

BASIC FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2007



PREPARED BY
THE FINANCE DEPARTMENT

Tom Kever
Finance Director

Miguel Gutierrez
Elizabeth Mariano
Erika Rodriguez

AUDITORS

McGilloway, Ray, Brown & Kaufman
Accountants and Consultants
150 Cayuga Street, Suite 1
Salinas, CA 93901

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City of Salinas

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

January 29, 2008

***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, 2007. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) and are audited in accordance with generally accepted auditing standards.

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.

McGilloway, Ray, Brown & Kaufman, 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, 2007, 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, 2007, 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 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 unit, the Salinas Redevelopment Agency, because the City Council has financial accountability for this entity. 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 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 149,539, as of January 1, 2007. The City employs about 659 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 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 has a modern 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 Mervyns. Best Buy opened during July 2006 at the Northridge Shopping Center. Harden Ranch Plaza includes Target, Safeway, specialty stores, restaurants, and banking institutions. The Westridge Shopping Center is home to Costco, Wal-Mart, Office Max, Save mart and a variety of national chain restaurants. The Salinas Auto Center houses nine local dealers. In October 2007, Home Depot and Circuit City moved their operations from Harden Ranch Plaza to the Auto Center area to join the newly open Kohl's and other specialty stores. 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. 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, 2007 and to provide a financial analysis of City performance.

Capital Assets and Depreciation

As of June 30, 2007, capital assets, including infrastructure assets, of the City of Salinas totaled \$546.4 million; accumulated depreciation totaled \$240.6 million, with the difference providing net capital assets of \$305.8 million. Net capital assets of the City's governmental activities (general government) are \$157.5 million and net capital assets for the City's business-type activities (enterprise funds) are \$148.3 million.

Capital assets include buildings, infrastructure (streets, curbs, gutters, sidewalks, bridges, streetlights, traffic signals, etc.), improvements other than buildings (park improvements, etc.), and machinery and equipment.

During fiscal year 2006-07, depreciation expense on capital assets of the City's governmental activities (general government) was \$7.4 million and depreciation expense on capital assets of the City's business-type activities (enterprise funds) was \$6.0 million. 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, 2007, the City had \$102.2 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 \$208,625,954, consists of fund balances at July 1, 2006 of \$81,045,874 and revenues of \$127,580,080. Other net financing sources totaled, \$1,292,536, including sources of \$1,084,000 from the Interfund loans and net transfers in of \$208,536 from non-governmental funds. Total resources expended during the fiscal year for governmental services were \$115,933,723. Fund balances were increased by \$12,938,893 to a total of \$93,984,767. This increase in fund balances is due to changes in the following governmental funds.

The General and Measure V Fund fund balance increased \$11,001,319 to \$36,193,669, of which \$23,871,001 is reserved and \$12,322,668 is unreserved. Unreserved fund balances total \$12,322,668, including the General Fund at \$10,243,212 and the Measure V Fund at \$2,079,456.

Measure V transactions and use tax is a general tax and is reported as part of the General Fund.

The General Fund unreserved fund balance of \$10,243,212 includes designated funds of \$7,316,669 and undesignated funds of \$2,926,543. The designated fund balance of \$7,316,669 includes taxes receivable, accounts receivable, interest receivable and other accrued resources, less long-term liabilities. 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 \$2,926,543 is available for allocation and

expenditure at June 30, 2007. General Fund resources available for expenditure at June 30, 2007 total \$14,480,443, including the operating reserve of \$5,200,000, the capital projects reserve of \$6,353,900 and the undesignated fund balance of \$2,926,543. General Fund reserves have been set-aside by Council for specific purposes.

During the mid-year budget review in February 2008 staff will recommend the allocation of the June 30, 2007 General Fund budget carryover of \$2,906,410 as follows; 1)-\$2,000,000 to the Operating Reserve; and 2) \$906,410 to the Capital Projects Reserve.

After the allocation of the June 30, 2007 budget carryover, General Fund reserves available for expenditure at June 30, 2007 are \$14,480,443, inclusive of a capital projects reserve for projects budgeted in both fiscal years 2007-08 and 2008-09 of \$7,260,310, an operating reserve of \$7,200,000 and an unreserved balance of \$20,133.

The City's three-year (2007-08 through 2009-10) budget projections assumes the \$7.2 million operating reserve will be exhausted as expenses will exceed revenues during this period. This fact was discussed with the recent approvals of MOUs adjusting employee compensation and further discussed with the policy determination to focus on economic development to enhance the City's revenue base.

The Measure V fund balance increased \$4,167,127 to \$6,370,030, of which \$4,290,574 is reserved and \$2,079,456 is unreserved but designated.

The Measure V unreserved fund balance of \$2,079,456 is designated. The designated fund balance includes taxes receivable and interest receivable. These funds are designated for future year budgets: when the funds are available for expenditure.

Measure V reserved fund balance at June 30, 2007 totals \$4,290,574, including reserves for encumbrances of \$2,296,816, capital projects of \$1,268,732 and carryover capital projects of \$725,026. Measure V reserves have been set-aside by Council for specific purposes.

All Measure V funds collected in fiscal year 2006-07 have been spent, encumbered or budgeted for capital projects to be completed in fiscal year 2007-08.

The Housing and Urban Development Fund showed a slight decrease in fund balance of \$5,869 in fiscal year 2007. 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 \$360,059 reflecting the receipt of \$5,842,960 in fees and interest and spending \$5,482,901 on capital projects during fiscal year 2007. The Development Fees Fund Balance of \$17.8 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 a decrease in fund balance of \$777,187 due to expenditure of funds collected in the prior year for street rehabilitation projects.

The Capital Projects Fund is a \$2.0 million revolving fund used to advance capital project expenditures pending reimbursement from federal, state and other construction grants.

The Assessment District Debt Service Fund showed a decrease in fund balance of \$183,311 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 \$2,543,822. Increases reported in the Central City and Sunset Avenue Debt Service and Housing funds of \$874,508 and \$1,450,291 respectively are the result of strong tax increments received during the year.

The combined fund balances for the governmental fund types aggregated \$93,984,767 at June 30, 2007. 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, 2007, total revenues for general governmental functions totaled \$127,580,080, an increase of 17.72% over the previous fiscal year.

Property Tax revenue was the largest single category of revenue during this fiscal year, producing 20.75% of the combined governmental fund type revenues and 29.46% of General and Measure V Fund revenues. Property Tax revenue includes Property Tax-In-Lieu of VLF (2/3 of vehicle license fees) of \$11,281,580 that is now determined by the City's growth in assessed property values. 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 19.04% of the combined governmental fund type revenues. Transactions and Use Tax (Measure V) represents 8.06% of the combined governmental fund type revenues. Measure V transactions and use tax is a general tax and is reported as part of the General Fund. Combined, sales tax and transactions and use tax revenue total \$34,576,666 or 38.49% of General and Measure V Fund revenues.

Intergovernmental revenue was the third largest single category of revenue during the fiscal year producing 15.56% of the combined governmental fund revenues. Intergovernmental revenues consist of Vehicle Licenses Fees (1/3 of VLF), Federal and State Public Safety Funds, Federal Block Grants, State Gas Taxes and Federal and State Construction Grants.

Other Taxes produced 7.29% of the combined governmental fund type revenues. Other Taxes include business license tax and franchise fees among others.

Utility User's Tax produced 6.83% of combined governmental fund type revenues. Utility User's Tax totals \$8,714,661 or 9.7% of General and Measure V Fund revenues.

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, 2007 (representing 2.45% decrease over the quarter ending June 30, 2006) was received in September 2007. Payments from the State Board of Equalization received in July 2007, August 2007 and September 2007 for the quarter ending June 30, 2007 totaled \$3,308,075 and are recorded as revenue and sales tax receivable for the year ended June 30, 2007.

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 fiscal year 2006-07 totaled \$1,759,946 and is recorded as revenue and in-lieu sales tax receivable for the year ended June 30, 2007.

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.

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, 2007 was received in September 2007. Payments from the State Board of Equalization received in July 2007, August 2007 and September 2007 for the quarter ending June 30, 2007 totaled \$2,009,450 and are recorded as revenue and Measure V tax receivable for the year ended June 30, 2007. Measure V

tax revenue was \$10,279,477 during fiscal year 2006-07.

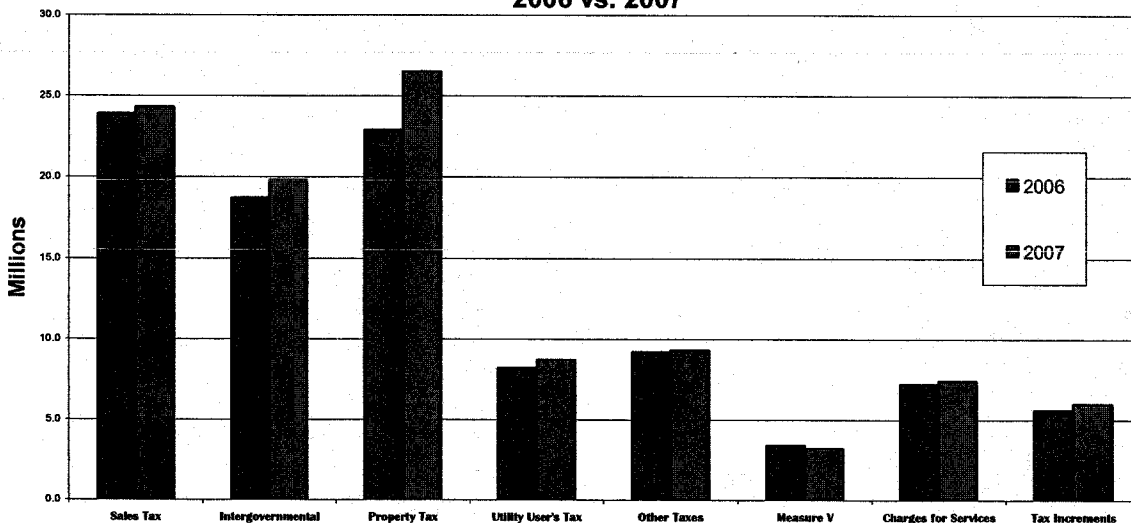
Taxes receivable total \$8,970,963 for the year ended June 30, 2007 and are further explained in footnote number 4 to the financial statements.

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: 2002-03 \$20,725,724; 2003-04 \$20,683,583; 2004-05 \$22,694,294; 2005-06 \$23,519,860 and 2006-07 \$24,132,495. Cash basis sales tax receipts declined in fiscal years 2002-03 and 2003-04. On a cash basis, sales tax increased 2.6% in FY 2006-07.

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

Source of Revenues	2007 Amounts	Percent of Total	2006 Amounts	2006 vs. 2007 Increase/(Decrease)	
				Dollars	Percent
Assessment District:					
Taxes	\$ 3,169,602	2.48%	\$ 3,432,591	\$ (262,989)	-7.66%
Property Tax	26,465,497	20.75%	24,397,365	2,068,132	8.48%
Sales Tax	24,297,189	19.04%	23,948,462	348,727	1.46%
Intergovernmental	19,854,380	15.56%	18,702,506	1,151,874	6.16%
Other Taxes	9,297,142	7.29%	9,206,137	91,005	0.99%
Utility User's Tax	8,714,661	6.83%	8,228,800	485,861	5.90%
Charges for Service	7,399,973	5.80%	7,232,366	167,607	2.32%
Property Tax Increment	5,993,830	4.70%	5,550,280	443,550	7.99%
Interest	3,784,643	2.97%	2,474,873	1,309,770	52.92%
Measure V	10,279,477	8.06%	2,202,903	8,076,574	366.63%
Growth/Dev Fees	4,914,155	3.85%	1,784,204	3,129,951	175.43%
Miscellaneous	1,800,366	1.41%	1,528,516	271,850	17.79%
Fines/Forfeitures	913,730	0.72%	841,112	72,618	8.63%
Developer Contributions	669,561	0.52%	382,706	286,855	74.95%
State ERAF Shift	-	0.00%	(1,549,336)	1,549,336	-
License & Permits	25,874	0.02%	13,881	11,993	86.40%
TOTAL	\$ 127,580,080	100.00%	\$ 108,377,366	\$ 19,202,714	17.72%

**General Government Revenues
2006 vs. 2007**

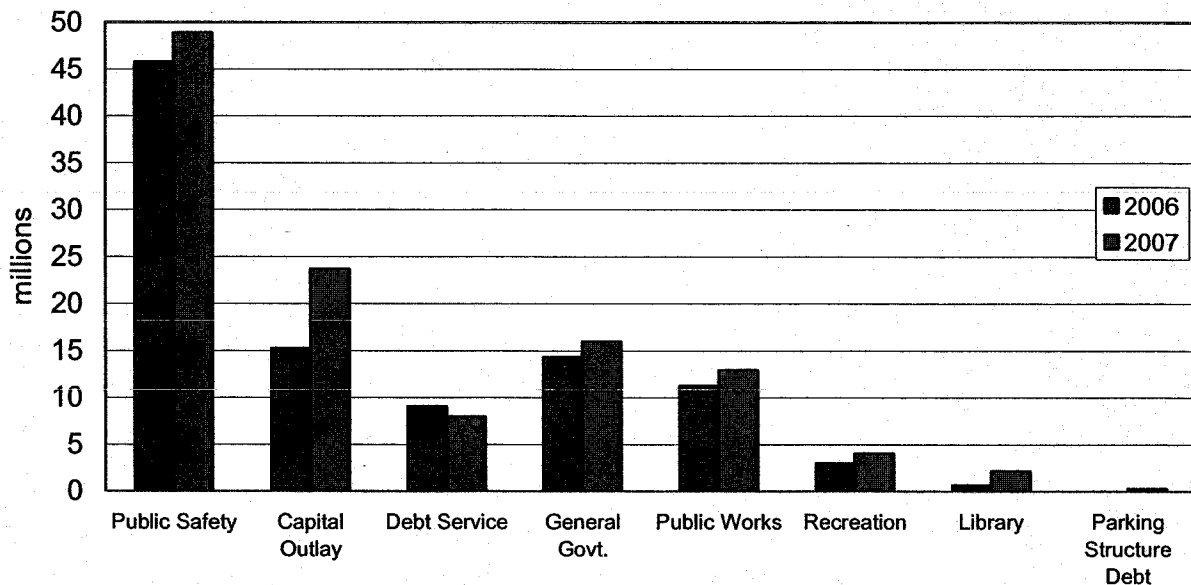


Fund Financial Statements-General Governmental Expenditures

Expenditures for governmental operations during the fiscal year ended June 30, 2007, were \$115,933,723, an increase of 12.4% in operations and a net increase of 16.7% in total expenditures over the previous year. Changes in expenditures by major function are as follows:

Function	2007	Percent of Total	2006	2006 vs. 2007 Increase/(Decrease)	
				Dollars	Percent
General Government	\$ 15,973,376	13.8%	\$ 13,953,875	\$ 2,019,501	14.5%
Public Safety	48,887,790	42.2%	45,779,987	3,107,803	6.8%
Public Works	12,945,483	11.2%	11,264,475	1,681,008	14.9%
Recreation	4,056,353	3.5%	2,985,058	1,071,295	35.9%
Library	2,167,342	1.9%	635,884	1,531,458	240.8%
Parking Structure Debt	275,000	0.2%	-	275,000	100.0%
Education (ERAFpayment)	-	0.0%	373,526	(373,526)	-100.0%
Subtotal Operations	84,305,344	72.6%	74,992,805	9,312,539	12.4%
Capital Outlay	23,660,906	20.4%	15,266,285	8,394,621	55.0%
Debt Service:					
Principal	4,214,267	3.6%	5,267,604	(1,053,337)	-20.0%
Interest	2,909,173	2.5%	3,066,179	(157,006)	-5.1%
Pass thru Tax	844,033	0.7%	750,703	93,330	12.4%
Total	\$ 115,933,723	99.8%	\$ 99,343,576	\$ 16,590,147	16.7%

General Government Expenditures 2006 vs. 2007



Operating Expenditures increased by \$9,312,539 or 12.4% from \$74,992,805 in fiscal year 2005-06 to \$84,305,344 in fiscal year 2006-07.

General Government expenditures increased \$2,019,501 or 14.5% from the prior year. Increases include \$535,148 in senior and low-income housing projects provided with Block Grant Funds and General and Measure V Fund increases of \$1,396,301 due to the restoration of administrative support and neighborhood services provided by Measure V.

Public Safety expenditures increased \$3,107,803 or 6.8% from the prior year. Increases include continued hiring of sworn police officers to fill vacant positions, negotiated Police salary increases effective July 1, 2006 (3.0%) and the restoration of services, including the crossing guard program, provided by Measure V.

Expenditures in Public Works, Recreation and Library functions increased \$ 4,283,761 or 28.8% from the prior year. Measure V provided restoration of library services, the reopening of recreation centers and restoration park and facilities maintenance including the graffiti abatement program. Additional after school programs were provided by Measure V funding.

Principal and interest payments decreased \$1,210,343 due to the reclassification of the 2004 Monterey Street Parking Structure Certificates of Participation to the Business-Type Funds.

Capital Outlay (Project) expenditures increased \$8,394,621 or 55% from \$15,266,285 in fiscal year 2005-06 to \$23,660,906 in fiscal year 2006-07. Capital projects expenditures during fiscal year 2006-07 include: 1) General and Measure V Fund investments of about \$3.5 million in police and fire vehicle replacements, street and park maintenance equipment, sidewalk and street tree repairs, fire vehicle lease payments, fire stations repairs and computer replacements; 2) Block Grant investments of over \$1.3 million for projects such as the Breadbox Recreation Center parking lot improvements, Williams Ranch child care facility, East Salinas traffic signals and street lights and ADA modifications; 3) Development Impact Fee investments of about \$5.2 million for improvements to Sanborn Road, North Main Street, West Laurel Drive, South Main and Blanco Intersection and sewer improvements and sewer main replacements; 4) Gas Tax investments of over \$1.7 million for street maintenance, traffic signals and NPDES storm drain projects; 5) Federal and State Grants and developer paid investments of over \$7.5 million for cost associated with annexation of future growth areas, road improvements, street improvements, bicycle lanes and street light improvements.

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, the Downtown Parking District 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 Enterprise Funds net assets totals \$115,606,460 at June 30, 2007.

Net assets in the Municipal Airport Fund total \$11,577,827. Capital assets, net of depreciation are \$10,859,321. Capital assets include buildings, runways and lights, furniture and equipment and land.

Net assets in the Industrial Waste Fund total \$6,542,268. Capital assets, net of depreciation are \$5,703,822. 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 (\$6,240,658). Capital assets, net of depreciation are \$7,217,824. 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 \$6,240,658 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. The lease term and annual payments coincides with Twin Creeks' debt payments 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. 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 \$4.3 million.

Cash flow advances totaling \$3,735,000 have been made from the City's General Fund to cover operating losses at Fairways Golf Course in fiscal years 2001-02 through 2006-07. City Council continues to explore alternatives to continuing the Fairways Golf Courses subsidy. "Special rates" have lead to increases in the number of rounds played with green fee revenue increasing 14% in fiscal year 2006-07. During May 2007, grounds maintenance was contracted to a private operator with savings estimated \$200,000 annually. Staff is exploring privatizing the entire operations of the golf course.

The value (capital assets, net of depreciation) of Fairways Golf Course is \$2.9 million.

Net assets in the Sanitary Sewer Fund totals \$32,342,731. Capital assets, net of depreciation are \$42,799,479. 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 \$66,845,013. Capital assets, net of depreciation are \$65,971,201. 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. 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 \$3,875,837. 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 \$179,878. Capital assets, net of depreciation are \$169,416.

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 \$483,564. Capital assets, net of depreciation are \$15,563,335.

The Downtown Parking District 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.

Debt service payments were made during fiscal year 2006-07 using the balance of capitalized interest, investment earnings and \$275,000 of Redevelopment Agency (Central City Project) funds. Beginning in fiscal year 2007-08, maximum annual debt service payments are \$1,091,950. At June 30, 2007, the Agency has reserved \$1,135,000 of fund balance for the purpose of making debt service payments.

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) 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, 2007, the Internal Service Funds liabilities for estimated claims payable totaled \$9,009,055, with \$8,524,057 representing Worker's Compensation and \$484,998 representing General Liability.

Total Worker's Compensation insurance claims liabilities are \$10,016,836 at June 30, 2007. A portion of the liability is reported in the Internal Service Fund (\$8,524,057) and a portion is treated as long-term debt (\$1,492,779). The long-term debt portion represents future obligations of the

Worker's Compensation Plan. The Worker's Compensation fund shortfall is \$1,492,779 at June 30, 2007.

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 \$1,640,298 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 \$41,935,970 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 and Retired Employees Health Insurance Program. Agency assets held by the City total \$378,218.

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, 3.71% for fiscal year ended June 30, 2006, and 5.07% for fiscal year ended June 30, 2007.

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, 2007 is as follows:

Balance at cost – June 30, 2007	\$ 84,672,212
Unrealized Loss	<u>(38,524)</u>
Balance at fair value – June 30, 2007	<u>\$ 84,633,688</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 \$10,645,974,648 and represents an increase of 7.25% over fiscal year 2006-07. The following table summarizes the growth in assessed valuation.

	<u>Before Redevelopment Increment</u>	<u>After Redevelopment Increment</u>	<u>Percent Increase</u>
2007-08	\$10,645,974,648	\$10,041,676,722	7.10%
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%

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 2007-08 are compared as follows:

	Fiscal year <u>2002-03</u>	Fiscal Year <u>2007-08</u>
Police	12.031%	26.700%
Fire	0.000%	34.579%
Miscellaneous	3.081%	10.834%
City Contribution	\$1,946,800	\$9,547,200

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, an 12.3% return in 2005-06, and a 19.1% return in 2006-07. 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 2007-08.

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 2007-08 levels over the next five years. Fiscal year 2008-09 rates for the City of Salinas are estimated as follows:

	Fiscal Year <u>2008-09</u>
Police	26.30%
Fire	34.70%
Miscellaneous	10.70%
City contribution	\$10,158,200

Effective June 1, 2001, retirement formulas for police officers are 3% @ 50 and miscellaneous employee are 2% @ 55. Effective December 1, 2005, retirement formula for firefighters are 3% @ 50. In addition to the City contributions, public safety employees contribute 9% and miscellaneous employees contribute 7%.

For fiscal year 2006-07, CalPERS pension cost was \$11,994,272. The City of Salinas actually contributed \$8,027,839 (12.7% higher than previous year's cost) while City employees contributed \$2,966,433.

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%); FY 2006-07 (26.5%); and FY 2007-08 (29.2%) 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 2007-08 miscellaneous employee rate of 10.834%).

