493,702
Taxes Receivable	6,861,412	1,697,059	8,558,471
Accounts Receivable	206,302		206,302
Interest Receivable	266,599	1,573	268,172
Due from Fiduciary Funds	122,632		122,632
Due from Other Funds	1,047,057		1,047,057
Advances to Other Funds:			
Golf Course Fund	2,835,000		2,835,000
Parking District Fund	350,000		350,000
Loans to Others	29,800		29,800
Inventory	14,894		14,894
Total Assets	<u><u>\$ 28,723,127</u></u>	<u><u>\$ 2,202,903</u></u>	<u><u>\$ 30,926,030</u></u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$ 4,556,279	\$	\$ 4,556,279
Due to Capital Projects Fund	23,196		23,196
Due to Internal Service Fund	1,154,265		1,154,265
Total Liabilities	<u>5,733,740</u>		<u>5,733,740</u>
Fund Balance:			
Reserved for:			
Operations	3,610,000		3,610,000
Structural Budget Deficit	2,425,000		2,425,000
Capital Projects	2,465,800		2,465,800
Capital Projects-Measure V		2,202,903	2,202,903
Encumbrances	760,847		760,847
Loans Receivable	29,800		29,800
Advances	3,185,000		3,185,000
Inventory	14,894		14,894
Condemnation Deposits	137,673		137,673
Carry over Appropriations	1,521,370		1,521,370
Unreserved:			
Designated	6,055,720		6,055,720
Undesignated	2,783,283		2,783,283
Total Fund Balance	<u>22,989,387</u>	<u>2,202,903</u>	<u>25,192,290</u>
Total Liabilities and Fund Balances	<u><u>\$ 28,723,127</u></u>	<u><u>\$ 2,202,903</u></u>	<u><u>\$ 30,926,030</u></u>

**CITY OF SALINAS, CALIFORNIA
GENERAL AND MEASURE V FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General Fund</u>	<u>Measure V</u>	<u>Total</u>
Revenues:			
Taxes:			
Sales	\$ 17,956,819	\$	\$ 17,956,819
In-lieu Sales	5,991,643		5,991,643
Transactions and Use Tax		2,202,903	2,202,903
Property	12,840,068		12,840,068
Property-Vehicle License Fees	10,007,961		10,007,961
Utility	8,228,800		8,228,800
Business License	3,865,786		3,865,786
Franchise	3,120,960		3,120,960
Other	1,802,591		1,802,591
Licenses and Permits	13,881		13,881
Intergovernmental	2,323,758		2,323,758
Charges for Services	6,176,344		6,176,344
Interest	820,620		820,620
Miscellaneous	318,707		318,707
Total Revenues	<u>73,467,938</u>	<u>2,202,903</u>	<u>75,670,841</u>
Expenditures:			
Current:			
General Government	8,922,789		8,922,789
Public Safety	43,270,684		43,270,684
Public Works	11,264,475		11,264,475
Recreation	2,085,212		2,085,212
Library	537,790		537,790
Capital Outlay	172,455		172,455
Total Expenditures	<u>66,253,405</u>		<u>66,253,405</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>7,214,533</u>	<u>2,202,903</u>	<u>9,417,436</u>
Other Financing Sources (Uses):			
Operating Transfers In	1,125,000		1,125,000
General Fund Advance Forgiven	(1,555,000)		(1,555,000)
Operating Transfers Out	(2,510,157)		(2,510,157)
Total Other Financing Sources (Uses)	<u>(2,940,157)</u>		<u>(2,940,157)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>4,274,376</u>	<u>2,202,903</u>	<u>6,477,279</u>
Fund Balance at Beginning of Year	<u>18,715,011</u>		<u>18,715,011</u>
Fund Balance at End of Year	<u>\$ 22,989,387</u>	<u>\$ 2,202,903</u>	<u>\$ 25,192,290</u>



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