During fiscal year 2006-07, the City contributed \$1,309,379 (7.9% higher than previous year's cost) to the New York Life retirement plan while the employees contributed \$152,197. The City paid

member contributions on behalf of SEIU employees of \$54,671.

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 increased 18.0% in calendar year 2004, 10.0% in calendar year 2005, 9.5% in calendar year 2006, 12.5% in calendar year 2007 and 6.0% in calendar year 2008. The City's health insurance costs are budgeted at \$8.6 million in 2007-08 and \$9.4 million in 2008-09.

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 \$3.9 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 \$3.9 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 (by over 70%) 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 2007-08, the City's VLF distributed with property tax totals \$12,100,832 (12.7% AV increase) and the remaining 33% of \$1,100,000 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 \$6.3 million annually. The "Triple Flip" of local sales tax ends with the repayment of the \$15 billion Economic Recovery Bonds. The State had planned 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 and any "borrowing" must be repaid within three years-with interest.

Additionally, the State legislature, upon a two-thirds vote, has the ability to reallocated property taxes between counties, cities and special districts, with the potential of reducing state budget commitments.

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 did not include ERAF shifts from redevelopment agencies. Proposition 1A does not protect redevelopment agencies from future State ERAF shifts.

While Proposition 1A protects local government from State takes of property tax, sales tax and vehicle license fees, the real issue may be sources of revenue not covered under 1A, such as COPs grants and other statutory relationships between state and local government that in time of difficulty are placed under additional review. Examples of City of Salinas funding not protected by 1A are:

- The City receives an annual allocation of COPs program funds (\$280,000) that funds police overtime. The COPs program costs the State about \$200 million annually.
- Effective July 1, 2007, the State altered the booking fee procedure (AB 1805). In lieu of charging booking fees, counties through out the State will receive \$35 million to operate, renovate, remodel or construct local detention facilities. If the State amends the booking fee program and allows Monterey County to charge booking fees, costs to the City could be increased over \$650,000 annually.
- As the State puts pressure on Monterey County's budget, allocations of SB 172 funds to local cities will be discussed. Beginning in 2003-04, in response to County budget shortfalls, the Board of Supervisors reduced the City's allocation from \$1,120,874 to \$562,318. The allocation to the City of Salinas for 2007-08 is \$601,100. A new funding agreement will have to be negotiated for 2008-09 and as history has proven, the County's commitment to continue the City's SB172 funding is not guaranteed.
- ERAF shifts of property tax increments from Redevelopment Agencies could be reinstated by the State. In 2005-06, ERAF shifts from the Central City project area totaled \$190,123 and the Sunset Avenue project area totaled \$183,401.

Potential losses to the City's General Fund exceed \$1.5 million annually. Potential losses to the Salinas Redevelopment Agency could be at least \$400,000 annually.

Proposition 42 of 2002 earmarked revenues from the State sales tax on gasoline for transportation purposes including local streets and roads. The City of Salinas is scheduled to receive \$1,523,500 in 2008-09. These funds are used in the City's street rehab program. In November 2006, the voters of California approved (by 77%) another Proposition 1A, this one providing protections for the Proposition 42 transportation sales taxes. Similar to the revenue protections in Proposition 1A of 2004, Proposition 1A of 2006 provides that the State may borrow Proposition 42 funds, but only under the same stipulations of Proposition 1A (2004) discussed above.

The housing downturn, lower property tax revenues and the economic slowdown have put California's State Budget under severe pressure. Estimates place a projected state budget shortfall of \$14.5 billion in the 2007-08 fiscal year. The Governor's proposed budget for 2008-09 was released January 10, 2008. The Governor declared a "fiscal emergency" that will require the Legislature to develop a plan in the next 45 days to reduce deficits in the current fiscal year, and proposed a constitutional amendment intended to reduce or avoid budget shortfalls in future years.

The Governor outlined a two-pronged approach to deal with both the projected deficit in the current

fiscal year, 2007-08 and the structural deficit in 2008-09.

Governor's Proposed Solution to FY 2007-08 Imbalance: 1) Sell the remaining \$3.3 billion in economic recovery bonds by February 2008. This will delay the sunset of the triple flip several years to 2012 or beyond. 2) Delay payment of about \$500 million of local gas tax funds. The City of Salinas will have to wait five-months (April-August 2008) for receipt of \$1.2 million in gas tax funds. The State will not pay interest on this loan. 3) Delay payment of \$6.24 billion to schools and various Medi-Cal and other health programs. 4) Cutting \$217 million from state agencies.

Governor's Proposed Solution to FY 2008-09 Imbalance: For the fiscal year that begins July 1, 2008, the Governor proposes to cut funding across all state agencies by 10 percent. These cuts have many significant impacts on state programs, including education. The Governor has not proposed to take property taxes from local government under Proposition 1A (2004), nor has he proposed to take any transportation funds under Proposition 42, Proposition 1A (2006). The Governor's budget does not propose taking Redevelopment Agency funds.

Across the Board Cuts Impact to City of Salinas

- 1) Citizens Option for Public Safety (COP) Grants would be reduced by 10%. The City of Salinas received \$287,671 in 2007-08 that funds front line police services. A 10% cut in funding is \$28,800.
- 2) Booking Fees reimbursements to Counties would be reduced by 10%. Counties will be able to increase booking fee charges to cities to compensate for his reduction. The City of Salinas booking fee charges may increase about \$50,000.
- 3) Public Library Funds would be reduced by 10%. The Salinas Library received \$57,018 in 2007-08 that funds library improvements. A 10% cut in funding is \$5,700.

Labor Relations

As of December 2007, all employee groups have approved Memorandum of Understandings (MOUs) with the City. Police Management Association (PMA) and Salinas Police Officers Association (SPOA) MOUs expire December 31, 2009. Fire Supervisors Association (FSA) and International Association of Firefighters (IAFF) MOUs expire June 30, 2009. 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, 2011. Confidential Compensation Plans (Management and Non-management) have been extended through December 31, 2011.

MOU increases per bargaining unit are as follows: PMA and SPOA (5.0% 4/1/07, 5.0% 10/1/07, 5.0% 4/1/08, 5.0% 10/1/08 and 5.0% 4/1/09); FSA and IAFF (6.0% 7/1/07 and 6.0% 7/1/08); and AMPS, SMEA, SEIU, SEIU Crew Supervisors, and Confidential Management and Non-management (5.0% 10/1/07, 5.0% 11/1/08, 4.0% 12/1/09 and 4.0% 1/1/11).

The City's three-year (2007-08 through 2009-10) budget projections assumes the General Fund \$7.2 million operating reserve will be exhausted as expenses will exceed revenues during this period. This fact was discussed with the recent approvals of MOUs adjusting employee compensation and further discussed with the policy determination to focus on economic development to enhance the City's revenue base.

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 generates approximately \$10.0 million annually and began 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.

At its April 16, 2007 meeting, the Measure V Oversight Committee approved the continuation of the original \$10,000,000 operating budget allocation for 2007-08 with two exceptions. The Measure V Committee recommended the elimination of the five vacant police officer positions included in the prior year budget, the addition of a Librarian II (Children's Services Coordinator) position to the Library budget and to set-aside \$400,000 for a Community Safety Initiative. A reserve for the Community Safety Initiative was established pending specific program budget requests.

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

Administration	\$	334,400
Development & Engineering & Permit Services		289,400
Street Maintenance		212,500
Sidewalk Maintenance		125,000
Finance		192,300
Fire		191,900
Paramedic Program		147,500
Legal		198,000
Library		3,693,200
Maintenance Services		920,800
Parks and Recreation		1,146,400
Police		2,335,400
Total Budget Appropriation	\$	9,786,800
Reserved for:		
Community Safety Initiative		400,000
Contingencies		113,200
Total 2007-08 Measure V	\$	<u>10,300,000</u>

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

The approved departmental use of the one-time savings is as follows:

Administration		
Recruitment Advertising	\$	40,000
City Web Page Redesign		75,000
Community Outreach Trailer		35,000
Engineering & Maintenance Services		
Street Trees		50,000
Street Maintenance		1,175,000
Sidewalk Maintenance		1,795,000
Median Landscape Maintenance		203,000
Fire		
Fire Mobile Command Vehicles		170,000
Fire Wild Land Engine		285,000
Library		
Delivery Van		25,000
Computer Equipment		243,000
Planning		50,000
Capital Improvements		250,000
Bathrooms		500,000
Chavez Library Roof Replacement		200,000
Park Maintenance		
Turf Mower		80,000
Five Pick-up Trucks		80,000
Parks Lights Replacement		100,000
Paint Hebronn Heights Rec Center		10,000
Police		
Equipment, Uniforms and Academy		50,000
Seven Patrol Vehicles		350,000
Crime Scene Investigation Vehicle		225,000
Two (2) Animal Control Trucks		65,000
Total	\$	<u>6,056,000</u>

During May 2006, the Measure V Committee recommended and Council approved allocating \$1,000,000 for Library capital improvements over a four-year period and \$250,000 was appropriated in 2006-07. The \$250,000 was not used in 2006-07 and the funds were carried-over to the 2007-08 budget. The source of funds will be Measure V savings that will accrue from hiring lags and vacancies during the next four years.

During May 2007, the Measure V Committee recommended and Council approved using \$300,000 of estimated annual one-time funds (on-going vacancies) for sidewalk repair. The Measure V Committee has also recommended an annual \$125,000 investment in sidewalk repair as part of the overall \$10,300,000 Measure V budget. Staff estimates that \$425,000 per year will be sufficient to repair all existing residential request for repairs within the ten-year life of Measure V.

The number of positions funded by Measure V during fiscal year 2007-08 is summarized as follows:

Administration	2.5
Development & Engineering	3.0
Finance	2.5
Fire	1.0
Legal	1.5
Library	40.5
Maintenance Services	11.0
Parks and Recreation	4.0
Police	19.0
Total	<u>85.0</u>

Fiscal Year 2007-08 and 2008-09 Budgets

On May 22, 2007, the City Council was presented and reviewed a two-year budget (2007-08 and 2008-09) with staff recommending approval of 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 2007-08 Annual Operating Budgets on May 22, 2007. An updated Six-Year Capital Improvement Budget for fiscal year 2007-08 was adopted on May 22, 2007. The Capital Improvement Budget is generally updated every two years.

The City of Salinas 2007-08 approved operating budget reflects continued modest improvements in service delivery and programs as the City restores programs and services using Measure V funds and the modest growth in General Fund revenues recognized in 2006-07. The restoration of services that began in 2006-07 reflects an intense six-month process involving the community, the Measure V Committee, City Commissions, City staff and the City Council. The 2006-07 operating budget (developed during this six-month process) was carried forward to 2007-08.

The approved 2007-08 budget includes a limited number of new initiatives approved by Council during the 2006-07 mid-year budget review as well as other small investments geared specifically to implementing Council goals including; a Community Safety program, Economic Development program, Police and Fire Reserves programs, an increase in Paramedic service levels, a Storm Water (NPDES) Compliance Inspector position and an increase in contract park and tree maintenance.

Even with only very modest additions, the approved 2007-08 General Fund budget draws on reserves in order to maintain current service levels and to recognize the required investment in sworn police officer, firefighter and non-safety employee compensation levels. It is anticipated that reserves will be needed in each on the next three (3) fiscal years (2007-08, 2008-09 & 2009-10) in

order to maintain services. Consequently, there will be very little discretion in the next couple of years to increase service levels. The use of reserves is a necessity in the short term and provides further emphasis to the critical importance of the economic development initiative included in the 2007-08 budget.

Staff remains confident that the direction established by the City Council can result in long-term stability for the City's finances. However, the next two (2) years will require close monitoring and will present significant risks if outside influences impact the budget. Three potential impacts include an economic downturn, State budget impacts and Monterey County budget impacts. These will be closely monitored.

General Fund Reserves

The June 30, 2007 undesignated fund balance estimated in fiscal year 2006-07 budget was \$20,133. The undesignated fund balance at June 30, 2007 pursuant to the audited financial statements is \$2,926,543. The difference of \$2,906,410 is the General Fund carryover at June 30, 2007. The General Fund carryover of \$2,906,410 was reported to Council with the year-end budget review during October 2007.

The General Fund undesignated fund balance of \$2,926,543 is available for allocation and expenditure at June 30, 2007. General Fund resources available for expenditure at June 30, 2007 total \$14,480,443, including the operating reserve of \$5,200,000, the capital projects reserve of \$6,353,900 and the undesignated fund balance of \$2,926,543. General Fund reserves have been set-aside by Council for specific purposes.

As part of the 2007-08 mid-year budget review staff recommends the allocation of the June 30, 2007 General Fund budget carryover of \$2,906,410 as follows; 1) \$2,000,000 to the Operating Reserve; and 2) \$906,410 to the Capital Projects Reserve, with first priority to the Municipal Poll construction if a shortfall exists.

After the allocation of the June 30, 2007 budget carryover, General Fund reserves available for expenditure at June 30, 2007 are \$14,480,443, inclusive of a capital projects reserve for projects budgeted in both fiscal years 2007-08 and 2008-09 of \$7,260,310, an operating reserve of \$7,200,000 and an unreserved balance of \$20,133.

The City's three-year (2007-08 through 2009-10) budget projections assumes the \$7.2 million operating reserve will be exhausted as expenses will exceed revenues during this period. This fact was discussed with the recent approvals of MOUs adjusting employee compensation and further discussed with the policy determination to focus on economic development to enhance the City's revenue base.

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. While ultimately, General Fund budget reductions of \$15.3 million (24%) were required, 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:

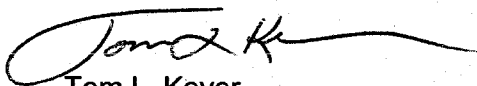
- Strong local economy centered around agricultural production,
- Sustained growth in assessed property valuations,
- Sound financial management and reserve policies, and
- Low General Fund supported debt burden.

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, Elizabeth Mariano and Erika Rodriguez. 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, McGilloway, Ray, Brown & Kaufman, Accountants & Consultants, for their cooperation and assistance.

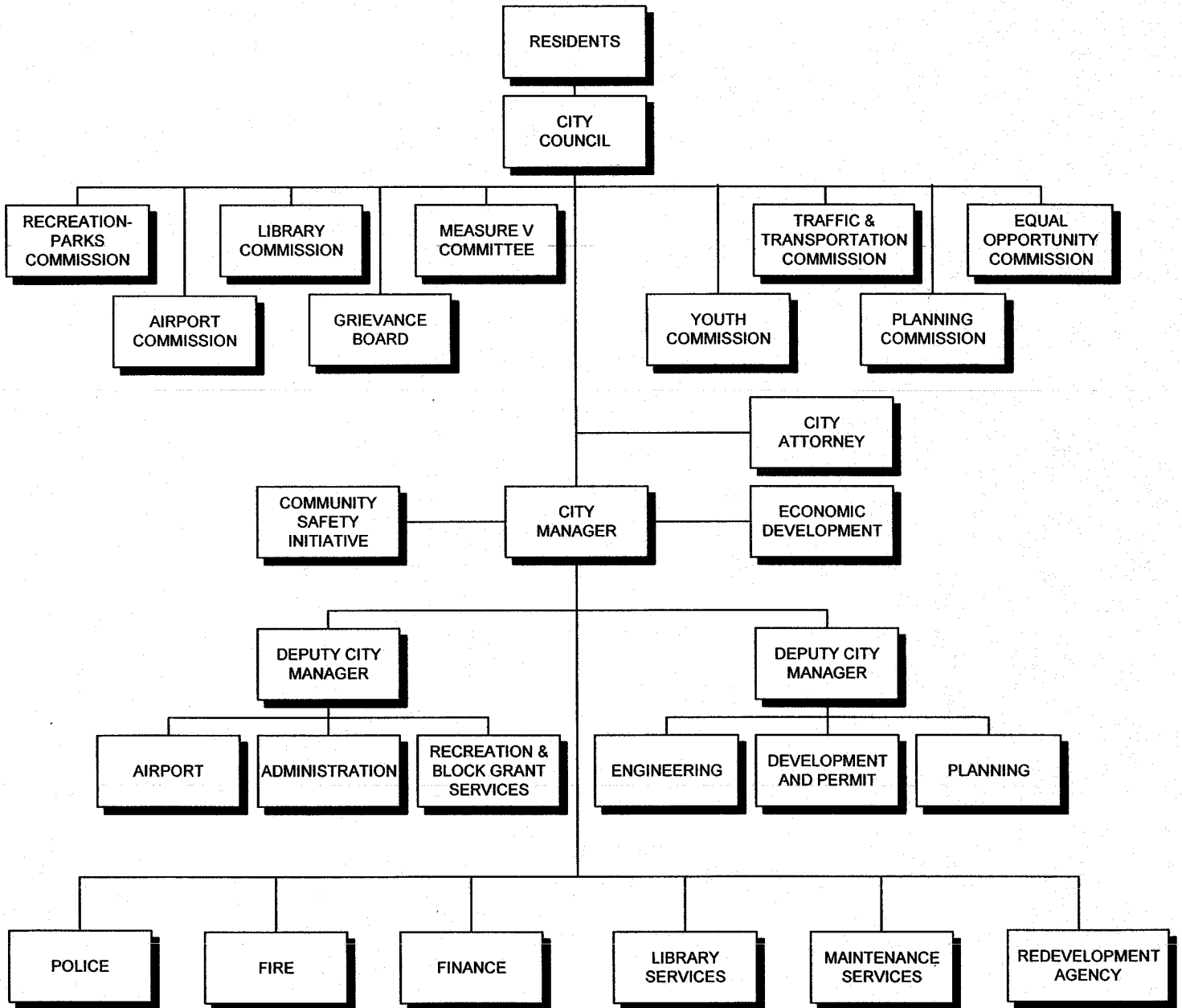
Sincere appreciation is also expressed to the City Manager and members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Tom L. Kever
Director of Finance

CITY OF SALINAS Organization Chart



CITY OF SALINAS

List of Principal Officials



Dennis Donohue
Mayor

Sergio Sanchez
Councilmember
District 1

Tony Barrera
Councilmember
District 2

Janet Barnes
Councilmember
District 3

Gloria De La Rosa
Councilmember
District 4

Steven Villegas
Councilmember
District 5

Jyl Lutes
Councilmember
District 6

Dave Mora
City Manager

Vanessa Vallarta
City Attorney

Jorge Rifa
Deputy City Manager

Rob Russell
Deputy City Manager

Daniel Ortega
Police Chief

Edward Montez
Fire Chief

Tom Kever
Director of Finance

Alan Stumpf
Director of Redevelopment

Denise Estrada
Director of Maintenance Service

Elizabeth Martinez
Library Director

McGILLOWAY, RAY, BROWN & KAUFMAN

Accountants & Consultants

2511 Garden Road, Suite A180
Monterey, CA 93940-5301
831-373-3337 Fax 831-373-3437
Toll Free 866-373-2511

150 Cayuga Street, Suite #1
Salinas, CA 93901
831-424-2737
Fax 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, 2007, 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, 2007, 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.

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

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

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2007

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, 2007. 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, 2007, the City's net assets (excess of assets over liabilities) were \$317.5 million. Of this amount, \$38.8 million are unrestricted assets.
- During the fiscal year ended June 30, 2007, the City's total net assets increased by \$25.6 million. This change results from an increase of \$30.4 million in governmental activities net assets, and a decrease of \$4.8 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 (\$900,000) and Downtown Parking (\$250,000) enterprise funds.
- During the fiscal year governmental funds fund balances increased \$13.0 million to \$94.0 million, of which \$70.9 million is reserved and thus unavailable.
- During the fiscal year the General Fund fund balance increased \$6.8 million (9.6% of operating expenditures) to \$29.8 million of which \$19.6 million is reserved. Unreserved General Fund balance of \$10.2 million includes designated funds (\$7.3 million) and undesignated (carryover) funds (\$2.9 million).
- The City's total long-term liabilities decreased by \$3.9 million (3.7%) 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 \$12.3 million to \$305.7 million.
- The Measure V fund had its first full year of operations ending with a fund balance of \$6.4 million of which \$4.3 is reserved. The Measure V has \$2.1 million in unreserved but designated (carryover) funds.

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 Salinas Redevelopment Agency (Agency) is a component unit of the City, and for practical purposes is a department of the City and has 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 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.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2007

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

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, Landfill and Parking District 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, 2007

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 and Measure V Funds, Housing and Urban Development Special Revenue Fund, Development Fees Special Revenue Fund, Special Construction Assistance Fund, Capital Project 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, Downtown Parking, 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 \$317.5 million, which is an increase of \$25,585,233 (8.8%) from the prior year.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2007

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2007 and 2006.

City of Salinas
Condensed Statements of Net Assets
June 30, 2007

	Governmental Activities		Business-type Activities		Total		Percent of Total
	2007	2006	2007	2006	2007	2006	
Assets:							
Current Assets	\$ 104,058,908	\$ 90,055,366	\$ 13,858,115	\$ 15,318,716	\$ 117,917,023	\$ 105,374,082	25.4 %
Other Assets	42,753,594	44,780,068	(2,008,688)	(750,861)	40,744,906	44,029,207	8.8 %
Capital Assets, Net	157,477,528	142,521,869	148,284,398	150,944,071	305,761,926	293,465,940	65.8 %
Total Assets	304,290,030	277,357,303	160,133,825	165,511,926	464,423,855	442,869,229	100.0 %
Liabilities:							
Current Liabilities	9,643,462	8,940,424	1,482,164	1,429,235	11,125,626	10,369,659	7.6 %
Other Liabilities	33,597,240	34,702,251	-	-	33,597,240	34,702,251	22.9 %
Long-term Liabilities, Net	59,204,556	62,265,583	43,045,201	43,665,737	102,249,757	105,931,320	69.6 %
Total Liabilities	102,445,258	105,908,258	44,527,365	45,094,972	146,972,623	151,003,230	100.0 %
Net Assets:							
Invested in Capital Assets, Net of Related Debt	108,982,267	90,720,790	105,239,197	107,278,334	214,221,464	197,999,124	67.5 %
Restricted	60,901,473	60,073,968	3,283,389	3,434,784	64,184,862	63,508,752	20.2 %
Unrestricted	31,961,032	20,654,287	7,083,874	9,703,836	39,044,906	30,358,123	12.3 %
Total Net Assets	\$ 201,844,772	\$ 171,449,045	\$ 115,606,460	\$ 120,416,954	\$ 317,451,232	\$ 291,865,999	100.0 %

At June 30, 2007, the largest portion of net assets (67.6%) 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 (20.2%) is subject to restrictions imposed by external parties and their use is determined by those restrictions and agreements. The remainder of net assets, \$38.8 million represents unrestricted net assets. For the years ended June 30, 2007, the City reported positive balances in all three categories of net assets.

Governmental Activities reports an increase of \$14.0 million in current assets and an increase of \$14.9 million in the capital assets, net, and a decrease of \$3.1 million in the long-term liabilities, net. The majority of the current assets increase is due to a higher amount of taxes received and an increase in capital assets, net represented by considerable investment made during the year in street and road improvements, coupled with a decrease in long-term liabilities, net, which is the result of the principal payments in debt service obligations.

The City's net assets increased by \$25.6 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 Sanborn Road Improvements and North Main Street Bike Lane of \$5.2 million coupled with arterial developer fees of \$3.3 million, grant funded improvement projects at the Airport and rolling equipment acquisitions.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2007

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Statement of Activities

Total revenues increased \$17.8 million due primarily to increases in capital grants and contributions of \$3.6 million (Streets and other infrastructure improvements contributed by developers and state capital grants, coupled with increases in general revenues of \$13.5 million due to increases in property taxes and vehicle license in-lieu (related to continued property value increases), full year collection of new transactions and use tax (Measure V) of \$10.3 million and increases in unrestricted investment earnings of \$0.9 million due to higher yield return on investments.

Total expenditures increased \$3.7 million including an increases in general government of \$3.5 million due to increase investments to provide more low income housing opportunities and as a result of filling vacant positions funded by Measure V; an increase of \$3.5 million in public safety due to increased employee costs and filling of vacant positions funded by Measure V; a decrease in public works of \$5.0 million due to a reduced capital project activity and an increase in library expenditures of \$1.5 million reflecting the return of Library services provided with Measure V funding.

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2007 and 2006:

City of Salinas Condensed Statement of Activities and Changes in Net Assets For the Fiscal Year Ended June 30, 2007						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	\$ 7,364,841	\$ 7,172,391	\$ 6,152,859	\$ 6,124,625	\$ 13,517,700	\$ 13,297,016
Operating Grants & Contributions	14,921,433	15,072,422	502,953	946,659	15,424,386	16,019,081
Capital Grants & Contributions	16,495,488	11,202,559	1,752,805	3,513,236	18,248,293	14,715,795
General Revenues:						
Taxes	84,633,831	71,124,516	-	-	84,633,831	71,124,516
Licenses & Permits	25,874	13,881	-	-	25,874	13,881
Grants & Contributions not Restricted	1,040,841	1,062,899	-	-	1,040,841	1,062,899
Unrestricted Investment Earnings	1,894,897	954,210	869,826	913,874	2,764,723	1,868,084
Gain (Loss) on Disposal of Assets	63,753	10,261	-	-	63,753	10,261
General Fund Advance Forgiven	(18,000)	(1,555,000)	-	1,555,000	(18,000)	-
Miscellaneous	342,186	93,099	-	-	342,186	93,099
Total Revenues	126,765,144	105,151,238	9,278,443	13,053,394	136,043,587	118,204,632
Expenses						
General Government	17,233,477	13,820,028	1,339,952	1,231,111	18,573,429	15,051,139
Public Safety	49,917,717	46,432,796	-	-	49,917,717	46,432,796
Public Works	19,307,628	24,540,453	10,205,207	10,018,819	29,512,835	34,559,272
Recreation	4,727,296	3,648,214	2,590,575	2,610,943	7,317,871	6,259,157
Library	2,252,923	706,967	-	-	2,252,923	706,967
Education (ERAF)	-	373,526	-	-	-	373,526
Interest	2,883,579	3,330,858	-	-	2,883,579	3,330,858
Total Expenses	96,322,620	92,852,842	14,135,734	13,860,873	110,458,354	106,713,715
Increase in Net Assets before Transfers	30,442,524	12,298,396	(4,857,291)	(807,479)	25,585,233	11,490,917
Transfers	228,203	645,265	(228,203)	(645,265)	-	-
Increase in Net Assets	30,670,727	12,943,661	(5,085,494)	(1,452,744)	25,585,233	11,490,917
Net Assets - Beginning of Year	171,449,045	161,098,472	120,416,954	119,018,412	291,865,999	280,116,884
Transfer Parking Net Assets to Business-type Activities	(275,000)	(2,851,286)	275,000	2,851,286	-	-
Prior Year Adjustment (Note #25)	-	258,198	-	-	-	258,198
Net Assets - Ending	\$ 201,844,772	\$ 171,449,045	\$ 115,606,460	\$ 120,416,954	\$ 317,451,232	\$ 291,865,999

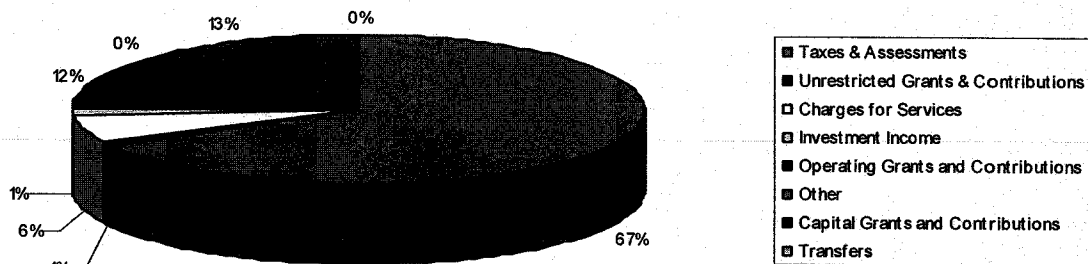
CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2007

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Governmental Activities:

Governmental activities revenues (resources) total \$126.7 million including general revenues of \$88.0, program revenues of \$38.8 million and transfers-in/out (inflows/outflows) of \$0.05 million. Governmental activities expenses total \$96.3 million. The City's governmental activities increased net assets by \$30.4 million. The following charts highlight the sources of revenues and purpose of expenses:

**Governmental Activities
Revenues by Source
June 30, 2007**



Total expenses for governmental activities were \$96.3 million including interest on long-term debt of \$2.9 million. Program revenues offset total expenditures as follows:

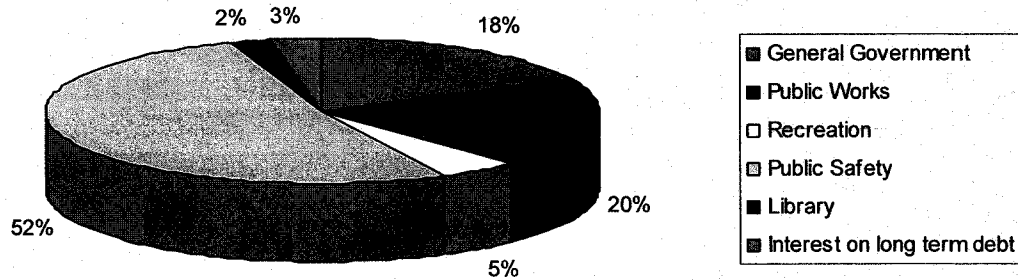
- Those who directly benefited from programs contributed \$7.4 million in charges for services.
- The City was able to fund some of its programs through operating grants and contributions from outside sources or other governments for a total amount of \$14.9 million.
- A total of \$16.5 million in capital 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 \$57.5 million.

CITY OF SALINAS
 Management's Discussion and Analysis
 Fiscal year ended June 30, 2007

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

**Governmental Activities
 Expenses by Function/Program
 June 30, 2007**



Functional expenses for the year ended June 30, 2007 were as follows:

	<u>Total Cost of Services</u>	<u>Percent</u>	<u>Net Cost of Services</u>	<u>Percentage</u>
	<u>2007</u>	<u>2007</u>	<u>2007</u>	<u>2007</u>
Public Safety	\$ 49,917,717	51.9%	\$ 46,514,970	80.8 %
Public Works	19,307,628	20.0%	(2,010,361)	(3.5)%
General Government	17,233,477	17.9%	4,298,544	7.5 %
Recreation	4,727,296	4.9%	4,021,803	7.0 %
Library	2,252,923	2.3%	1,832,323	3.2 %
Interest on long term debt	2,883,579	3.0%	2,883,579	5.0 %
Total	\$ 96,322,620	100 %	\$ 57,540,858	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 \$57.5 million.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2007

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Business Type Activities

The City's business-type activities net assets decreased by \$4.8 million. The decrease was made up of the following:

Revenue Highlights:

- Resources in business-type activities totaled \$10.1 million, a decrease of \$4.0 million. The decrease is the result of a reduction in contributed assets (\$1.7 million) and the preceding year General Fund advance forgiven to the Golf Course (\$1.6 million).
- Charges for services remained constant showing a modest overall increase of \$28,234. Airport charges increased \$78,317 due to adjustments made to the ground leases and hangar rents, Industrial Waste charges decreased (\$380,157) due to a reduction in the number of users, and Municipal Golf Courses charges increased \$249,646 reflecting the growth in the number of rounds played at the Fairways Golf Course. The Downtown Parking District collected \$371,186 in parking fees an increase of \$53,083 over last year's collection.
- Interest earnings decreased modestly by \$44,048 due to lower cash balances maintain throughout the year and other non-operating revenue decreased \$0.3 million reflecting a prior year recognition of a payment from MRWPCA into the Sanitary Sewer.
- Capital Contributions decreased \$1.7 million due to a decrease in airport improvements funded by federal grants.
- General Fund provided advances of \$0.9 million to the Fairways Golf Course and \$0.25 to the Downtown Parking District Fund.

Expense Highlights:

- Expenditures and transfers out in business-type activities totaled \$14.9 million, a decrease of \$0.7 million.
- Operating expenses increased a modest \$0.3 million reflecting an increase in depreciation of \$0.3 million.
- Interest expense increased by \$0.1 million reflecting interest payments on bonds issued for the new Downtown Parking District.
- Transfer out the Capital Projects Fund decreased \$1.1 million reflecting the reduction in costs related to the maintenance of capital assets in the Industrial Waste and Fairways Municipal Golf Course.

Losses Before Contributions and Transfers:

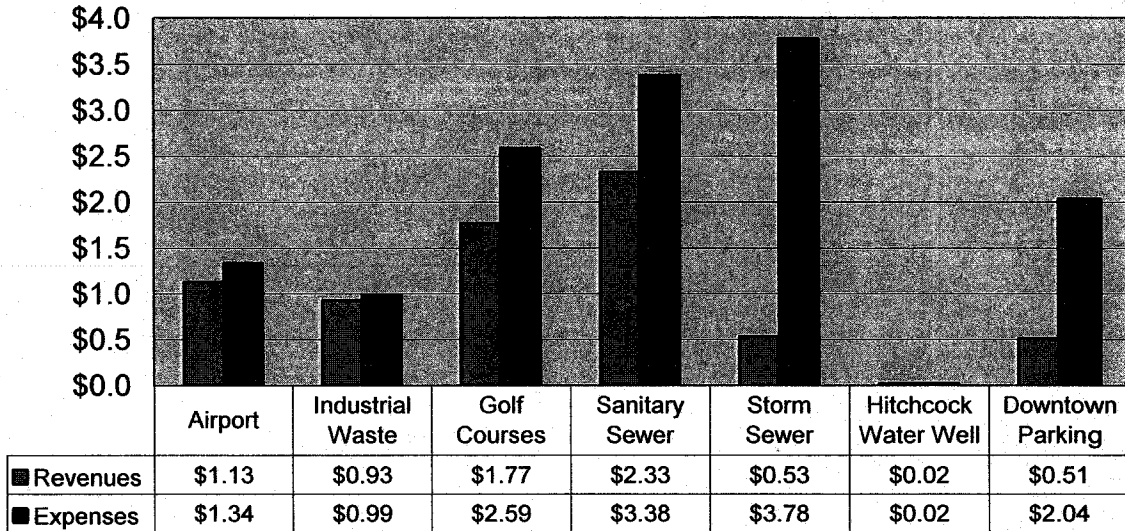
- The airport, industrial waste, golf course, sanitary sewer, storm sewer, water utility and downtown parking activities had combined losses of \$6.9 million. While the losses in the airport, industrial waste, sanitary sewer and water utility activities totaling \$1.3 million can be attributed to depreciation 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 \$0.8 million (\$1.0 million the prior year) due primarily to lower than projected user fees and depreciation cost coupled with debt services requirements. Fairways golf course losses will be reduced as a result of the Council action contracting out the maintenance of the course to a private party.
- The storm sewer incurred a net loss of \$3.3 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.

CITY OF SALINAS
 Management's Discussion and Analysis
 Fiscal year ended June 30, 2007

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

- The downtown-parking district incurred a net loss of \$1.5 million including depreciation expense of \$0.6 million and interest expense of \$1.0 million. The General Fund advanced \$250,000 to the district during the year.

**Business Type Activities
 Revenues and Expenses
 (in millions)
 June 30, 2007**



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 2007, the City's governmental funds reported combined ending fund balances of \$94.0 million. Of this amount, \$70.9 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 \$23.0 million, and are available for spending. Unreserved fund balances include General/Measure V Fund of \$12.3 million, Special Revenue Funds of \$3.4 million and Capital Projects Funds of \$7.2 million.

The General Fund is the chief operating fund of the City. The General Fund fund balance increased by \$6.8 million in fiscal year 2007 to \$29.8 million, of which \$19.6 million is reserved, \$2.9 million is undesignated and \$7.3 million is designated for subsequent years' expenditures. The designated fund balance of \$7.3 million includes taxes receivable, accounts receivable, interest receivable and other

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2007

D. FUND FINANCIAL STATEMENT ANALYSIS, Continued

accrued resources, less long-term liabilities. 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 \$2.9 million is available for allocation and expenditure at June 30, 2007. General Fund reserves available for expenditure at June 30, 2007 total \$11.6 million, including the operating reserve of \$5.2 million, and the capital projects reserve of \$6.4 million. General Fund reserves have been set-aside by Council for specific purposes.

The Measure V fund records the transactions related to the half-cent transaction and use tax approved by the voters on November 8, 2005. The Measure V fund balance increased by \$4.2 million in fiscal year 2007 to \$6.4 million, of which \$4.3 million is reserved and \$2.1 million is designated for subsequent years' expenditures.

The Housing and Urban Development Fund showed a decrease in fund balance of \$5,869. 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 \$360,059. The Development Fees Fund Balance of \$17.8 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 a decrease in fund balance of \$0.8 million. The fund balance at June 30, 2007 is \$3.1 million and is reserved for payment of encumbrances.

The Capital Project fund was reclassified this year as a Major Fund due to its level of expenditures (\$13.8 million). The Capital Projects fund accounts for all capital project expenditures. Funds are transferred in from various other funds after expenditures are made. The revolving fund was established with \$2.0 million and is used to advance capital project expenditures prior to reimbursement of Federal, State or other construction grants and bond financings.

The Assessment District Debt Service Fund showed a decrease of \$183,311 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 \$5.3 million under the amended budget. About \$2.9 million of the unspent capital project funds and encumbrances of \$577,640 will be appropriated in the carryover process for fiscal year 2007.

Resources (inflows) available for appropriations were \$2.7 million above budgeted amounts primarily due to continued property and sales tax growth and higher than anticipated issuance of building permits and investment earnings.

Cash basis (budget basis) General Fund results produced a surplus for the fiscal year ended June 30, 2007. Cash basis revenue exceeded budget estimates by \$2,417,945 and expenditures were less than

CITY OF SALINAS
Management's Discussion and Analysis
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E. GENERAL FUND BUDGETARY HIGHLIGHTS, Continued

budget by \$488,465, producing a budget carryover of \$2,906,410 for fiscal year ended June 30, 2007. Increases in property tax (increased property assessed values) and building related permits, fees (relocation of Home Depot coupled with new commercial development) and investment earnings accounts for most of the revenue increase and the modest expenditure savings were achieved because of vacant positions carried during the year along with other operating budget savings.

The June 30, 2007 undesignated fund balance estimated in fiscal year 2006-07 budget was \$20,133. The undesignated fund balance at June 30, 2007 pursuant to the audited financial statements is \$2,926,543. The difference of \$2,906,410 is the General Fund carryover at June 30, 2007.

The General Fund undesignated fund balance of \$2,926,543 is available for allocation and expenditure at June 30, 2007. General Fund resources available for expenditure at June 30, 2007 total \$14,480,443, including the operating reserve of \$5,200,000, the capital projects reserve of \$6,353,900 and the undesignated fund balance of \$2,926,543.

As part of the 2007-08 mid-year budget review staff will recommend the allocation of the June 30, 2007 General Fund budget carryover of \$2,906,410 as follows; 1) \$2,000,000 to the Operating Reserve; and 2) \$906,410 to the Capital Projects Reserve, with first priority to the Municipal Poll construction if a shortfall exists.

After the allocation of the June 30, 2007 budget carryover, General Fund reserves available for expenditure at June 30, 2007 are \$14,480,443, inclusive of a capital projects reserve for projects budgeted in both fiscal years 2007-08 and 2008-09 of \$7,260,310, an operating reserve of \$7,200,000 and an unreserved balance of \$20,133.

The City's three-year (2007-08 through 2009-10) budget projections assumes the \$7.2 million operating reserve will be exhausted as expenses will exceed revenues during this period. This fact was discussed with the recent approvals of MOUs adjusting employee compensation and further discussed with the policy determination to focus on economic development to enhance the City's revenue base.

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, 2007, net capital assets of the governmental activities totaled \$157.5 million and the net capital assets of the business-type activities totaled \$148.3 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 \$22.4 million of capital assets during the year. The majority of which, \$16.6 million were infrastructure improvements. Of the remaining balance \$5.8 million, \$3.7 million is machinery and equipment and \$2.1 million is improvements other than buildings, land and construction in progress.

Business-type activities acquired \$3.4 million of capital assets during the year. The Federal Aviation contributed \$0.5 million to the Airport Fund while the Airport itself dedicated \$0.6 million for Airport runway improvements. The Sanitary Sewer had an additional \$1.2 million for replacements/improvement of the sewer lines. The Storm Sewer Fund received \$0.4 million in donated assets from developers. Other additions of capital assets were routine replacements of current capital assets.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2007

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS, Continued

The following is a summary of the City's capital assets as of June 30, 2007 and 2006.

City of Salinas' Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 22,006,573	\$ 20,665,070	\$ 3,629,739	\$ 3,629,739	\$ 25,636,312	\$ 24,294,809
Buildings	27,561,600	27,532,322	26,141,635	25,216,747	53,703,235	52,749,069
Improvements	9,413,856	9,225,921	15,084,319	14,483,658	24,498,175	23,709,579
Equipment	21,021,322	17,385,575	6,111,357	5,628,383	27,132,679	23,013,958
Infrastructure	201,181,816	184,710,894	212,685,598	211,332,119	413,867,414	396,043,013
Construction in Progress	1,572,091	875,969	-	-	1,572,091	875,969
	<u>282,757,258</u>	<u>260,395,751</u>	<u>263,652,648</u>	<u>260,290,646</u>	<u>546,409,906</u>	<u>520,686,397</u>
Accumulated Depreciation	(125,279,730)	(117,873,882)	(115,368,252)	(109,346,575)	(240,647,982)	(227,220,457)
	<u>\$ 157,477,528</u>	<u>\$ 142,521,869</u>	<u>\$ 148,284,396</u>	<u>\$ 150,944,071</u>	<u>\$ 305,761,924</u>	<u>\$ 293,465,940</u>

Long-Term Obligations

As of June 30, 2007, the City had \$93,171,476 in long term debt as shown below:

City of Salinas' Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Loans and Notes	\$ 351,269	\$ 380,123	\$ -	\$ -	\$ 351,269	\$ 380,123
Revenue Bonds			14,165,000	14,565,000	14,165,000	14,565,000
Tax Allocation Bonds	9,905,207	10,636,515			9,905,207	10,636,515
Certificates of Participation	15,024,895	15,445,000	28,480,105	28,860,000	43,505,000	44,305,000
Assessment District Bonds	25,245,000	27,195,000	-	-	25,245,000	27,195,000
	<u>\$ 50,526,371</u>	<u>\$ 53,656,638</u>	<u>\$ 42,645,105</u>	<u>\$ 43,425,000</u>	<u>\$ 93,171,476</u>	<u>\$ 97,081,638</u>

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

On May 22, 2007, 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 2007-08 Annual Operating Budgets on that day. An updated Six-Year Capital Improvement Budget for fiscal year 2007-08 was also adopted on May 22, 2007. 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 and reflected continued modest improvements in service delivery and programs as the City restores programs and services using Measure V funds and the modest growth in General Fund revenues recognized in FY 2006-07. Even with only very modest additions, the fiscal year 2007-08 budget draws on reserves in order to maintain current service levels and to recognize the required investment by the City in its workforce compensation levels resulting from negotiated employee agreements. The agreements made with the City's workforce will not expire until June 30, 2009 for the fire group, December 31, 2009 for the police group and until December 31, 2011 for miscellaneous employees. This strategy guarantees to the City that for the next two fiscal years, the most significant cost to the City is certain and manageable. It is anticipated that reserves will be needed in each of the next three (3) fiscal years in order to maintain services. Consequently, there will be very little discretion over the next years to increase service levels. The use of reserves is a necessity in the short term.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal year ended June 30, 2007

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, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and Investments	\$ 80,649,231	\$ 6,196,970	\$ 86,846,201
Cash and Investments Restricted	6,422,157	3,283,389	9,705,546
Taxes Receivable	8,970,963	-	8,970,963
Accounts Receivable	451,953	461,294	913,247
Interest Receivable	1,261,391	107,876	1,369,267
Due from Other Agencies	6,183,649	3,875,837	10,059,486
Due from Fiduciary Funds	48,241		48,241
Short-term Internal Balances	71,323	(67,251)	4,072
Long-term Internal Balances	4,335,000	(4,335,000)	-
Assessments Receivable	23,325,000		23,325,000
Loans Receivable	11,272,095		11,272,095
Inventory	12,495		12,495
Deferred Charges	2,725,520	2,326,312	5,051,832
Capital Assets:			
Land and Nondepreciable Assets	23,578,664	3,629,739	27,208,403
Depreciable Assets-Net	133,898,864	144,654,659	278,553,523
Land Held for Resale	1,083,484		1,083,484
Total Assets	304,290,030	160,133,825	464,423,855
Liabilities:			
Accounts Payable	8,606,043	265,465	8,871,508
Accrued Leave	24,419	239,625	264,044
Prepaid Deposits		44,527	44,527
Matured Bonds & Interest Payable	85,000		85,000
Accrued Interest Payable	928,000	932,547	1,860,547
Deferred Revenues	24,588,185		24,588,185
Insurance Claims Payable	9,009,055		9,009,055
Unamortized Discount on Bonds	(151,620)		(151,620)
Long Term Debt-Due Within One Year	4,668,071	1,319,380	5,987,451
Long Term Debt-Due in More than One Year	54,688,105	41,725,821	96,413,926
Total Liabilities	102,445,258	44,527,365	146,972,623
Net Assets:			
Invested in Capital Assets, Net of Related Debt	108,982,267	105,239,197	214,221,464
Restricted for:			
Housing	16,113,300		16,113,300
Capital Projects	15,118,228		15,118,228
Highways and Streets	16,122,177		16,122,177
Debt Service	12,993,974	3,283,389	16,277,363
Special Programs	553,794		553,794
Total Restricted Assets	60,901,473	3,283,389	64,184,862
Unrestricted	31,961,032	7,083,874	39,044,906
Total Net Assets	\$ 201,844,772	\$ 115,606,460	\$ 317,451,232

The accompanying notes are an integral part of this statement.

**CITY OF SALINAS
STATEMENT OF ACTIVITIES
FOR FISCAL YEAR ENDED JUNE 30, 2007**

<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	\$ 17,233,477	\$ 5,539,416	\$ 7,354,539	\$ 40,978
Public Safety	49,917,717	1,084,969	2,310,558	7,220
Public Works	19,307,628	155,554	4,796,639	16,365,796
Recreation	4,727,296	560,372	145,121	
Library	2,252,923	24,530	314,576	* 81,494
Interest on long-term debt	2,883,579			
Total Governmental Activities	96,322,620	7,364,841	14,921,433	16,495,488
Business-Type Activities:				
Airport	1,339,952	1,035,806	23,348	470,753
Industrial Waste	989,269	856,719	438	
Golf Courses	2,590,575	1,244,228	479,167	
Sanitary Sewer	3,375,971	2,165,763		663,391
Storm Sewer	3,779,788	462,815		618,661
Water Utility	18,322	16,342		
Downtown Parking	2,041,857	371,186		
Total Business-Type Activities	14,135,734	6,152,859	502,953	1,752,805
Total Primary Government	\$ 110,458,354	\$ 13,517,700	\$ 15,424,386	\$ 18,248,293

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
- Loans Receivable Forgiven
- Transfer of Assets to Parking District
- Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

The accompanying notes are an integral part of this statement.

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

Governmental Activities	Business-type Activities	Total
\$ (4,298,544)	\$	\$ (4,298,544)
(46,514,970)		(46,514,970)
2,010,361		2,010,361
(4,021,803)		(4,021,803)
(1,832,323)		(1,832,323)
(2,883,579)		(2,883,579)
<u>(57,540,858)</u>		<u>(57,540,858)</u>
	189,955	189,955
	(132,112)	(132,112)
	(867,180)	(867,180)
	(546,817)	(546,817)
	(2,698,312)	(2,698,312)
	(1,980)	(1,980)
	<u>(1,670,671)</u>	<u>(1,670,671)</u>
	<u>(5,727,117)</u>	<u>(5,727,117)</u>
<u>(57,540,858)</u>	<u>(5,727,117)</u>	<u>(63,267,975)</u>
84,633,831		84,633,831
25,874		25,874
1,040,841		1,040,841
1,894,897	869,826	2,764,723
342,186		342,186
63,753		63,753
(18,000)		(18,000)
(275,000)	275,000	-
228,203	<u>(228,203)</u>	-
<u>87,936,585</u>	<u>916,623</u>	<u>88,853,208</u>
30,395,727	(4,810,494)	25,585,233
<u>171,449,045</u>	<u>120,416,954</u>	<u>291,865,999</u>
<u>\$ 201,844,772</u>	<u>\$ 115,606,460</u>	<u>\$ 317,451,232</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.

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

Governmental Funds

prior to reimbursement of Federal, State and other construction grants and bond financings.

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, 2007**

	General and Measure V	Housing & Urban Development	Development Fees
Assets:			
Cash and Investments	\$ 24,360,829	\$ 452,563	\$ 17,797,955
Cash and Investments Restricted	-	-	304,124
Taxes Receivable	8,970,963	-	-
Accounts Receivable	131,625	-	313,200
Interest Receivable	443,747	890	201,339
Assessments Receivable	-	-	-
Due from Other Agencies	-	312,961	-
Due from Fiduciary Funds	48,241	-	-
Due from Other Funds	4,108,480	-	-
Advances to Other Funds	4,335,000	-	-
Loans Receivable	29,800	5,353,739	-
Inventory	12,495	-	-
Land Held for Resale	-	-	-
Total Assets	\$ 42,441,180	\$ 6,120,153	\$ 18,616,618
Liabilities and Fund Balances:			
Liabilities			
Accounts Payable	\$ 5,158,974	\$ 163,397	\$ -
Due to Other Funds	1,088,537	197,334	815,435
Advance from Other Funds	-	-	-
Deferred Revenues	-	5,382,950	-
Matured Bonds & Interest Payable	-	-	-
Total Liabilities	6,247,511	5,743,681	815,435
Fund Balances:			
Reserved for:			
Operations	5,200,000	-	-
Capital Projects	6,353,900	-	-
Capital Projects-Measure V	1,268,732	-	-
Encumbrances	2,874,457	376,472	242,566
Loans Receivable	29,800	-	-
Advances	4,335,000	-	-
Inventory	12,495	-	-
Condemnation Deposits	137,673	-	-
Carryover Appropriations	3,658,944	-	8,174,130
Future Budgets	-	-	9,384,487
Land Held for Resale	-	-	-
Parking Structure	-	-	-
Plaza Grande Operations	-	-	-
Debt Service	-	-	-
Unreserved, reported in:			
General Fund			
Designated	9,396,125	-	-
Undesignated	2,926,543	-	-
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Total Fund Balances	36,193,669	376,472	17,801,183
Total Liabilities and Fund Balances	\$ 42,441,180	\$ 6,120,153	\$ 18,616,618

The accompanying notes are an integral part of this statement.

Construction Assistance	Capital Projects	Assessment District Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 1,032,193	\$ 1,197,647	\$ 2,938,860	\$ 22,052,097	\$ 69,832,144
2,367,071		85,000	3,162,804	5,918,999
-		-	-	8,970,963
-		-	7,128	451,953
58,638		-	447,260	1,151,874
-		23,325,000	-	23,325,000
4,667,041		-	1,203,647	6,183,649
-		-	-	48,241
-	3,315,571	-	-	7,424,051
-		-	172,571	4,507,571
-		-	5,888,556	11,272,095
-		-	-	12,495
-		-	1,083,484	1,083,484
<u>\$ 8,124,943</u>	<u>\$ 4,513,218</u>	<u>\$ 26,348,860</u>	<u>\$ 34,017,547</u>	<u>\$ 140,182,519</u>

\$ 384,723	\$ 2,513,245	\$ -	\$ 333,841	\$ 8,554,180
3,530,169		-	1,721,253	7,352,728
-		-	172,571	172,571
1,081,065		23,325,000	244,258	30,033,273
-		85,000	-	85,000
<u>4,995,957</u>	<u>2,513,245</u>	<u>23,410,000</u>	<u>2,471,923</u>	<u>46,197,752</u>

-		-	-	5,200,000
-		-	-	6,353,900
-		-	-	1,268,732
949,794		-	211,651	4,654,940
-		-	5,888,556	5,918,356
-		-	172,571	4,507,571
-		-	-	12,495
-		-	-	137,673
-		-	2,553,854	14,386,928
-		-	4,748,757	14,133,244
-		-	1,083,484	1,083,484
-		-	1,135,000	1,135,000
-		-	298,300	298,300
-		2,938,860	8,920,114	11,858,974
-		-	-	9,396,125
-		-	-	2,926,543
-		-	3,470,630	3,470,630
<u>2,179,192</u>	<u>1,999,973</u>	<u>-</u>	<u>3,062,707</u>	<u>7,241,872</u>
<u>3,128,986</u>	<u>1,999,973</u>	<u>2,938,860</u>	<u>31,545,624</u>	<u>93,984,767</u>
<u>\$ 8,124,943</u>	<u>\$ 4,513,218</u>	<u>\$ 26,348,860</u>	<u>\$ 34,017,547</u>	<u>\$ 140,182,519</u>

CITY OF SALINAS
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2007

Total Fund Balances - Total Governmental Funds	\$ 93,984,767
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	157,477,528
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	(928,000)
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	5,445,088
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	2,344,425
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet	(59,204,556)
Deferred charges for bond issuance costs are not reported in the Governmental Funds Balance Sheet	<u>2,725,520</u>
Net Assets of Governmental Activities	<u>\$ 201,844,772</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, 2007

	<u>General and Measure V</u>	<u>Housing & Urban Development</u>	<u>Development Fees</u>
Revenues:			
Taxes	\$ 78,640,001	\$ -	\$ -
Taxes - Special Assessment	-	-	-
Licenses and Permits	25,874	-	-
Intergovernmental	2,983,546	5,680,811	-
Charges for Services	6,233,568	-	4,914,155
Interest	1,578,796	4,130	923,262
Fines and Forfeits	-	-	-
Developer Contributions	-	-	-
Miscellaneous	379,003	945,199	5,543
Total Revenues	<u>89,840,788</u>	<u>6,630,140</u>	<u>5,842,960</u>
Expenditures:			
Current:			
General Government	10,319,090	5,253,032	-
Public Safety	46,838,564	-	-
Public Works	12,945,483	-	-
Recreation	3,185,153	-	-
Library	2,048,346	-	-
Parking Structure Debt	-	-	-
Capital Outlay	251,687	503	-
Debt Service:			
Principal Retirement	-	-	-
Interest and Fiscal Charges	-	-	-
Pass Through Tax	-	-	-
Total Expenditures	<u>75,588,323</u>	<u>5,253,535</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>14,252,465</u>	<u>1,376,605</u>	<u>5,842,960</u>
Other Financing Sources (Uses):			
Interfund Loans	-	-	-
Loans Receivable Forgiven	-	-	-
Operating Transfers In	1,325,219	75,065	-
Operating Transfers Out	(4,576,305)	(1,457,539)	(5,482,901)
Total Other Financing Sources (Uses)	<u>(3,251,086)</u>	<u>(1,382,474)</u>	<u>(5,482,901)</u>
Net Change in Fund Balances	11,001,379	(5,869)	360,059
Fund Balances at Beginning of Year	<u>25,192,290</u>	<u>382,341</u>	<u>17,441,124</u>
Fund Balances at End of Year	<u>\$ 36,193,669</u>	<u>\$ 376,472</u>	<u>\$ 17,801,183</u>

The accompanying notes are an integral part of this statement.

<u>Construction Assistance</u>	<u>Capital Projects</u>	<u>Assessment District Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 6,407,795	\$ 85,047,796
-	-	3,169,602	-	3,169,602
-	-	-	-	25,874
5,903,714	-	-	5,286,309	19,854,380
-	-	-	1,166,405	12,314,128
142,788	-	-	1,135,667	3,784,643
-	-	-	913,730	913,730
669,561	-	-	-	669,561
-	-	-	470,621	1,800,366
<u>6,716,063</u>	<u>-</u>	<u>3,169,602</u>	<u>15,380,527</u>	<u>127,580,080</u>
-	-	-	401,254	15,973,376
-	-	-	2,049,226	48,887,790
-	-	-	-	12,945,483
-	-	-	871,200	4,056,353
-	-	-	118,996	2,167,342
-	-	-	275,000	275,000
7,493,250	13,816,088	-	2,099,378	23,660,906
-	-	1,950,000	2,264,267	4,214,267
-	-	1,422,198	1,486,975	2,909,173
-	-	-	844,033	844,033
<u>7,493,250</u>	<u>13,816,088</u>	<u>3,372,198</u>	<u>10,410,329</u>	<u>115,933,723</u>
<u>(777,187)</u>	<u>(13,816,088)</u>	<u>(202,596)</u>	<u>4,970,198</u>	<u>11,646,357</u>
-	-	-	1,084,000	1,084,000
-	-	-	(18,000)	(18,000)
-	13,816,088	19,285	2,812,992	18,048,649
-	-	-	(6,305,368)	(17,822,113)
-	<u>13,816,088</u>	<u>19,285</u>	<u>(2,426,376)</u>	<u>1,292,536</u>
<u>(777,187)</u>	<u>-</u>	<u>(183,311)</u>	<u>2,543,822</u>	<u>12,938,893</u>
<u>3,906,173</u>	<u>1,999,973</u>	<u>3,122,171</u>	<u>29,001,802</u>	<u>81,045,874</u>
<u>\$ 3,128,986</u>	<u>\$ 1,999,973</u>	<u>\$ 2,938,860</u>	<u>\$ 31,545,624</u>	<u>\$ 93,984,767</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, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 12,938,893
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.	22,385,572
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.	(7,429,913)
Deferred Revenues of new housing loans are reported in the Government-Wide Statement of Net Assets	20,000
Deferred Revenues of principal payments are reported in the Government-Wide Statement of Net Assets	(795,269)
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	(336,928)
Interfund Loan Proceeds	(1,084,000)
Principal Repayments on Long-Term Debt	4,214,267
Capital leases repayments	276,607
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, 2006.	34,513
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.	323,717
Bond issuance costs are expenditures in governmental funds but are deferred and amortized in Government-Wide Statements. Following are debt related deferred transactions:	
Amortization expense for Cost of Issuance	(142,813)
Amortization expense for Bond Discount	(8,919)
Change in Net Assets of Governmental Activities	<u>\$ 30,395,727</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, 2007

Business-type Activities - Enterprise Funds

	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer
Assets:				
Current Assets:				
Cash and Investments	\$ 1,033,714	\$ 1,384,610	\$ 205,552	\$ 2,079,488
Cash and Investments Restricted	-	-	991,010	1,062,051
Accounts Receivable	18,524	125,681	95,833	118,927
Interest Receivable	11,798	19,811	14,674	45,900
Deferred Charges	-	19,810	1,070,861	217,260
Due from General Fund	-	-	-	-
Total Current Assets	1,064,036	1,549,912	2,377,930	3,523,626
Noncurrent Assets:				
Due from Other Agencies	-	-	-	-
Capital Assets:				
Nondepreciable	1,925,768	740,536	-	956,735
Depreciable buildings, property, and infrastructure, net	8,933,553	4,963,286	7,217,824	41,842,744
Total Capital Assets	10,859,321	5,703,822	7,217,824	42,799,479
Total Noncurrent Assets	10,859,321	5,703,822	7,217,824	42,799,479
Total Assets	11,923,357	7,253,734	9,595,754	46,323,105
Liabilities:				
Current Liabilities:				
Accounts Payable	36,253	75,488	17,093	54,197
Deposits	44,527	-	-	-
Due to Other Funds	4,703	-	9,525	4,719
Insurance claims Payable	-	-	-	-
Interest Payable	-	11,066	162,605	276,181
Long Term Debt - Due Within One Year	26,716	60,000	430,010	360,000
Total Current Liabilities	112,199	146,554	619,233	695,097
Noncurrent Liabilities:				
Accrued Leave	10,700	24,912	29,021	80,277
Advance from General Fund	-	-	3,735,000	-
Long Term Debt - Due in More than One year	222,631	540,000	11,453,158	13,205,000
Total Noncurrent Liabilities	233,331	564,912	15,217,179	13,285,277
Total Liabilities	345,530	711,466	15,836,412	13,980,374
Net Assets:				
Invested in Capital Assets, Net of Related Debt	10,609,974	5,103,822	(4,665,344)	29,234,479
Restricted	-	-	991,010	1,062,051
Unrestricted	967,853	1,438,446	(2,566,324)	2,046,201
Total Net Assets	\$ 11,577,827	\$ 6,542,268	\$ (6,240,658)	\$ 32,342,731

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
\$ 1,118,959	\$ -	\$ 5,892	\$ 368,755	\$ 6,196,970	\$ 10,817,087
-	-	-	1,230,328	3,283,389	503,158
30,874	-	5,477	65,978	461,294	-
12,465	-	-	3,228	107,876	109,517
-	-	-	1,018,381	2,326,312	-
-	-	-	-	-	-
<u>1,162,298</u>	<u>-</u>	<u>11,369</u>	<u>2,686,670</u>	<u>12,375,841</u>	<u>11,429,762</u>
-	3,875,837	-	-	3,875,837	-
-	-	-	6,700	3,629,739	-
65,971,201	-	169,416	15,556,635	144,654,659	-
65,971,201	-	169,416	15,563,335	148,284,398	-
65,971,201	3,875,837	169,416	15,563,335	152,160,235	-
<u>67,133,499</u>	<u>3,875,837</u>	<u>180,785</u>	<u>18,250,005</u>	<u>164,536,076</u>	<u>11,429,762</u>
40,530	-	907	40,997	265,465	51,863
-	-	-	-	44,527	-
43,526	-	-	4,778	67,251	-
-	-	-	-	-	9,009,055
7,481	-	-	475,214	932,547	-
77,654	-	-	365,000	1,319,380	-
<u>169,191</u>	<u>-</u>	<u>907</u>	<u>885,989</u>	<u>2,629,170</u>	<u>9,060,918</u>
79,263	-	-	15,452	239,625	24,419
-	-	-	600,000	4,335,000	-
40,032	-	-	16,265,000	41,725,821	-
<u>119,295</u>	<u>-</u>	<u>-</u>	<u>16,880,452</u>	<u>46,300,446</u>	<u>24,419</u>
<u>288,486</u>	<u>-</u>	<u>907</u>	<u>17,766,441</u>	<u>48,929,616</u>	<u>9,085,337</u>
65,853,515	-	169,416	(1,066,665)	105,239,197	-
-	-	-	1,230,328	3,283,389	21,758
991,498	3,875,837	10,462	319,901	7,083,874	2,322,667
<u>\$ 66,845,013</u>	<u>\$ 3,875,837</u>	<u>\$ 179,878</u>	<u>\$ 483,564</u>	<u>\$ 115,606,460</u>	<u>\$ 2,344,425</u>

CITY OF SALINAS
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For Fiscal Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds			
	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer
Operating Revenues:				
Charges for Services	\$ 1,035,806	\$ 856,719	\$ 1,148,395	\$ 2,165,763
Total Operating Revenues	<u>1,035,806</u>	<u>856,719</u>	<u>1,148,395</u>	<u>2,165,763</u>
Operating Expenses:				
Personnel Services	305,140	214,833	758,073	761,260
Administration	98,395	92,361	138,729	225,973
Contractual Services	166,294	187,074	149,537	10,228
Supplies	39,918	19,046	61,877	84,518
Insurance	22,103	13,600	-	-
Insurance Claims	-	-	-	-
Fees and Permits (Taxes)	-	9,614	-	-
Utilities	98,667	226,076	36,327	117,039
Depreciation	554,016	167,632	559,820	1,453,135
Amortization	-	2,476	56,688	9,875
Land Rent	-	-	74,669	-
Other	55,419	10,508	112,869	41,672
Total Operating Expenses	<u>1,339,952</u>	<u>943,220</u>	<u>1,948,589</u>	<u>2,703,700</u>
Operating Income (Loss)	<u>(304,146)</u>	<u>(86,501)</u>	<u>(800,194)</u>	<u>(537,937)</u>
Nonoperating Revenues (Expenses):				
Interest Revenue	67,604	77,143	49,639	162,630
Interest Expense	-	(46,049)	(641,986)	(672,271)
Other Nonoperating Revenues (Expenses)	23,348	438	575,000	-
Total Nonoperating Revenues(Expenses)	<u>90,952</u>	<u>31,532</u>	<u>(17,347)</u>	<u>(509,641)</u>
Income (Loss) Before				
Contributions and Transfers	(213,194)	(54,969)	(817,541)	(1,047,578)
Contributed Assets	470,753	-	-	663,391
Contribution to Parking from SRA	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	(25,029)	-	(16,209)	(76,308)
Change in Net Assets	<u>232,530</u>	<u>(54,969)</u>	<u>(833,750)</u>	<u>(460,495)</u>
Total Net Assets - Beginning of Year	<u>11,345,297</u>	<u>6,597,237</u>	<u>(5,406,908)</u>	<u>32,803,226</u>
Total Net Assets - End of Year	<u>\$ 11,577,827</u>	<u>\$ 6,542,268</u>	<u>\$ (6,240,658)</u>	<u>\$ 32,342,731</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
\$ 462,815	\$ -	\$ 16,342	\$ 371,186	\$ 6,057,026	\$ 4,801,027
462,815	-	16,342	371,186	6,057,026	4,801,027
751,724	-	-	92,685	2,883,715	269,940
112,835	-	999	48,609	717,901	-
71,727	-	7,055	265,741	857,656	437,907
116,199	-	-	16,151	337,709	1,768
-	-	-	-	35,703	1,013,034
-	-	-	-	-	2,390,136
-	-	-	-	9,614	-
2,159	-	-	38,470	518,738	-
2,704,168	-	10,268	572,638	6,021,677	-
-	-	-	36,371	105,410	-
-	-	-	-	74,669	-
20,976	-	-	10,946	252,390	826,467
3,779,788	-	18,322	1,081,611	11,815,182	4,939,252
(3,316,973)	-	(1,980)	(710,425)	(5,758,156)	(138,225)
62,690	311,021	-	139,099	869,826	461,942
-	-	-	(960,246)	(2,320,552)	-
-	-	-	-	598,786	-
62,690	311,021	-	(821,147)	(851,940)	461,942
(3,254,283)	311,021	(1,980)	(1,531,572)	(6,610,096)	323,717
618,661	-	-	-	1,752,805	-
-	-	-	275,000	275,000	-
525,000	-	-	-	525,000	-
(208,255)	(385,097)	-	(42,305)	(753,203)	-
(2,318,877)	(74,076)	(1,980)	(1,298,877)	(4,810,494)	323,717
69,163,890	3,949,913	181,858	1,782,441	120,416,954	2,020,708
\$ 66,845,013	\$ 3,875,837	\$ 179,878	\$ 483,564	\$ 115,606,460	\$ 2,344,425

CITY OF SALINAS
Statement of Cash Flows
Proprietary Funds
For Fiscal Year Ended June 30,-2007

	Business-type Activities - Enterprise Funds			
	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer
Cash Flows from Operating Activities:				
Receipts from Customer and Users	\$ 1,033,334	\$ 1,083,613	\$ 1,052,562	\$ 2,167,985
Receipts from interfund services provided	-	-	-	-
Payments to Suppliers	(479,598)	(583,274)	(637,948)	(494,882)
Payments to Employees	(322,392)	(219,562)	(839,621)	(761,414)
Payments to Claimants	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>231,344</u>	<u>280,777</u>	<u>(425,007)</u>	<u>911,689</u>
Cash Flows from Non-Capital Financing Activities:				
Other Non-Operating Revenue	23,348	437	575,000	-
Deposits	23,644	-	-	-
Advance Received from General Fund	-	-	900,000	-
Payment on Advance from General Fund	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	(25,029)	-	(16,209)	(76,308)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>21,963</u>	<u>437</u>	<u>1,458,791</u>	<u>(76,308)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(1,255,976)	(132,945)	8,550	(1,908,909)
Proceeds from Capital Debt	-	-	-	-
Deferred Bond Issuance Costs	-	2,476	59,105	9,875
Capital Contributions (from developers/other funds)	-	-	-	663,391
Capital Grants Received	470,753	-	-	-
Capital Lease Payment, including interest	-	-	-	-
Principal paid on Capital Debt	-	(55,000)	(395,311)	(345,000)
Interest paid on Capital Debt	-	(47,063)	(646,600)	(678,235)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(785,223)</u>	<u>(232,532)</u>	<u>(974,256)</u>	<u>(2,258,878)</u>
Cash Flows from Investing Activities:				
Interest Received	70,110	68,932	49,700	169,769
Increase (Decrease) in Fair Value of Investments	1,332	693	-	2,799
Transfer (to) from Restricted Cash	-	-	(18,417)	227,097
Net Cash Provided by Investing Activities	<u>71,442</u>	<u>69,625</u>	<u>31,283</u>	<u>399,665</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(460,474)	118,307	90,811	(1,023,832)
Cash and Cash Equivalents at Beginning of Year	1,494,188	1,266,303	114,741	3,103,320
Cash and Cash Equivalents at End of Year	<u>\$ 1,033,714</u>	<u>\$ 1,384,610</u>	<u>\$ 205,552</u>	<u>\$ 2,079,488</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
\$ 461,479	\$ -	\$ 16,500	\$ 335,870	\$ 6,151,343	\$ 509,586
-	-	-	-	-	5,833,328
(315,035)	-	(8,394)	(405,784)	(2,924,915)	(1,458,753)
(743,120)	-	-	(92,105)	(2,978,214)	(265,869)
-	-	-	-	-	(3,228,998)
(596,676)	-	8,106	(162,019)	248,214	1,389,294
-	-	-	-	598,785	-
-	-	-	-	23,644	-
-	-	-	250,000	1,150,000	-
-	-	(2,214)	-	(2,214)	-
-	-	-	275,000	275,000	-
525,000	-	-	-	525,000	-
(208,255)	(385,097)	-	(42,305)	(753,203)	-
316,745	(385,097)	(2,214)	482,695	1,817,012	-
(501,781)	-	-	(93,495)	(3,884,556)	-
-	74,076	-	-	74,076	-
-	-	-	36,371	107,827	-
618,660	-	-	-	1,282,051	-
-	-	-	-	470,753	-
-	-	-	-	-	-
(74,572)	-	-	-	(869,883)	-
2,850	-	-	(722,639)	(2,091,687)	-
45,157	74,076	-	(779,763)	(4,911,419)	-
61,227	311,021	-	136,504	867,263	426,867
897	-	-	(43)	5,678	5,116
-	-	-	32,670	241,350	(33,635)
62,124	311,021	-	169,131	1,114,291	398,348
(172,650)	-	5,892	(289,956)	(1,731,902)	1,787,642
1,291,609	-	-	658,711	7,928,872	9,029,445
<u>\$ 1,118,959</u>	<u>\$ -</u>	<u>\$ 5,892</u>	<u>\$ 368,755</u>	<u>\$ 6,196,970</u>	<u>\$ 10,817,087</u>

CITY OF SALINAS
Statement of Cash Flows
Proprietary Funds
For Fiscal Year Ended June 30, 2007

Business-type Activities - Enterprise Funds

	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating Income (Loss)	\$ (304,146)	\$ (86,501)	\$ (800,194)	\$ (537,937)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Depreciation	554,016	167,632	559,820	1,453,135
(Increase) Decrease in Accounts Receivable	(2,472)	226,894	(95,833)	2,222
(Increase) Decrease in Prepaid Insurance	-	-	-	-
(Increase) Decrease in Due from General Fund	-	-	-	-
Increase (Decrease) in Accounts Payable	169	(22,215)	(25,729)	(1,307)
Increase (Decrease) in Insurance Claims	-	-	-	-
Increase (Decrease) in Accrued Leave	(16,223)	(5,033)	(63,071)	(4,424)
Increase (Decrease) in Restricted Cash	-	-	-	-
Transfer to Restricted Cash	-	-	-	-
Total Adjustments to Net Income	535,490	367,278	375,187	1,449,626
Net Cash Provided by Operating Activities	\$ 231,344	\$ 280,777	\$ (425,007)	\$ 911,689
Noncash investing, capital, and financing activities:				
Borrowing under capital lease	-	-	-	-
Contributions of capital assets from government	470,753	-	-	234,391
Contributions of capital assets from developers	-	-	-	429,000
Lease-Purchase payments on equipment	-	-	(15,416)	-
Increase (Decrease) in fair value of investments	1,332	693	-	2,799

Business-type Activities - Enterprise Funds					Governmental
Storm Sewer	Landfill Garbage Surcharge	Water Utility	Downtown Parking District	Totals	Activities - Internal Service Funds
\$ (3,316,973)	\$ -	\$ (1,980)	\$ (710,425)	\$ (5,758,156)	\$ (138,225)
2,704,168	-	10,268	572,638	6,021,677	-
(1,335)	-	158	(35,316)	94,318	-
-	-	-	-	-	-
-	-	-	-	-	1,154,265
(475)	-	(340)	10,569	(39,328)	19,066
-	-	-	-	-	350,352
17,939	-	-	515	(70,297)	3,836
-	-	-	-	-	33,635
-	-	-	-	-	(33,635)
2,720,297	-	10,086	548,406	6,006,370	1,527,519
\$ (596,676)	\$ -	\$ 8,106	\$ (162,019)	\$ 248,214	\$ 1,389,294
-	-	-	-	-	-
221,260	-	-	-	926,404	-
397,400	-	-	-	826,400	-
(74,572)	-	-	-	(89,988)	-
897	-	-	(43)	5,678	5,116
					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 post-employment 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 and Business Improvement District.

CITY OF SALINAS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust Funds	Pension Trust Funds	Agency Funds
Assets:			
Cash and Investments	\$ 3,083,849	\$ 41,891,185	\$ 211,086
Cash and Investments Restricted	-	-	
Deposits	-		
Accounts Receivable	21,202	-	115,025
Interest Receivable	116	46,189	
Due from Other Agencies	-	-	52,107
Bond Issuance Costs	-	-	
Capital Assets, Net	-	-	-
Total Assets	3,105,167	41,937,374	378,218
Liabilities:			
Accounts Payable	1,460,797	1,404	189,793
Accrued Leave	-	-	13,492
Due to Outside Agencies	-	-	48,241
Due to Other Funds	4,072	-	-
Deferred Revenues	-	-	126,692
Interest Payable	-	-	
Long term debt	-	-	
Due to SVSWA (Fiduciary Liability)	-	-	-
Total Liabilities	1,464,869	1,404	378,218
Net Assets:			
Held in trust for pension benefits and other purposes	<u>\$ 1,640,298</u>	<u>\$ 41,935,970</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, 2007

	Private Purpose Trust Funds	Pension Trust Funds
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Plan members	\$ -	\$ 3,323,191
Private Donations	4,396,239	-
	<u>4,396,239</u>	<u>-</u>
Total contributions	<u>4,396,239</u>	<u>3,323,191</u>
Investment earnings:		
Interest	-	2,564,296
	<u>-</u>	<u>2,564,296</u>
Net investment earnings	<u>-</u>	<u>2,564,296</u>
Total Additions	<u>4,396,239</u>	<u>5,887,487</u>
Deductions:		
Benefit payments	-	2,911,396
Payments on behalf of trustees	4,200,424	-
	<u>4,200,424</u>	<u>-</u>
Total Deductions	<u>4,200,424</u>	<u>2,911,396</u>
Change in Net Assets	195,815	2,976,091
Net Assets - Beginning	<u>1,444,483</u>	<u>38,959,879</u>
Net Assets - Ending	<u>\$ 1,640,298</u>	<u>\$ 41,935,970</u>

The accompanying notes are an integral part of this statement.



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CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

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 Downtown Parking District, 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, 2007

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.

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

1. Summary of Significant Accounting Policies: (Continued)

Certain eliminations have been made as prescribed by GASB Statement No. 34 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, 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.

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

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, 2007

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, 2007

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
- Asset Seizure Fund
- Local Public Safety Fund
- Community Development Act of 1974 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, 2007

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

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, 2007

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

The Salinas Redevelopment Agency has acquired land as part of its primary purpose to develop blighted properties. The Salinas Redevelopment Agency records this parcels as land held for resale in its financial statements. The property is being carried in the Salinas Redevelopment Agency Capital Projects Funds and Special Revenue Funds at the lower of cost or market, but no greater than the net realizable value. In addition, funds have been restricted for future capital improvements by City resolution.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

1. Summary of Significant Accounting Policies: (Continued)

K. Restricted Assets

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, funds have been restricted for future capital improvements by City resolution.

L. Capital Assets

Capital assets, which include land, buildings, improvements, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. City policy has set the capitalization thresholds for reporting capital assets at the following:

- | | |
|---------------------------------|------------|
| • General Capital Assets | \$ 5,000 |
| • Infrastructure Capital Assets | \$ 150,000 |

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

Buildings	20-50 years
Other Improvements	15-45 years
Infrastructure	10-50 years
Equipment	5-20 years

The Governmental Accounting Standards Board (GASB) Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructures into its Basic Financial Statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include:

- Street System
- Site amenities such as parking and landscaped area used by the City in the conduct of its business.

Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutter, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement marking), landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystem.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

1. Summary of Significant Accounting Policies: (Continued)

For all infrastructure systems, the City elected to use the basic approach as defined by GASB Statement No. 34 for infrastructure reporting. Estimated historical costs were developed using the following methods:

1. Use of historical records where available.
2. Standard unit costs appropriate for the construction/acquisition date of the asset.
3. Present replacement cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date.

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.

M. 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.

N. 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.

O. 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

1. Summary of Significant Accounting Policies: (Continued)

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.

P. 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.

Q. 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.

R. 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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

1. Summary of Significant Accounting Policies: (Continued)

funds may be designated by City Council in multi-year budgets or may not be available in the current period because of accrual transactions.

S. 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 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.

T. 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.

An actuarial valuation of the City's retiree health care plan has been completed as of June 30, 2006 and will be updated as of June 30, 2008 for reporting with the financial statements issued for the year ended June 30, 2008. City management is reviewing options for managing the unfunded portion of the City's retiree health care plan. The City's fiscal year 2007-08 budget includes funds to begin addressing this liability.

2. Cash and Investments:

The City's cash and investments at June 30, 2007 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	\$ 80,649,231	\$ 6,196,970	\$ 86,846,201	\$ 45,186,120	\$ 132,032,321
Restricted Cash and Investments	6,422,157	3,283,389	9,705,546	-	9,705,546
Total Cash and Investments	<u>\$ 87,071,388</u>	<u>\$ 9,480,359</u>	<u>\$ 96,551,747</u>	<u>\$ 45,186,120</u>	<u>\$ 141,737,867</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

2. Cash and Investments: (Continued)

Cash and Investments at June 30, 2007 consisted of the following:

CASH:	
Demand Accounts at Banks	\$ 293,761
Petty Cash and Revolving Fund	15,000
Micro Loans-Sunset Avenue	56,615
State Condemnation Deposits Fund	137,673
	<u>503,049</u>
INVESTMENTS:	
State Local Agency Investment Fund	79,522,999
American Beacon	5,000,000
Certificates of Deposits	4,200,000
Investments held in trust by Fiscal Agent	10,620,633
	<u>99,343,632</u>
DEFERRED COMPENSATION:	
Cash in State Local Agency Investment Fund	2,509,670
Hartford	2,065,203
Central Coast Federal Credit Union	482,966
Trust Deeds	36,833,347
	<u>41,891,186</u>
Total Cash Investments	<u>\$ 141,737,867</u>

The City's investment policy also governs the investment of all funds including those of the Salinas Redevelopment Agency. 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, 2007 includes a portion of the pool funds invested in Structured Notes and Asset-Backed securities.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

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, 2007 is sufficient to offset the estimated 4% cost to liquidate the portfolio.

Deposits

At June 30, 2007, the carrying amount of the City's deposits was \$503,049. The bank balance was \$1,234,369. 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).

Investments:

As of June 30, 2007 the City had the following investments and maturities:

	Cost	Fair Value	0-12 months	1-5 years	over 5 years
Local Agency Investment Fund	\$ 84,672,212	\$ 84,633,688	\$ 84,633,688	\$	\$
Money Market	5,000,000	5,000,000	5,000,000		
Certificates of Deposits	4,200,000	4,200,000	4,200,000		
Investment Agreements	5,175,992	5,175,992			5,175,992
Mutual Funds	2,340,467	2,340,467	2,340,467		
Insurance Reserves	503,158	503,158	503,158		
Trust Deeds-Def Comp	36,833,347	36,833,347		36,833,347	
Hartford/CCFCU-Def Comp	2,428,818	2,428,818		2,428,818	
	\$ 141,153,994	\$ 141,115,470	\$ 96,677,313	\$ 39,262,165	\$ 5,175,992

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

2. Cash and Investments: (Continued)

Credit Risk:

The Local Agency Investment Fund managed by the California State Treasurer, representing 59.71% 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, 2007, mutual funds were rated AAAM by S & P and Aaa by Moody's. The investments agreement providers were rated from AAA to AA by S&P and 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 59.71% of the portfolio and the Trust Deed, representing 25.99% 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 requirements. Because the Local Agency Investment Fund as of June 30, 2007 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. Various fiscal agents hold the amount of \$10,620,633 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

3. Restricted Assets:

Cash and investments of \$9,705,546 are recorded as restricted assets at June 20, 2007 and they are summarized as follows:

Development Fees - restricted for construction retentions	\$ 304,124
Construction Assistance - restricted for the construction of the Monterey Street Parking and for COP 2005B Projects	2,367,071
Assessment District Debt Service - restricted for unrepresented matured bonds of the North East Salinas Assessment District	85,000
Gas Tax - restricted for construction retentions	434,000
Debt Service Fund - restricted to cover expenses of debt service	2,672,189
Capital Projects Fund - restricted for small business loans	56,615
Enterprise Fund - restricted to cover expenses of debt service	
Golf Courses Fund	\$ 991,010
Sanitary Sewer	1,062,051
Downtown Parking District	<u>1,230,328</u>
Internal Service Fund - restricted for liability expenses and workers compensation claims	3,283,389
	503,158
 Total Restricted Assets	 <u><u>\$ 9,705,546</u></u>

4. Taxes Receivable:

Taxes receivable recorded in the General Funds of \$8,970,963 represent amounts due for the quarter ending June 30, 2007 for the following taxpayer - assessed taxes:

Property Tax	\$ 333,520
Sales Tax	3,308,075
Transaction And Use Tax	2,009,450
In-lieu Sales Tax	1,759,946
Utility Users Tax	909,058
Franchise Tax	170,295
Transient Occupancy Tax	383,584
Other Taxes	61,838
Property Transfer Tax	<u>35,197</u>
	<u><u>\$8,970,963</u></u>

5. Assessments Receivable:

Debt Service Fund - Assessments receivable recorded in the Assessment District Debt Service Fund of \$23,325,000 at June 30, 2007, will be collected from property owners to retire outstanding bond principal issued for improvements in special assessment districts. Cash and investments at June 30, 2007 of \$2,938,860 are available to make bond and interest payments of \$2,592,866 that are due on September 1, 2007.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

6. Due From Other Agencies:

Due from other agencies consists of the following:

	Federal	State	Other	Total
Government Activities:				
Special Revenue Funds:				
Dept. of Housing & Urban Dev C.D. Act of 1974:				
Neighborhood Improvement Program	\$ 271,293	\$	\$	\$ 271,293
Emergency Shelter Program	41,668			41,668
US Department of Justice	262,034			262,034
California Dept of Motor Vehicles		57,593		57,593
California Highway Users Tax		230,558		230,558
California Office of Traffic Safety		28,509		28,509
County of Monterey			257,656	257,656
	<u>574,995</u>	<u>316,660</u>	<u>257,656</u>	<u>1,149,311</u>
Capital Projects Funds:				
Federal Aviation Administration	367,297			367,297
Federal Highway Administration	8,802			8,802
Federal Hazard Elimination Safety	-			-
Federal Train Grant	6,439			6,439
HUD EDI	8,268			8,268
CA Dept.of Transportation		3,904,408		3,904,408
Developers			739,124	739,124
	<u>390,806</u>	<u>3,904,408</u>	<u>739,124</u>	<u>5,034,338</u>
Total Government Activities	<u>965,801</u>	<u>4,221,068</u>	<u>996,780</u>	<u>6,183,649</u>
Business-Type Activities:				
Enterprise Funds:				
Salinas Valley Solid Waste Authority	-	-	3,875,837	3,875,837
Trust and Agency Funds:				
Sunrise House:				
Monterey County			13,358	13,358
Other Grants & Contributions			8,181	8,181
Second Chance Youth Program:				
Salinas Redev Agency Jazz-Up			6,335	6,335
AB825 Categorical Education			7,167	7,167
MCOE Alt Education Program			5,500	5,500
County Probation Grant			11,566	11,566
	<u>-</u>	<u>-</u>	<u>52,107</u>	<u>52,107</u>
Primary Government Totals	<u>\$ 965,801</u>	<u>\$ 4,221,068</u>	<u>\$ 4,924,724</u>	<u>\$ 10,111,593</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

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	\$	\$ 1,088,537	\$	\$ 1,088,537
Comm Dev Act of 1974 Fund	121,189	76,145		197,334
Development Fee Fund	2,945	812,490		815,435
Non-Major Funds:				
Lighting, Landscape & Maintenance	19,452			19,452
Local Public Safety Fund	336,192			336,192
Gas Tax Fund		1,264,442		1,264,442
SRA Housing Fund		3,178		3,178
SRA Project Fund		3,528		3,528
Grants Fund	94,461			94,461
Special Constr Assist Fund	3,530,169			3,530,169
Total Governmental Activities	4,104,408	3,248,320	-	7,352,728
Business Type Activities:				
Airport Fund		4,703		4,703
Municipal Golf Course Fund		9,525		9,525
Sanitary Sewer Fund		4,719		4,719
Storm Sewer Fund		43,526		43,526
Downtown Parking		4,778		4,778
	-	67,251	-	67,251
Total Primary Government	4,104,408	3,315,571	-	7,419,979
Expendable Trust Funds:				
Trust Deposit Funds	4,072			4,072
Second Chance	48,241	-		48,241
Total Expendable Trust Funds	52,313	-	-	52,313
	\$ 4,156,721	\$ 3,315,571	\$ -	\$ 7,472,292

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

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, 2007:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 1,325,219	\$ 4,576,305
Special Revenue Funds:		
EMS	447,500	61,862
Asset Seizure Fund		26,193
Local Public Safety Fund	42,608	445,072
Community Development Act of 1974 Fund	75,065	1,457,539
Vehicle Abatement Program	45,000	
Development Fee Fund		5,482,901
Gas Tax Fund		3,428,047
Traffic Safety Fund		825,000
Grants Fund		61,122
Central City Housing Fund	628,009	240,021
Sunset Avenue Merged Housing Fund	570,757	
	<u>1,808,939</u>	<u>12,027,757</u>
Debt Service Funds:		
COPS 2005B	755,097	
COPS 1999	84,000	
Assessment District	19,285	
Assessment District Reserve Fund		19,285
Central City Debt Service Fund	240,021	628,009
Sunset Avenue Merged Debt Service Fund		570,757
	<u>1,098,403</u>	<u>1,218,051</u>
Capital Projects Funds:		
Capital Project Fund	13,816,088	
	<u>13,816,088</u>	
Total Governmental Activities	<u>18,048,649</u>	<u>17,822,113</u>
Enterprise Funds:		
Airport Fund		25,029
Municipal Golf Courses Fund		16,209
Sanitary Sewer Fund		76,308
Storm Sewer Fund	525,000	208,255
Solid Waste Fund		385,097
Downtown Parking District Fund		42,305
Total Business Type Activities	<u>525,000</u>	<u>753,203</u>
Total Governmental & Business Activities	<u>18,573,649</u>	<u>18,575,316</u>
Expendable Trust Fund:		
Trust Deposits Fund	4,724	3,057
Total Expendable Trust Fund	<u>4,724</u>	<u>3,057</u>
	<u>\$ 18,578,373</u>	<u>\$ 18,578,373</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

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 \$172,571 at June 30, 2007. 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 \$172,571 will be paid over the next 4 years. The set-aside requirement was made for the fiscal year ended June 30, 2007 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,	
2008	\$ 62,800
2009	64,684
2010	<u>45,087</u>
	<u>\$172,571</u>

Enterprise Advance

Cash flow advances of \$3,735,000 have been made from the City's General Fund to the Fairways Municipal Golf Course to cover operating losses in fiscal year 2001-02 through 2006-07. 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. On April 12, 2007, as part of the efforts to reduce operating cost, the City Council entered into an agreement to secure monthly maintenance services for the Fairway Golf Course from Sierra Golf Management at an annual cost of \$649,000. City Council is exploring alternatives to continuing the Fairways Golf Course subsidy, including rate adjustments and reducing costs by contracting for operations of the course.

An advance of \$600,000 from the General Fund to the Downtown Parking District fund was made during fiscal year 2006-07. The advance offset the operating deficit experienced while the Downtown Parking Management Plan is designed and implemented.

These advances are recorded in the General Fund – Advances to Other Funds and in the Enterprise Fund – Advances from General Fund for the year ended June 30, 2007.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

8. Loans Receivable:

At June 30, 2007, the Government-Wide and Fund Financial Statements show the City had \$11,272,095 in long-term loans receivable. Transactions for the year are summarized as follows:

Beginning balance	\$ 12,383,357
New Loans	88,553
Maya Cinemas Accrued Interest	44,825
Principal Repayments/Adjustments	<u>(1,244,640)</u>
Ending Balance	<u>\$ 11,272,095</u>

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.	1,750,210
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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.	190,192
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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.	1,512,000
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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>5,353,739</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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CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

8. Loans Receivable: (Continued)

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.	162,000
Housing Construction Loan at 6% for 30 years due and payable upon transfer or sale of property.	32,642
Housing Construction Loan at 5% for 20 years due and payable upon transfer or sale of property.	154,388
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 to First Community Housing, Inc. for land acquisition interest free due in two years. The original loan of \$910,000 made in August 2005 was amended in June 2006. The amount of the loan authorized was increased to \$1,290,000 and an additional \$68,553 was loaned during fiscal year ended June 30, 2007.	<u>978,553</u>
Total Central City Housing Fund Loans Receivable	<u>2,448,083</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	

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

8. Loans Receivable: (Continued)

farm worker families. Loans bear no interest, are subordinate to the primary mortgage, and are due upon transfer of title.

224,500

Total Sunset Avenue Merged Housing Fund Loans Receivable

2,134,500

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.

356,498

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 was paid in full July 16, 2007. The Note Receivable includes accrued interest of \$134,475, through June 30, 2007. It is secured by a deed of trust.

949,475

Total Central City Project Fund Loans Receivable

1,305,973

Total Loans Receivable

\$11,272,095

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	<u>473,292</u>
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	<u>194,607</u>
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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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

10. Capital Assets: (Continued)

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.

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, 2007

10. Capital Assets: (Continued)

	Balance June 30, 2006	Additions	Adjustments/ Retirements	Balance June 30, 2007
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 20,665,070	\$ 1,341,504	\$ (1)	\$ 22,006,573
Construction in progress	875,969	523,798	172,324	1,572,091
Total assets not being depreciated	<u>21,541,039</u>	<u>1,865,302</u>	<u>172,323</u>	<u>23,578,664</u>
Capital assets, being depreciated:				
Buildings and improvements	27,532,322	29,278		27,561,600
Improvements other than buildings	9,225,921	187,935		9,413,856
Machinery and equipment	17,385,575	3,655,746	(19,999)	21,021,322
Infrastructure	184,710,894	16,643,246	(172,324)	201,181,816
Total assets being depreciated	<u>238,854,712</u>	<u>20,516,205</u>	<u>(192,323)</u>	<u>259,178,594</u>
Less accumulated depreciation:	<u>(117,873,882)</u>	<u>(7,425,848)</u>	<u>20,000</u>	<u>(125,279,730)</u>
Total capital assets being depreciated, net	<u>120,980,830</u>	<u>13,090,357</u>	<u>(172,323)</u>	<u>133,898,864</u>
Governmental Activities capital assets, net	<u>\$ 142,521,869</u>	<u>\$ 14,955,659</u>	<u>\$ -</u>	<u>\$ 157,477,528</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 3,629,739	\$ -	\$ -	\$ 3,629,739
Construction in progress	-	-	-	-
Total assets not being depreciated	<u>3,629,739</u>	<u>-</u>	<u>-</u>	<u>3,629,739</u>
Capital assets, being depreciated:				
Buildings and improvements	25,216,747	924,888		26,141,635
Improvements other than buildings	14,483,658	600,661	-	15,084,319
Machinery and equipment	5,628,383	482,974		6,111,357
Infrastructure	211,332,119	1,353,479	-	212,685,598
Total assets being depreciated	<u>256,660,907</u>	<u>3,362,002</u>	<u>-</u>	<u>260,022,909</u>
Less accumulated depreciation:	<u>(109,346,575)</u>	<u>(6,021,677)</u>	<u>-</u>	<u>(115,368,252)</u>
Total capital assets being depreciated, net	<u>147,314,332</u>	<u>(2,659,675)</u>	<u>-</u>	<u>144,654,657</u>
Business-type Activities capital assets, net	<u>\$ 150,944,071</u>	<u>\$ (2,659,675)</u>	<u>\$ -</u>	<u>\$ 148,284,396</u>

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

Governmental Activities:

General Government	\$ 290,744
Police	629,677
Fire	392,564
Public Works, including infrastructure assets	5,357,318
Recreation and Parks	670,305
Library	85,240
Total depreciation expense - Governmental Activities	<u>\$ 7,425,848</u>

Business-type Activities:

Airport	\$ 554,016
Industrial Waste	167,632
Golf Courses	559,820
Sanitary Sewer	1,453,135
Storm Sewer	2,704,168
Water Utility	10,268
Downtown Parking	572,638
Total depreciation expense - Business-type Activities	<u>\$ 6,021,677</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

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 \$24,588,185 in the Governmental-Wide Statements and \$30,033,273 in the Fund Statements. The difference of \$5,445,088 represents long-term loans in the Special Revenue Funds recorded as deferred revenue. These are not available resources. Deferred revenues of \$30,033,273 at June 30, 2007 consists of the following:

Governmental Activities:	
Major Funds:	
Community Development Act of 1974 Fund	
Housing Rehab Loans	\$ 1,940,402
First Time Homebuyers Loans	1,512,000
Salinas Redevelopment Agency Loan	157,500
Small Business Loans	43,837
Other Home Funds	29,211
CDBG/Home Program Deferred Revenue	1,700,000
	<hr/>
	5,382,950
Construction Assistance	1,081,065
Assessment District Debt Service Fund	
Assessments Receivable	23,325,000
Non-major Funds:	
Special Revenue and Capital Projects grants, advances	244,258
	<hr/>
Total Governmental Activities	<u>\$ 30,033,273</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, 2007

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 \$17,405,430 at June 30, 2007. 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, 2007 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 \$41,935,970 in net assets at June 30, 2007. 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, 2007.

14. Retirement Programs:

As of June 30, 2007, the City was contributing to three employee retirement programs. Total pension expenses for the fiscal year were \$12,923,255, 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 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

14. Retirement Programs: (Continued)

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 2006/07 was 33.847% for firefighters, 26.812% for police officers and 10.694% 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 2006/07, the City of Salinas' annual pension cost of \$10,994,272 was equal to the City's required and actual contributions. The City of Salinas actually contributed \$8,027,839 while the employees contributed \$2,966,433. The required contribution for fiscal year 2006/07 was determined as part of the June 30, 2004 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 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%. In April 2005, the CalPERS Board approved an employer rate stabilization policy, with the following features: a) In the calculation of the actuarial value of assets, market value asset gains and losses are spread over 15 years as compared to 3 years; and b) Changed the corridor limits for the actuarial value of assets from 90% -110% of market value to 80%-120% of market value; and c) Gains & losses are amortized over a rolling 30 year

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

14. Retirement Programs: (Continued)

period. In the past, the amortization payment on gains and losses was 10% of the base, and d) A minimum employer contribution rate was established equal to the employer normal cost minus a 30-year amortization of surplus (but never less than 0%). 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>
2006/07	\$ 10,994,272	100%	\$ 0
2005/06	9,874,831	100%	0
2004/05	8,186,555	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, 2007 was \$4,482,434.

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 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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

14. Retirement Programs: (Continued)

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, 2007 was \$1,309,379. During fiscal year 2006/07, the City contributed \$1,309,380 to the New York Life retirement plan, while the employees contributed \$152,197. The City also contributed \$54,671 on behalf of employees represented by SEIU.

The Net Pension Obligation as determined by the Actuarial valuation of September 1, 2006 is \$57,936 and is included in the General Long Term Debt.

The plan used the frozen initial liability (frozen entry age) actuarial cost method under which the unfunded actuarial accrued liability is not explicitly determined each year until September, 2005. Effective with the September 1, 2005 actuarial valuation, the plan uses the entry age normal cost funding method under which the unfunded actuarial accrued liability is explicitly determined each year. As of September 1, 2005, the unfunded actuarial accrued liability was redetermined to be \$12,127,776 based on the market of plan assets and plan accrued liabilities as of September 1, 2005 and the plan's funding contribution was then calculated based on a 30-year amortization of the redetermined unfunded actuarial accrued liability. 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, 2006 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

14. Retirement Programs: (Continued)

<u>Fiscal Year</u>	<u>THREE-YEAR TREND INFORMATION</u>		<u>Net Pension Obligation</u>
	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	
06/30/06	\$1,207,428	100.50%	\$ 57,936
06/30/05	1,112,863	100.56%	(169,465)
06/30/04	876,865	100.92%	70,250

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, 2006 through April 13, 2007 was 26.5% of the participant's covered payroll, and 29.2% for April 14, 2007 through June 30, 2007. During the fiscal year 2006-07, the City's contribution to this plan was \$228,437 while the employees had a mandatory contribution of 4.5% of their salary or \$38,182. At June 30, 2007, there were 8 employees 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, 2007, the total Plan Assets totaling \$3,074,537 consisted of \$2,506,182 of earnings and employer contributions, \$507,312 of employee mandatory contributions, \$53,964 of employee after-tax voluntary contributions and, \$7,079 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, 2007, there were 8 participants in this program and the City's annual contribution was \$73,058 while the employees had a equal mandatory matching contribution of \$73,058.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

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 coverage. As of June 30, 2007, there were sixty-five employees receiving this benefit for a total cost of \$75,630. The City's share of medical coverage under PEMHCA regulations was \$8,845 for the same period.

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 2007 was \$14.70 per month, and is schedule to be adjusted in 2008 to \$38.80 per month. The health insurance administration fee paid to CalPERS by the City during fiscal year 2006-07 was \$25,394.

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.

An actuarial valuation of the City's retiree health care plan has been completed as of June 30, 2006 and will be updated as of June 30, 2008 for reporting with the financial statements issued for the year ended June 30, 2008. City management is reviewing options for managing the unfunded portion of the City's retiree health care plan. The City's fiscal year 2007-08 budget includes funds to begin addressing this liability.

16. Self Insurance:

The City has a self-insurance program and carries excess insurance for catastrophic losses. American 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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

16. Self Insurance: (Continued)

of losses incurred through June 30, 2007 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 \$10,016,836 includes \$8,013,469 for claims incurred but not paid and \$2,003,367 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, 2007, Worker's Compensation insurance liability of \$10,016,836 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, 2007 is \$8,524,057 and is reported in the Internal Service Fund; \$1,492,779 of this is treated as long-term debt.
2. General Liability insurance liability at June 30, 2007 of \$484,998 includes \$71,762 for claims incurred but not paid and \$413,236 for claims incurred but not reported which is based on expected claims and past claims history. Unreserved retained earnings is \$1,821,426 at June 30, 2007 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.

	Workers Compensation	General Liability
Beginning balance of claims liability	\$ 10,478,947	\$ 594,249
Less beginning provision for incurred but not reported claims	(2,095,790)	(368,140)
Beginning provision for incurred but not paid claims	8,383,157	226,109
Increase (decrease) in claims incurred and reported	2,054,241	554,732
Claim expenses paid	(2,423,929)	(709,079)
Ending balance provision for incurred but not paid claims	8,013,469	71,762
Provision for incurred but not reported claims	2,003,367	413,236
Ending balance of claims liability	\$ 10,016,836	\$ 484,998

17. Lease Obligations:

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

Fiscal Year Ending June 30,	Total Leases
2008	\$ 72,993
2009	67,545
2010	59,297
	\$ 199,835

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

17. Lease Obligations: (Continued)

Police - Lease of office space at 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 \$9,420 for the year ended June 30, 2007.

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 \$44,845 for the year ended June 30, 2007.

Community Development Block Grant – Office space at 200 Lincoln Ave was leased by the City of Salinas to the Community Development Block Grant program. Total cost of the lease for the year ended June 30, 2007 was \$19,000.

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. Cost of the lease was \$17,100 for the year ended June 30, 2007.

18. Long Term Debt:

The annual requirements to amortize capital leases, loans and notes, certificates of participation and bonds outstanding as of June 30, 2007 by activity are as follows:

Fiscal Year Ending June 30,	Governmental-Wide Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 3,210,058	\$ 2,605,790	\$ 1,319,380	\$ 1,916,358
2009	3,279,114	2,474,436	1,325,460	1,868,945
2010	3,379,435	2,338,308	1,302,481	1,819,077
2011	3,394,731	2,185,489	1,355,416	1,768,549
2012	3,541,074	2,021,610	1,413,351	1,714,327
2013-2017	15,456,488	9,275,084	7,761,063	7,618,482
2018-2022	9,072,119	8,218,761	9,144,216	5,762,375
2023-2027	6,842,294	2,244,688	11,148,834	3,370,492
2028-2032	2,255,000	186,968	6,240,000	1,117,550
2033-2037	157,500	-	2,035,000	97,731
	<u>\$ 50,587,813</u>	<u>\$ 31,551,134</u>	<u>\$ 43,045,201</u>	<u>\$ 27,053,886</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, 2007 the liability for all compensated absences totaled \$7,594,227. It includes \$7,570,041 in annual leave and \$24,186 in sick leave. These amounts are reported on the financial statements in the following funds:

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

18. Long Term Debt: (Continued)

	June 30, 2006	Increases	Decreases	June 30, 2007	Due Within One Year
Governmental Fund Types:					
General Fund	\$ 6,039,847	\$ 759,362	\$ 150,205	\$ 6,649,004	\$ 1,329,801
Measure V	-	425,876	-	425,876	85,175
Special Revenue Funds	132,670	16,639	16,372	132,937	26,587
Debt Service Funds	13,890	-	4,059	9,831	1,966
	<u>\$ 6,186,407</u>	<u>\$ 1,201,877</u>	<u>\$ 170,636</u>	<u>\$ 7,217,648</u>	<u>\$ 1,443,529</u>
Proprietary Fund Types:					
Enterprise Funds	\$ 309,922	\$ 18,454	\$ 88,751	\$ 239,625	\$ 47,925
Internal Service Funds	20,583	3,836	-	24,419	4,884
	<u>\$ 330,505</u>	<u>\$ 22,290</u>	<u>\$ 88,751</u>	<u>\$ 264,044</u>	<u>\$ 52,809</u>
Fiduciary Fund Type:					
Agency Funds	\$ 98,626	\$ 13,907	-	\$ 112,533	\$ 22,507

Estimated Insurance Claims

At June 30, 2007, the Estimated Insurance Claims liability recorded in the Internal Service Funds is as follows:

Worker's Compensation	\$ 8,524,057
General Liability	<u>484,998</u>
Total	<u>\$ 9,009,055</u>

An additional \$1,492,779 of Worker's Compensation Claims liability is reported in the Long-Term Debt.

Net Pension Obligation

At June 30, 2007, a negative Net Pension Obligation of \$57,936 is reported as determined by the September 1, 2006 actuarial valuation of the New York Life retirement plan.

Governmental Type Activities

Capital Leases:

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fire Trucks (3.955%), annual payments, expiring February 1, 2008	<u>\$ 61,442</u>	<u>\$ 2,407</u>	<u>\$ 63,849</u>

Loans and Notes Payable:

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

18. Long Term Debt: (Continued)

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.

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>
2008	\$ 31,739	\$ 19,377	\$ 51,116
2009	34,913	16,203	51,116
2010	38,404	12,712	51,116
2011	42,244	8,871	51,115
2012	46,469	4,646	51,115
	\$ 193,769	\$ 61,809	\$ 255,578

Certificates of Participation Bonds:

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).

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

18. Long Term Debt: (Continued)

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 value savings of the refunding was \$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+.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
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	395,000	387,593	782,593
2013-2017	2,215,000	1,714,716	3,929,716
2018-2022	2,630,000	1,266,289	3,896,289
2023-2027	3,180,000	673,819	3,853,819
2028-2032	1,470,000	64,969	1,534,969
	\$ 11,375,000	\$ 5,783,056	\$ 17,158,056

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

18. Long Term Debt: (Continued)

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.

Debt service requirements to maturity are as follow:

Fiscal Year Ending June 30,	Principal	Interest	Total
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	43,365	43,747	87,112
2013-2017	244,704	186,685	431,389
2018-2022	310,784	117,989	428,773
2023-2027	311,166	32,033	343,199
	<u>\$ 1,064,895</u>	<u>\$ 572,578</u>	<u>\$ 1,637,473</u>

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 \$2,585,000 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
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	70,000	113,389	183,389
2013-2017	385,000	521,281	906,281
2018-2022	480,000	423,415	903,415
2023-2027	615,000	291,750	906,750
2028-2032	785,000	122,000	907,000
	<u>\$ 2,585,000</u>	<u>\$ 1,949,492</u>	<u>\$ 4,534,492</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

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, 2007 are as follows:

Fiscal Year Ending June 30,	TAB Series A-1996		TAB Series A-1992	
	Principal	Interest	Principal	Interest
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	680,000	229,350	141,240	366,413
2013-2017	1,755,000	707,990	1,031,784	3,630,990
2018-2022	580,000	495,004	991,335	5,087,904
2023-2024	1,495,000	115,913	161,128	1,053,867
	<u>\$ 6,900,000</u>	<u>\$ 2,807,304</u>	<u>\$ 3,005,207</u>	<u>\$ 11,485,711</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, 2007, outstanding Assessment District Bonds totaled \$25,245,000. 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

18. Long Term Debt: (Continued)

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,920,000	\$ 1,299,605	\$ 3,219,605
2009	2,025,000	1,203,029	3,228,029
2010	2,090,000	1,099,664	3,189,664
2011	2,060,000	991,122	3,051,122
2012	2,165,000	876,472	3,041,472
2013-2017	9,825,000	2,513,423	12,338,423
2018-2022	4,080,000	828,158	4,908,158
2023-2027	1,080,000	77,304	1,157,304
	<u>\$ 25,245,000</u>	<u>\$ 8,888,777</u>	<u>\$ 34,133,777</u>

Business-Type Activities

Capital Leases

Street Sweeper

On July 16, 2003, the City of Salinas purchased street sweeper using lease purchase financing. Annual payments are \$40,833, including interest at 3.9% for five years.

On August 17, 2004, the City of Salinas purchased a second street sweeper using lease purchase financing. Annual payments are \$41,750, including interest at 4.29% for five years. Debt payable of \$117,686 is recorded in the Storm Sewer Enterprise Fund at June 30, 2007.

Debt Service requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 77,654	\$ 4,929	\$ 82,583
2009	40,032	1,718	41,750
	<u>\$ 117,686</u>	<u>\$ 6,647</u>	<u>\$ 124,333</u>

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 \$33,063 is recorded in the Municipal Golf Course Enterprise Fund at June 30, 2007.

Debt Service Requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 16,148	\$ 1,570	\$ 17,718
2009	16,915	803	17,718
	<u>\$ 33,063</u>	<u>\$ 2,373</u>	<u>\$ 35,436</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

18. Long Term Debt: (Continued)

Bonds Payable

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 \$600,000 is recorded in the Industrial Waste Enterprise Fund at June 30, 2007.

Debt Service requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	75,000	23,062	98,062
2013-2014	270,000	31,125	301,125
	<u>\$ 600,000</u>	<u>\$ 197,250</u>	<u>\$ 797,250</u>

Airport Fuel Facility Lease

On December 12, 2006 the City Council enter into a lease agreement with Central Coast Aviation Services, Inc. to purchase a Fuel Facility at the Salinas Municipal Airport. The agreed total cost for the facility is \$415,924. The City acquired its ownership interest in the fuel facility subject to the City's obligation to reimburse Central Cost for the costs of construction and installation of \$250,000 and to credit the total amount of rent due under the Fuel Facility and Office Leases for a ten year period. The Airport has paid \$99,377 towards the cost and rent credits has been applied to the total cost leaving an outstanding balance of \$249,347 for fiscal year ending June 30, 2007. Lease payments will be adjusted by CPI every two years from commencement date of December 12, 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>
2008	\$ 26,716	\$ -	\$ 26,716
2009	26,716	-	26,716
2010	26,716	-	26,716
2011	26,716	-	26,716
2012	26,716	-	26,716
2013-2017	115,767	-	115,767
	<u>\$ 249,347</u>	<u>\$ -</u>	<u>\$ 249,347</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2007

18. Long Term Debt: (Continued)

Series 1998 - 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 \$13,565,000 is recorded in the Sanitary Sewer Enterprise Fund at June 30, 2007.

Debt service requirements and maturity are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	430,000	588,607	1,018,607
2013-2017	2,480,000	2,600,365	5,080,365
2018-2022	3,165,000	1,899,625	5,064,625
2023-2027	4,040,000	1,003,500	5,043,500
2028-2029	1,915,000	96,875	2,011,875
	<u>\$ 13,565,000</u>	<u>\$ 8,733,300</u>	<u>\$ 22,298,300</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, 2007

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 value expense of the refunding was \$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>
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	476,635	422,036	898,671
2013-2017	2,665,296	1,812,926	4,478,222
2018-2022	3,254,216	1,199,375	4,453,591
2023-2027	3,708,834	402,354	4,111,188
	<u>\$ 11,850,105</u>	<u>\$ 5,687,837</u>	<u>\$ 17,537,942</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, 2007

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>
2008	\$ 365,000	\$ 718,988	\$ 1,083,988
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	405,000	680,622	1,085,622
2013-2017	2,230,000	3,174,066	5,404,066
2018-2022	2,725,000	2,663,375	5,388,375
2023-2027	3,400,000	1,964,638	5,364,638
2028-2032	4,325,000	1,020,675	5,345,675
2033-2037	2,035,000	97,731	2,132,731
	<u>\$ 16,630,000</u>	<u>\$ 12,426,479</u>	<u>\$ 29,056,479</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, 2007 the total conduit debt outstanding related to these bonds is \$5,315,000.

In June 14, 2007, the City of Salinas issued Economic Development Revenue Bonds, Series 2007A (\$18,655,000 tax exempt) and 2007B (1,570,000 taxable) for the acquisition of a building located at 1000 Main Street in Salinas. The building is currently leased in part to the County of Monterey Department of Social Services. The project intends to provide monthly rental at below the market value rates to the County of Monterey, a one million dollar premise improvement allowance to the Department of Social Services to renovate and upgrade it's space in the building and to generate charitable support for the County's residents.

As of June 30, 2007, total conduit debt outstanding related to the Economic Development Revenue Bonds is \$20,225,000.

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18. Long Term Debt: (Continued)

Pursuant to the bond purchase agreements, the City of Salinas has no obligation related to the repayment of these bonds. Accordingly, the bonds are not reported as liabilities in the City's financial statements.

The following is a summary of Long Term Debt transactions for the fiscal year ended June 30, 2007.

	June 30, 2006	Increases	Decreases	June 30, 2007	Due Within One Year
Governmental Activities:					
Annual Leave	\$ 6,186,407	\$ 1,201,877	\$ 170,636	\$ 7,217,648	\$ 1,443,529
Estimated Insurance claims	2,414,493		921,714	1,492,779	
Net Pension Obligation	(169,465)	227,401		57,936	14,484
Capital Leases	338,049		276,607	61,442	61,442
Loans and Notes Payable:					
City Loan - Homeless Shelter	157,500			157,500	
Breadbox Gym Note Payable	222,623		28,854	193,769	31,739
Total Loans & Notes Payable	380,123		28,854	351,269	31,739
Certificates of Participation					
Series B-2005	11,705,000		330,000	11,375,000	355,000
Series A-1999	1,100,000		35,105	1,064,895	36,138
Series A-2002	2,640,000		55,000	2,585,000	60,000
Total Certificates	15,445,000	-	420,105	15,024,895	451,138
Tax Allocation Refunding Bonds:					
Series A-1996	7,425,000		525,000	6,900,000	555,000
Series A-1992	3,211,515		206,308	3,005,207	190,739
Total Bonds Payable	10,636,515		731,308	9,905,207	745,739
Assessment District 1915 Act Bonds	27,195,000		1,950,000	25,245,000	1,920,000
Government Activities	\$ 62,426,122	\$ 1,429,278	\$ 4,499,224	\$ 59,356,176	\$ 4,668,071
Business-type Activities					
Leases:					
Capital Leases	\$ 240,737	\$	\$ 89,988	\$ 150,749	\$ 93,802
Industrial Waste Lease	655,000		55,000	600,000	60,000
Airport Fuel Facility Lease	-	249,347	-	249,347	26,716
Total Leases	895,737	249,347	144,988	1,000,096	180,518
Bonds Payable:					
Sanitary Sewer Revenue Bonds	13,910,000		345,000	13,565,000	360,000
Certificates of Participation A-1999	4,225,000		134,895	4,090,105	138,862
Certificates of Participation A-2005	8,005,000		245,000	7,760,000	275,000
Certificates of Participation A-2004	16,630,000			16,630,000	365,000
Total Bonds Payable	42,770,000	-	724,895	42,045,105	1,138,862
Business-type Activities	\$ 43,665,737	\$ 249,347	\$ 869,883	\$ 43,045,201	\$ 1,319,380

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Notes to Financial Statements
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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, 2007, assessment bonds outstanding are \$25,245,000. The September 2, 2007 principal payment of \$1,920,000 has already been collected. The balance of \$23,325,000 is recorded as Assessments Receivable in the Assessment District Debt Service Fund. The Assessment District Reserve Fund balance is \$2,898,038 at June 30, 2007.

20. Restricted Net Assets:

The government-wide statement of net assets reports \$64,184,862 of restricted net assets, of which \$1,062,051 is restricted by enabling legislation represented by the net assets held at the Sanitary Sewer Fund. The assets are the result of a surcharge fee imposed on sanitary sewer users for the payment of operating expenses and debt service payments.

21. Deficit Fund Equities:

The following are deficit fund equities at June 30, 2007:

Enterprise Funds - Municipal Golf Courses Fund \$6,240,658.

The deficit net assets in Municipal Golf Courses Fund of \$6,240,658 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 \$3,735,000 have been made from the City's General Fund to cover operating losses at Fairways Golf Course in fiscal years 2001-02 through 2006-07.

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.

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21. Deficit Fund Equities: (Continued)

On April 10, 2007, the City entered into a three-year (with two three-year options) agreement with a private provider to provide grounds maintenance at Fairways Golf Course. The total annual compensation due to the provider is \$649,000 for years one and two and an adjusted amount by the Consumer Price Index in year three. The agreement is limited to the maintenance of the golf course; the City retains ownership, control and management of the Fairways golf course. Contracting the maintenance of Fairways golf course will save the City's General Fund about \$200,000 annually.

City Council is continuing to explore alternatives to continue the Fairways Golf Courses subsidy, for example, increasing rounds with rate specials, advertising and privatizing the entire operation of the golf course.

22. 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, 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.

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 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.

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

The 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 337 Melody Lane, Salinas, CA 93901.

23. 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. Statutory pass through payments for the Sunset Avenue Project totaled \$700,729 for fiscal year ending June 30, 2007.

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

<u>Due in the year ended June 30,</u>	<u>Amount</u>	<u>Due in the year ended June 30,</u>	<u>Amount</u>
2008	\$ 716,250	2014	\$ 958,780
2009	829,036	2015	986,367
2010	853,976	2016	919,440
2011	879,376	2017	946,305
2012	905,339	2018	973,668
2013	931,772	2019	1,001,532

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 \$143,304 for fiscal year ending June 30, 2007.

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

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23. Commitments and Contingent Liabilities: (Continued)

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 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.

The Steinbeck Center is constructed on Agency owned land. Pursuant to a fifty-year ground lease dated December 31, 1997, the Redevelopment Agency leases the land to the Steinbeck Center for \$1 per year.

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 Maya Cineplex Theater. The public parking garage opened in June 2005, while the Maya Cinemas Multiplex was 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.

Debt service payments were made during fiscal year 2006-07 using the balance of capitalized interest, investment earnings and \$275,000 of Agency funds. Beginning in fiscal year 2007-08, maximum annual debt service payments are \$1,091,950. At June 30, 2007, the Agency has reserved \$1,135,000 of fund balance for the purpose of making debt service payments.

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

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23. Commitments and Contingent Liabilities: (Continued)

State Budget Implications The housing downturn, lower property tax revenues and the economic slowdown have put California's State Budget under severe pressure. Estimates place a projected state budget shortfall of more than \$14 billion in the 2007-08 fiscal year. The Governor's proposed budget for 2008-09 was released January 2008, and the Governor declared a "fiscal emergency" and that requires the Legislature to make 2007-08 mid-year cuts in spending. For the fiscal year that begins July 1, 2008, the Governor plans to cut funding to all state agencies by ten percent (10%).

The State's 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 (Property Tax, Sales Tax, Vehicle License Fees and State Mandate Funding) can be borrowed from local governments, stipulates that the state can only borrow twice in a 10-year period and any "borrowings" must be repaid within three-years with interest.

The State continued the annual shift of City of Salinas property tax to the Education Revenue Augmentation Fund (ERAF). Property tax revenue continues shifting over \$3,900,000 of annual property tax to the State.

In addition to ERAF property tax shifts from the City, ERAF shift of property tax increments from the Salinas Redevelopment Agency began in fiscal year 2002-03 and continued through fiscal year 2005-06. The State's take of property tax from the taxpayers of the Salinas Redevelopment Agency totaled \$1,110,807 over the four-year period. Proposition 1A does not protect redevelopment agencies from future State ERAF shifts.

24. Subsequent Events:

As of December 2007, all employee groups have approved Memorandum of Understandings (MOUs) with the City. Police Management Association (PMA) and Salinas Police Officers Association (SPOA) MOUs expire December 31, 2009. Fire Supervisors Association (FSA) and International Association of Firefighters (IAFF) MOUs expire June 30, 2009. 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, 2011. Confidential Compensation Plans (Management and Non-management) have been extended through December 31, 2011.

MOU increases per bargaining unit are as follows: PMA and SPOA (5.0% 4/1/07, 5.0% 10/1/07, 5.0% 4/1/08, 5.0% 10/1/08 and 5.0% 4/1/09); FSA and IAFF (6.0% 7/1/07 and 6.0% 7/1/08); and AMPS, SMEA, SEIU, SEIU Crew Supervisors, and Confidential Management and Non-management (5.0% 10/1/07, 5.0% 11/1/08, 4.0% 12/1/09 and 4.0% 1/1/11).

The City's three-year (2007-08 through 2009-10) budget projections assumes the General Fund \$7.2 million operating reserve will be exhausted as expenses will exceed revenues during this period. This fact was discussed with the recent approvals of MOUs adjusting employee compensation and further discussed with the policy determination to focus on economic development to enhance the City's revenue base.



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**REQUIRED
SUPPLEMENTARY
INFORMATION**



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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.

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 and the tax will sunset in ten (10) years. The Measure V Oversight Committee is a fundamental provision of the voter-approved tax. The Mayor and City Council each annually appoints one member of the public to serve

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on the Oversight Committee. The committee has two (2) major responsibilities recommending the specific uses of Measure V funds to the City Council and overseeing the use of Measure V funds to assure consistency with the voter approved tax and the appropriated use of Measure V funds.

BUDGET ADOPTION

On May 9 and 16, 2006, the City Council was presented and reviewed a two (2) year operating budget with staff recommending approval of 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 July 11, 2006. The Capital Improvement Budget is generally updated every two years.

BUDGETARY HIGHLIGHTS

General Fund and Measure V

The General Fund (including Measure V) 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 \$1,521,370 and encumbrance carryover appropriations of \$760,969. The amended budget includes \$3,146,850 that was appropriated by Council during the year, at mid-year and at year-end to cover unanticipated expenditure requirements.

During February 2007, with the mid-year budget review, Council committed \$1.0 million to fund Economic Development and Community Safety efforts. The Economic Development initiative is a three-year program funded at \$750,000, with \$250,000 appropriated in fiscal year 2006-07. The Community Safety initiative is an on-going program, funded at \$250,000 per year, with \$50,000 appropriated in fiscal year 2006-07. Other General Fund budget appropriations made by Council during the year include; \$140,750 for Paramedic Program support; \$106,300 to establish a Police Cadet Program; \$130,100 to establish a Fire Cadet Program; \$65,000 to increase storm water run-off (NPDES) monitoring; \$150,000 to increase operating and capital outlay contingencies; \$380,300 to fund liability claims; \$85,600 to appropriate State Public Library funds; \$100,000 to complete zoning code updates as wrap-up to the General Plan; and \$38,800 to appropriate an ABC grant.

During February 2007, with the mid-year budget review, the Measure V Committee recommended and Council approved the use of \$1,650,000 of one-time Measure V funds for the following capital projects; Sidewalk Repair \$995,000; Wild-land Firefighting Engine \$285,000; Five Park Maintenance Pick-ups \$80,000; a Crime Scene Investigation Vehicle \$225,000 and Two Animal Control Trucks and Cage Units \$65,000.

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

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\$2,977,900 during the fiscal year. Sales Tax and In-lieu Sales Tax revenue estimates were decreased \$237,900, with actual collections reflecting 1.5% growth over the prior year. With a 12.7% growth in the City's property assessed values, revenue estimates were increased for Property Taxes (\$405,000), Supplemental Property Tax (\$500,000) and Property Tax In-lieu of Vehicle License Fees (\$481,600). Intergovernmental revenue estimates were increased for one-time increases in State reimbursements for Booking Fees (\$427,800), State Mandated Costs (\$520,000) and Police Post Training (\$100,000). Charges for services were increased for Plan Check and Inspection Fees (\$255,000), Administrative Fees (\$100,000) and Police False Alarm Fees (\$175,000). Estimated investment earnings were increased \$200,000.

The General Fund fund balance increased \$6,834,252 to \$29,823,639, of which \$19,580,427 is reserved and \$10,243,212 is unreserved.

The General Fund unreserved fund balance of \$10,243,212 includes designated funds of \$7,316,669 and undesignated funds of \$2,926,543. The designated fund balance of \$7,316,669 includes taxes receivable, accounts receivable, interest receivable and other accrued resources, less long-term liabilities. 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, 2007 undesignated fund balance estimated in fiscal year 2006-07 budget was \$20,133. The undesignated fund balance at June 30, 2007 pursuant to the audited financial statements is \$2,926,543. The difference of \$2,906,410 is the General Fund carryover at June 30, 2007. The General Fund carryover of \$2,906,410 was reported to Council with the year-end budget review during October 2007.

The General Fund undesignated fund balance of \$2,926,543 is available for allocation and expenditure at June 30, 2007. General Fund resources available for expenditure at June 30, 2007 total \$14,480,443, including the operating reserve of \$5,200,000, the capital projects reserve of \$6,353,900 and the undesignated fund balance of \$2,926,543. General Fund reserves have been set-aside by Council for specific purposes.

During the mid-year budget review in February 2008, staff will recommend the allocation of the June 30, 2007 General Fund budget carryover of \$2,906,410 as follows; 1) \$2,000,000 to the Operating Reserve; and 2) \$906,410 to the Capital Projects Reserve.

After the allocation of the June 30, 2007 budget carryover, General Fund reserves available for expenditure at June 30, 2007 are \$14,480,443, inclusive of a capital projects reserve for projects budgeted in both fiscal years 2007-08 and 2008-09 of \$7,260,310, an operating reserve of \$7,200,000 and an unreserved balance of \$20,133.

The City's three-year (2007-08 through 2009-10) budget projections assumes the \$7.2 million operating reserve will be exhausted as expenses will exceed revenues during this period. This fact was discussed with the recent approvals of MOUs adjusting employee compensation and further discussed with the policy determination to focus on economic development to enhance the City's revenue base.

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Measure V is a general tax and is reported as part of the General Fund. The Measure V fund balance increased \$4,167,127 to \$6,370,030, of which \$4,290,574 is reserved and \$2,079,456 is unreserved.

The Measure V unreserved fund balance of \$2,079,456 is designated. The designated fund balance includes taxes receivable and interest receivable. These funds are designated for future year budgets: when the funds are available for expenditure.

Measure V reserved fund balance at June 30, 2007 totals \$4,290,574, including reserves for encumbrances of \$2,296,816, capital projects of \$1,268,732 and carryover capital projects of \$725,026. Measure V reserves have been set-aside by Council for specific purposes.

All Measure V funds collected in fiscal year 2006-07 have been spent, encumbered or budgeted for capital projects to be completed in fiscal year 2007-08.

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 requirements. The original budget includes operating carryover appropriations of \$3,516,582, capital project carryover appropriations of \$917,459 and encumbrance carryover appropriations of \$528,879. The amended budget includes \$10,000 that was appropriated during the fiscal year for unanticipated expenditure requirements. Council approved one budget increase in the amount of \$10,000 to provide homeownership counseling provided by Monterey County Housing Alliance. Two other projects were approved by Council during the year and funded from the contingency budget and reduction in other programs or projects including \$120,000 for restrooms at Closter and Central parks and \$350,000 for improvement to the Breadbox Recreation Center. These budget amendments were funded from current resources.

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 \$4,557,000 during the fiscal year. This increase resulted from recording carryover grants of \$4,485,600 and increases in program income of \$71,400.

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 \$4,792,722 and encumbrance carryover appropriations of \$3,752,133. The amended budget includes a net decreased appropriation of \$468,617. The decrease includes projects appropriations cancelled or rebudgeted of \$900,000 coupled with increase appropriations for Rossi Street sewer main (\$100,000), Sewer Master Plan (\$265,000), Carr Lake flood study (\$36,300) and Sanborn Road Improvements (\$30,083). These amendments were funded from current year resources.

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Budgetary Information
Fiscal Year Ended June 30, 2007

Resources (inflows) of the Development Fees Fund were also amended by Council during the mid-year budget review process. Revenue estimates were increased \$2,335,500 during the fiscal year. This increase resulted from revised estimates for development impact fees, an increase of \$1,905,000, coupled with an increase in investment earnings of \$430,500.

The Development Fees Fund Balance of \$17,801,183 at July 1, 2007 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.

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
General Fund and Measure V
Fiscal Year Ended June 30, 2007

	2007			
	Original Budget	Amended Budget	Actual	Variance with Final Budget
Fund Balance, July 1, 2006,	\$ 25,192,290	\$ 25,192,290	\$ 25,192,290	\$
Resources (inflows):				
Taxes:				
Sales	18,300,000	18,400,000	18,209,036	(190,964)
In-lieu Sales	6,150,000	5,812,100	6,088,153	276,053
Transactions and Use	10,000,000	10,000,000	10,279,477	279,477
Property	13,650,000	14,555,000	15,183,917	628,917
Property-Vehicle License Fees	10,800,000	11,281,600	11,281,580	(20)
Utility	8,225,000	8,225,000	8,714,661	489,661
Business License	3,875,000	3,875,000	3,928,651	53,651
Franchise	3,213,000	3,213,000	3,430,797	217,797
Other	1,750,000	1,750,000	1,523,729	(226,271)
Licenses and Permits	40,000	40,000	25,874	(14,126)
Intergovernmental	1,625,600	2,769,800	2,983,546	213,746
Charges for Services	4,877,900	5,362,900	6,233,568	870,668
Interest	915,000	1,115,000	1,578,796	463,796
Miscellaneous	358,000	358,000	379,003	21,003
Operating Transfers In	1,250,000	1,250,000	1,325,219	75,219
Total Resources	85,029,500	88,007,400	91,166,007	3,158,607
Charges to Appropriations (outflows):				
General Government	11,079,176	11,537,476	10,319,090	1,218,386
Public Safety	49,124,213	49,317,413	46,838,564	2,478,849
Public Works	14,590,424	14,624,924	12,945,483	1,679,441
Recreation	3,661,956	3,661,956	3,185,153	476,803
Library	3,600,000	3,562,005	2,048,346	1,513,659
Capital Outlay	195,450	333,445	251,687	81,758
Transfers Out	8,100,520	10,461,370	4,576,305	5,885,065
Total Charges to Appropriations	90,351,739	93,498,589	80,164,628	13,333,961
Excess of Resources Over (Under)				
Charges to Appropriations	(5,322,239)	(5,491,189)	11,001,379	16,492,568
Fund Balance, June 30, 2007	\$ 19,870,051	\$ 19,701,101	\$ 36,193,669	\$ 16,492,568

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Housing and Urban Development Fund
Fiscal Year Ended June 30, 2007

2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2006	\$ 382,341	\$ 382,341	\$ 382,341	\$ -
Resources (inflows):				
Intergovernmental	5,494,200	9,979,800	5,680,811	(4,298,989)
Interest	2,600	4,000	4,130	130
Miscellaneous	580,000	650,000	945,199	295,199
Total Resources	<u>6,076,800</u>	<u>10,633,800</u>	<u>6,630,140</u>	<u>(4,003,660)</u>
Charges to Appropriations (outflows):				
General Government	8,698,075	8,287,099	5,253,032	3,034,067
Capital Outlay	-	600	503	97
Transfers In			(75,065)	75,065
Transfers Out	2,531,345	2,951,721	1,457,539	1,494,182
Total Charges to Appropriations	<u>11,229,420</u>	<u>11,239,420</u>	<u>6,636,009</u>	<u>4,603,411</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(5,152,620)</u>	<u>(605,620)</u>	<u>(5,869)</u>	<u>599,751</u>
Fund Balance, June 30, 2007	<u>\$ (4,770,279)</u>	<u>\$ (223,279)</u>	<u>\$ 376,472</u>	<u>\$ 599,751</u>

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Development Fees Fund
Fiscal Year Ended June 30, 2007

	2007			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2006	\$ 17,441,124	\$ 17,441,124	\$ 17,441,124	\$ -
Resources (inflows):				
Charges for Services	1,386,000	3,291,000	4,919,698	1,628,698
Interest	450,500	881,000	923,262	42,262
Total Resources	<u>1,836,500</u>	<u>4,172,000</u>	<u>5,842,960</u>	<u>1,670,960</u>
Charges to Appropriations (outflows):				
Transfers Out	14,270,275	13,801,658	5,482,901	8,318,757
Total Charges to Appropriations	<u>14,270,275</u>	<u>13,801,658</u>	<u>5,482,901</u>	<u>8,318,757</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(12,433,775)</u>	<u>(9,629,658)</u>	<u>360,059</u>	<u>9,989,717</u>
Fund Balance, June 30, 2007	<u>\$ 5,007,349</u>	<u>\$ 7,811,466</u>	<u>\$ 17,801,183</u>	<u>\$ 9,989,717</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 ACTUARIAL ACCRUED LIABILITY	FUNDED RATIO	ANNUAL COVERED PAYROLL	UNFUNDED ACTUARIAL LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
06/30/05						
Safety Fire *	\$ 6,367,049,264	\$ 5,295,150,375	\$ 1,071,898,889	83.2%	\$ 664,147,796	161.4%
Safety Police	125,583,156	104,309,431	21,273,725	83.1%	13,264,185	160.4%
Miscellaneous	26,043,448	20,611,004	5,432,444	79.1%	9,665,189	56.2%
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%

* 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 Statements.

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

Actuarial Valuation Date	Actuarial Value of Assets	Unamortized Portion of Initial Unfunded Actuarial Accrued Liability (IUAAL)	Unfunded Frozen Actuarial Accrued Liability (UFAAL) *	Covered Payroll	IUAAL as a Percentage of covered Payroll (b/d)	UFAAL as a Percentage of Covered Payroll (c/d)
09/01/05	\$ 18,493,011	\$ 12,127,776	\$ 12,127,776	\$ 4,578,741	264.9%	264.9%
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%

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 until September 2005. Effective with September 1, 2005 actuarial valuation, the plan uses the entry age normal cost funding method under which the unfunded actuarial accrued liability is explicitly determined each year. As of September 1, 2005, the unfunded actuarial accrued liability was redetermined to be \$12,127,776 based on the market of plan assets and plan accrued liabilities as of September 1, 2005 and the plan's funding contribution was then calculated based on a 30-year amortization of the redetermined unfunded actuarial accrued liability.

* 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-HEALTH INSURANCE
 LAST TEN FISCAL YEARS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net earned required contribution and investment revenues	\$ 2,518,807	\$ 4,418,440	\$ 1,410,921	\$	\$	\$	\$	\$	\$	\$
Unallocated expenses	283,799	259,995	156,847	22,821	79,270					
Estimated incurred claims and expenses, end of policy year	2,727,780	2,761,397	745,074							
Paid Claims as of:										
End of policy year	2,138,780	2,428,713	726,674							
One year later	2,484,716	2,761,113	726,674							
Two years later	2,484,716	2,761,113	726,674							
Three years later	2,484,716	2,761,113								
Four years later	2,484,716									
Five years later										
Six years later										
Seven years later										
Eight years later										
Nine years later										
Ten years later										
Reestimated incurred claims and expenses:										
End of policy year	2,727,780	2,761,397	745,074							
One year later	2,484,716	2,761,113	726,674							
Two years later	2,484,716	2,761,113	726,674							
Three years later	2,484,716	2,761,113								
Four years later	2,484,716									
Five years later										
Six years later										
Seven years later										
Eight years later										
Nine years later										
Ten years later										

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net earned required contribution and investment revenues	\$ 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	\$ 3,155,937
Unallocated expenses	216,844	233,854	242,998	280,917	213,935	238,297	298,405	190,140	333,401	262,483
Estimated incurred claims and expenses, end of policy year	845,725	1,441,423	683,596	1,437,162	803,863	1,638,917	884,881	365,761	573,047	985,428
Paid Claims as of:										
End of policy year	220,331	464,201	226,184	531,327	337,595	523,536	381,349	86,965	172,929	368,902
One year later	654,597	857,419	603,248	967,462	955,731	1,445,346	646,877	598,110	442,713	
Two years later	926,929	1,051,286	841,216	1,525,619	1,285,960	1,315,046	1,258,171	930,440		
Three years later	911,249	1,261,073	1,165,160	2,182,978	1,639,282	2,234,558	1,364,326			
Four years later	1,008,404	1,325,649	1,456,185	2,199,416	1,908,898	2,447,722				
Five years later	1,284,537	1,472,509	2,579,035	2,657,619	2,092,574					
Six years later	1,795,251	995,206	1,904,618	2,745,688						
Seven years later	1,749,538	1,603,979	1,990,157							
Eight years later	2,063,091	1,635,325								
Nine years later	2,177,255									
Ten years later										
Reestimated incurred claims and expenses:										
End of policy year	845,725	1,441,423	683,596	1,437,162	803,863	1,638,917	884,881	365,761	573,047	985,428
One year later	1,420,789	1,608,702	1,422,221	1,701,099	1,733,044	2,795,346	1,417,837	1,474,307	808,841	
Two years later	1,718,098	2,274,635	1,570,347	2,525,806	1,982,692	2,376,572	2,001,544	1,648,658		
Three years later	1,855,403	1,978,761	1,785,987	3,313,828	2,336,243	2,955,286	2,030,432			
Four years later	1,649,911	1,741,121	2,023,759	3,142,608	2,664,479	3,069,088				
Five years later	2,362,161	1,895,617	3,471,007	3,466,913	2,848,147					
Six years later	2,463,855	1,343,622	2,193,165	3,521,841						
Seven years later	2,089,207	1,828,759	2,255,699							
Eight years later	2,537,000	1,828,603								
Nine years later	2,600,053									
Ten years later										

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net earned required contribution and investment revenues	\$ 323,777	\$ 154,252	\$ 467,389	\$ 632,196	\$ 849,782	\$ 522,712	\$ 497,091	\$ 792,050	1,070,533	\$ 1,180,311
Unallocated expenses	261,874	248,128	246,724	267,154	352,255	408,817	416,248	381,750	395,222	376,213
Estimated incurred claims and expenses, end of policy year	164,581	117,426	117,282	157,251	495,393	13,564	18,734	87,777	32,657	30,502
Paid Claims as of:										
End of policy year	19,252	12,408	8,692	2,211	13,724	9,381	12,823	27,599	7,560	17,711
One year later	147,311	70,836	54,067	77,900	55,162	34,073	86,364	174,067	185,850	
Two years later	267,432	181,671	184,800	48,917	75,637	384,408	103,591	627,037		
Three years later	471,164	254,000	520,517	48,917	200,433	438,986	143,679			
Four years later	471,164	224,136	520,517	3,762	576,931	439,507				
Five years later	644,817	224,136	391,866	3,762	587,953					
Six years later	644,817	224,136	391,866	3,762						
Seven years later	644,817	224,136	391,866							
Eight years later	644,817	224,136								
Nine years later	644,817									
Ten years later	644,817									
Reestimated incurred claims and expenses:										
End of policy year	164,581	117,426	117,282	157,251	495,393	13,564	18,734	87,777	32,657	30,502
One year later	227,324	233,623	184,880	96,693	600,238	315,468	90,628	332,764	189,355	
Two years later	437,727	331,228	185,900	60,293	625,823	428,290	125,215	666,564		
Three years later	504,626	256,600	570,517	48,917	722,874	459,677	150,214			
Four years later	471,164	224,136	520,517	3,762	576,931	439,507				
Five years later	644,817	224,136	391,866	3,762	597,355					
Six years later	644,817	224,136	391,866	3,762						
Seven years later	644,817	224,136	391,866							
Eight years later	644,817	224,136								
Nine years later	644,817									
Ten years later	644,817									

**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.

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, 2007**

	SPECIAL REVENUE FUNDS				
	Emergency Medical Services	Asset Seizure	Lighting, Landscape and Maintenance District	Local Public Safety	Gas Tax
Assets:					
Cash and Investments	\$ 91,714	\$ 32,751	\$ 892,790	\$ 127,163	\$ 4,311,848
Cash and Investments Restricted	-	-	-	-	434,000
Accounts Receivable	-	-	6,003	-	-
Interest Receivable	-	445	9,238	1,447	53,980
Due from Other Agencies	50,000	-	-	430,297	230,558
Due from Fiduciary Funds	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Advance to Redevelopment	-	-	-	-	-
Loans Receivable	-	-	-	-	-
Land Held for Resale	-	-	-	-	-
Total Assets	\$ 141,714	\$ 33,196	\$ 908,031	\$ 558,907	\$ 5,030,386
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	\$ 26,955	\$ 2,918	\$ 63,283	\$ 61,535	\$ -
Due to Other Funds	-	-	19,452	336,192	1,264,442
Advance from Other Funds	-	-	-	-	-
Deferred Revenues	-	-	-	-	-
Total Liabilities	26,955	2,918	82,735	397,727	1,264,442
Fund Balances:					
Reserved for:					
Encumbrances	3,273	-	-	127,138	(298,463)
Future Budgets	-	-	-	-	-
Advances	-	-	-	-	-
Carryover Appropriations	-	-	-	-	2,496,489
Land	-	-	-	-	-
Debt Service	-	-	-	-	-
Parking Structure	-	-	-	-	-
Plaza Grande Operations	-	-	-	-	-
Loans Receivable	-	-	-	-	-
Unreserved					
Reported in SR	111,486	30,278	825,296	34,042	1,567,918
Reported in CP	-	-	-	-	-
Reported in DS	-	-	-	-	-
Total Fund Balances	114,759	30,278	825,296	161,180	3,765,944
Total Liabilities and Fund Balances	\$ 141,714	\$ 33,196	\$ 908,031	\$ 558,907	\$ 5,030,386

SPECIAL REVENUE FUNDS

Vehicle Abatement	Traffic Safety	Recreation Parks	Housing Trust	Grants	Central City Housing	Sunset Avenue Merged Housing
\$ 25,447	\$ 262,818	\$ 204,638	\$ 334,080	\$ 79,180	\$ 3,194,500	\$ 2,166,529
-	-	-	-	-	-	-
-	-	-	660	460	-	-
-	-	-	-	-	37,174	211,303
-	57,593	-	-	67,902	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	172,571	-
-	-	-	-	-	2,448,083	2,134,500
-	-	-	-	-	194,607	-
\$ 25,447	\$ 320,411	\$ 204,638	\$ 334,740	\$ 147,542	\$ 6,046,935	\$ 4,512,332
\$ 5,683	\$ -	\$ -	\$ -	\$ 29,906	\$ 73,428	\$ 2,657
-	-	-	-	94,461	3,178	-
-	-	-	-	-	-	-
-	-	-	-	-	-	188,264
5,683	-	-	-	124,367	76,606	190,921
-	-	-	-	1,118	313,672	2,000
-	-	-	-	-	2,543,096	2,184,911
-	-	-	-	-	172,571	-
-	-	-	-	-	-	-
-	-	-	-	-	194,607	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	298,300	-
-	-	-	-	-	2,448,083	2,134,500
19,764	320,411	204,638	334,740	22,057	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
19,764	320,411	204,638	334,740	23,175	5,970,329	4,321,411
\$ 25,447	\$ 320,411	\$ 204,638	\$ 334,740	\$ 147,542	\$ 6,046,935	\$ 4,512,332

Continued

CITY OF SALINAS, CALIFORNIA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

DEBT SERVICE FUNDS

	Assessment District Reserve	Assessment District Administration	Certificates of Participation (2005 B)	Certificates of Participation (1999)
Assets:				
Cash and Investments	\$ 2,873,998	\$ 67,789	\$ 73,440	\$ 5,599
Cash and Investments Restricted	-	-	824,936	103,491
Accounts Receivable	-	-	-	-
Interest Receivable	24,040	-	12,695	1,442
Due from Other Agencies	-	-	-	-
Due from Fiduciary Funds	-	-	-	-
Due from Other Funds	-	-	-	-
Advance to Redevelopment	-	-	-	-
Loans Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Total Assets	\$ 2,898,038	\$ 67,789	\$ 911,071	\$ 110,532
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	\$ -	\$ 2,753	\$ -	\$ -
Due to Other Funds	-	-	-	-
Advance from Other Funds	-	-	-	-
Deferred Revenues	-	-	-	-
Total Liabilities	-	2,753	-	-
Fund Balances:				
Reserved for:				
Encumbrances	-	-	-	-
Future Budgets	-	-	-	-
Advances	-	-	-	-
Carryover Appropriations	-	-	-	-
Land	-	-	-	-
Debt Service	2,898,038	65,036	911,071	110,532
Parking Structure	-	-	-	-
Plaza Grande Operations	-	-	-	-
Loans Receivable	-	-	-	-
Unreserved				
Reported in SR	-	-	-	-
Reported in CP	-	-	-	-
Reported in DS	-	-	-	-
Total Fund Balances	2,898,038	65,036	911,071	110,532
Total Liabilities and Fund Balances	\$ 2,898,038	\$ 67,789	\$ 911,071	\$ 110,532

DEBT SERVICE FUNDS

Certificates of Participation (2002)	Central City Debt Service	Sunset Avenue Merged Debt Service
\$ 4,391	\$ 1,492,962	\$ 2,962,203
191,419	1,552,343	-
5	-	-
3,453	-	38,732
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>\$ 199,268</u>	<u>\$ 3,045,305</u>	<u>\$ 3,000,935</u>
\$ 2,500	\$ -	\$ -
-	-	-
-	172,571	-
-	-	-
<u>2,500</u>	<u>172,571</u>	<u>-</u>
-	-	-
-	-	-
-	-	-
-	-	-
196,768	1,737,734	3,000,935
-	1,135,000	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>196,768</u>	<u>2,872,734</u>	<u>3,000,935</u>
<u>\$ 199,268</u>	<u>\$ 3,045,305</u>	<u>\$ 3,000,935</u>

Continued

**CITY OF SALINAS, CALIFORNIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007**

CAPITAL PROJECT FUNDS

	Special Aviation	Assessment District Projects	Central City Project	Sunset Avenue Merged Project	Total Nonmajor Funds
Assets:					
Cash and Investments	\$ 1,601,835	\$ 1,117,334	\$ 98,191	\$ 30,897	\$ 22,052,097
Cash and Investments Restricted	-	-	-	56,615	3,162,804
Accounts Receivable	-	-	-	-	7,128
Interest Receivable	19,366	13,021	20,924	-	447,260
Due from Other Agencies	367,297	-	-	-	1,203,647
Due from Fiduciary Funds	-	-	-	-	-
Due from Other Funds	-	-	-	-	0
Advance to Redevelopment	-	-	-	-	172,571
Loans Receivable	-	-	1,305,973	-	5,888,556
Land Held for Resale	-	-	888,877	-	1,083,484
Total Assets	\$ 1,988,498	\$ 1,130,355	\$ 2,313,965	\$ 87,512	\$ 34,017,547
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	\$ 0	\$ 152	\$ 36,524	\$ 25,547	\$ 333,841
Due to Other Funds	-	-	3,528	-	1,721,253
Advance from Other Funds	-	-	-	-	172,571
Deferred Revenues	55,994	-	-	-	244,258
Total Liabilities	55,994	152	40,052	25,547	2,471,923
Fund Balances:					
Reserved for:					
Encumbrances	-	-	58,313	4,600	211,651
Future Budgets	-	-	20,750	-	4,748,757
Advances	-	-	-	-	172,571
Carryover Appropriations	-	-	-	57,365	2,553,854
Land	-	-	888,877	-	1,083,484
Debt Service	-	-	-	-	8,920,114
Parking Structure	-	-	-	-	1,135,000
Plaza Grande Operations	-	-	-	-	298,300
Loans Receivable	-	-	1,305,973	-	5,888,556
Unreserved					
Reported in SR	-	-	-	-	3,470,630
Reported in CP	1,932,504	1,130,203	-	-	3,062,707
Reported in DS	-	-	-	-	-
Total Fund Balances	1,932,504	1,130,203	2,273,913	61,965	31,545,624
Total Liabilities and Fund Balances	\$ 1,988,498	\$ 1,130,355	\$ 2,313,965	\$ 87,512	\$ 34,017,547

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**CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR FISCAL YEAR END JUNE 30, 2007**

	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	\$ -	\$ -	\$ -	\$ 413,965	\$ -
Special Assessments	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Intergovernmental	226,855	-	-	1,343,992	2,626,765
Charges for Services	-	-	1,107,887	-	-
Interest	-	2,874	23,385	7,976	231,975
Fines and Forfeits	-	36,046	-	-	-
Developer Contributions	-	-	-	-	-
Miscellaneous	-	-	-	-	164,554
Total Revenues	226,855	38,920	1,131,272	1,765,933	3,023,294
Expenditures:					
Current:					
General Government	-	-	-	-	-
Public Safety	607,597	48,978	-	1,241,542	-
Public Works	-	-	-	-	-
Recreation	-	-	761,542	-	-
Library	-	-	-	-	-
Parking Structure Debt	-	-	-	-	-
Capital Outlay	-	-	-	324,043	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Pass Through Tax	-	-	-	-	-
Total Expenditures	607,597	48,978	761,542	1,565,585	-
Excess(Deficiency) of Revenues Over(Under) Expenditures	(380,742)	(10,058)	369,730	200,348	3,023,294
Other Financing Sources (Uses):					
Interfund Loans	-	-	-	-	-
Loans Receivable Forgiven	-	-	-	-	-
Operating Transfers In	447,500	-	-	42,608	-
Operating Transfers Out	(61,862)	(26,193)	-	(445,072)	(3,428,047)
Total Other Financing Sources(Uses)	385,638	(26,193)	-	(402,464)	(3,428,047)
Excess (Deficiency) of Revenues and Other Sources Over(Under) Expenditures and Other Uses	4,896	(36,251)	369,730	(202,116)	(404,753)
Fund Balances at Beginning of Year	109,863	66,529	455,566	363,296	4,170,697
Fund Balances at End of Year	\$ 114,759	\$ 30,278	\$ 825,296	\$ 161,180	\$ 3,765,944

Vehicle Abatement Fund	Traffic Safety Fund	Recreation Parks Fund	Housing Trust Fund	Grants Fund	Central City Housing Fund	Sunset Avenue Merged Housing Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
74,673	-	-	-	421,237	-	-
-	-	-	-	-	-	-
-	-	-	-	-	136,656	93,143
-	877,684	-	-	-	-	-
-	-	-	-	-	-	-
-	-	27,464	1,440	-	27,753	-
<u>74,673</u>	<u>877,684</u>	<u>27,464</u>	<u>1,440</u>	<u>421,237</u>	<u>164,409</u>	<u>93,143</u>
-	-	-	-	130,599	150,930	119,725
151,109	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	109,658	-	-
-	-	-	-	118,996	-	-
-	-	-	-	-	-	-
-	-	-	-	45,944	186,623	79
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>151,109</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>405,197</u>	<u>337,553</u>	<u>119,804</u>
(76,436)	877,684	27,464	1,440	16,040	(173,144)	(26,661)
-	-	-	-	-	-	-
-	-	-	-	-	(18,000)	-
45,000	-	-	-	-	628,009	570,757
-	(825,000)	-	-	(61,122)	(240,021)	-
<u>45,000</u>	<u>(825,000)</u>	<u>-</u>	<u>-</u>	<u>(61,122)</u>	<u>369,988</u>	<u>570,757</u>
(31,436)	52,684	27,464	1,440	(45,082)	196,844	544,096
<u>51,200</u>	<u>267,727</u>	<u>177,174</u>	<u>333,300</u>	<u>68,257</u>	<u>5,773,485</u>	<u>3,777,315</u>
<u>\$ 19,764</u>	<u>\$ 320,411</u>	<u>\$ 204,638</u>	<u>\$ 334,740</u>	<u>\$ 23,175</u>	<u>\$ 5,970,329</u>	<u>\$ 4,321,411</u>

Continued

**CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR FISCAL YEAR END JUNE 30, 2007**

	DEBT SERVICE FUNDS			
	Assessment District Reserve Fund	Assessment District Administration Fund	Certificates of Participation (2005 B) Fund	Certificates of Participation (1999) Fund
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	-	-
Licenses and Permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for Services	-	58,518	-	-
Interest	140,430	-	36,849	5,570
Fines and Forfeits	-	-	-	-
Developer Contributions	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	<u>140,430</u>	<u>58,518</u>	<u>36,849</u>	<u>5,570</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Recreation	-	-	-	-
Library	-	-	-	-
Parking Structure Debt	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal Retirement	-	-	330,000	35,105
Interest and Fiscal Charges	-	82,266	454,318	53,011
Pass Through Tax	-	-	-	-
Total Expenditures	<u>-</u>	<u>82,266</u>	<u>784,318</u>	<u>88,116</u>
Excess(Deficiency) of Revenues Over(Under) Expenditures	<u>140,430</u>	<u>(23,748)</u>	<u>(747,469)</u>	<u>(82,546)</u>
Other Financing Sources (Uses):				
Interfund Loans	-	-	-	-
Loans Receivable Forgiven	-	-	-	-
Operating Transfers In	-	-	755,097	84,000
Operating Transfers Out	(19,285)	-	-	-
Total Other Financing Sources(Uses)	<u>(19,285)</u>	<u>-</u>	<u>755,097</u>	<u>84,000</u>
Excess (Deficiency) of Revenues and Other Sources Over(Under) Expenditures and Other Uses	<u>121,145</u>	<u>(23,748)</u>	<u>7,628</u>	<u>1,454</u>
Fund Balances at Beginning of Year	<u>2,776,893</u>	<u>88,784</u>	<u>903,443</u>	<u>109,078</u>
Fund Balances at End of Year	<u>\$ 2,898,038</u>	<u>\$ 65,036</u>	<u>\$ 911,071</u>	<u>\$ 110,532</u>

DEBT SERVICE FUNDS

Certificates of Participation (2002) Fund	Central City Debt Service Fund	Sunset Avenue Merged Debt Service Fund
\$ -	\$ 3,140,045	\$ 2,853,785
-	-	-
-	-	-
-	-	-
-	-	-
10,424	93,890	131,083
-	-	-
-	-	-
178,682	-	-
<u>189,106</u>	<u>3,233,935</u>	<u>2,984,868</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	275,000	-
-	-	-
55,000	1,025,308	790,000
133,261	724,671	17,187
-	143,304	700,729
<u>188,261</u>	<u>2,168,283</u>	<u>1,507,916</u>
845	1,065,652	1,476,952
-	-	-
-	-	-
-	240,021	-
-	(628,009)	(570,757)
-	<u>(387,988)</u>	<u>(570,757)</u>
845	677,664	906,195
<u>195,923</u>	<u>2,195,070</u>	<u>2,094,740</u>
<u>\$ 196,768</u>	<u>\$ 2,872,734</u>	<u>\$ 3,000,935</u>

Continued

CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR FISCAL YEAR END JUNE 30, 2007

CAPITAL PROJECTS FUNDS					
	Special Aviation Fund	Assessment District Project Fund	Central City Project Fund	Sunset Avenue Merged Project Fund	Total
Revenues:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 6,407,795
Special Assessments	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Intergovernmental	592,787	-	-	-	5,286,309
Charges for Services	-	-	-	-	1,166,405
Interest	73,213	57,071	90,619	509	1,135,667
Fines and Forfeits	-	-	-	-	913,730
Developer Contributions	-	-	-	-	-
Miscellaneous	43,792	-	26,936	-	470,621
Total Revenues	709,792	57,071	117,555	509	15,380,527
Expenditures:					
Current:					
General Government	-	-	-	-	401,254
Public Safety	-	-	-	-	2,049,226
Public Works	-	-	-	-	-
Recreation	-	-	-	-	871,200
Library	-	-	-	-	118,996
Parking Structure Debt	-	-	-	-	275,000
Capital Outlay	470,753	-	336,298	735,638	2,099,378
Debt Service:					
Principal Retirement	-	-	-	28,854	2,264,267
Interest and Fiscal Charges	-	-	-	22,261	1,486,975
- Pass Through Tax	-	-	-	-	844,033
Total Expenditures	470,753	-	336,298	786,753	10,410,329
Excess(Deficiency) of Revenues					
Over(Under) Expenditures	239,039	57,071	(218,743)	(786,244)	4,970,198
Other Financing Sources (Uses):					
Interfund Loans	-	-	294,000	790,000	1,084,000
Loans Receivable Forgiven	-	-	-	-	(18,000)
Operating Transfers In	-	-	-	-	2,812,992
Operating Transfers Out	-	-	-	-	(6,305,368)
Total Other Financing Sources(Uses)	-	-	294,000	790,000	(2,426,376)
Excess (Deficiency) of Revenues and					
Other Sources Over(Under)					
Expenditures and Other Uses	239,039	57,071	75,257	3,756	2,543,822
Fund Balances at Beginning of Year	1,693,465	1,073,132	2,198,656	58,209	29,001,802
Fund Balances at End of Year	\$ 1,932,504	\$ 1,130,203	\$ 2,273,913	\$ 61,965	\$ 31,545,624
					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, 2007

	<u>Risk Management Fund</u>	<u>General Insurance Fund</u>	<u>Workers Compensation Fund</u>	<u>General Liability Fund</u>	<u>Totals</u>
Assets:					
Current Assets:					
Cash and Investments	\$ 104,415	\$ 475,857	\$ 8,050,118	\$ 2,186,697	\$ 10,817,087
Cash and Investments Restricted	-	-	404,355	98,803	503,158
Accounts Receivable	-	-	-	-	-
Interest Receivable	-	-	88,593	20,924	109,517
Due from General Fund	-	-	-	-	-
Total Assets	<u>104,415</u>	<u>475,857</u>	<u>8,543,066</u>	<u>2,306,424</u>	<u>11,429,762</u>
Liabilities:					
Current Liabilities:					
Accounts Payable	13,161	19,693	19,009	-	51,863
Insurance Claims Payable	-	-	8,524,057	484,998	9,009,055
Total Current Liabilities	<u>13,161</u>	<u>19,693</u>	<u>8,543,066</u>	<u>484,998</u>	<u>9,060,918</u>
Noncurrent Liabilities:					
Accrued Leave	24,419	-	-	-	24,419
Total Noncurrent Liabilities	<u>24,419</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,419</u>
Total Liabilities	<u>37,580</u>	<u>19,693</u>	<u>8,543,066</u>	<u>484,998</u>	<u>9,085,337</u>
Net Assets:					
Invested in Capital Assets	-	-	-	-	-
Restricted	369	21,389	-	-	21,758
Unrestricted	66,466	434,775	-	1,821,426	2,322,667
Total Net Assets	<u>\$ 66,835</u>	<u>\$ 456,164</u>	<u>\$ -</u>	<u>\$ 1,821,426</u>	<u>\$ 2,344,425</u>

CITY OF SALINAS
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For Fiscal Year Ended June 30, 2007

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Operating Revenues:					
Charges for Services	\$ 350,000	\$ 565,743	\$ 2,798,763	\$ 1,086,521	\$ 4,801,027
Total Operating Revenues	350,000	565,743	2,798,763	1,086,521	4,801,027
Operating Expenses:					
Personnel Services	269,940	-	-	-	269,940
Contractual Services	41,976	91,448	262,483	42,000	437,907
Supplies	1,768	-	-	-	1,768
Insurance	-	288,466	390,355	334,213	1,013,034
Insurance Claims	-	99,829	1,690,478	599,829	2,390,136
Other	4,966	-	821,501	-	826,467
Total Operating Expenses	318,650	479,743	3,164,817	976,042	4,939,252
Operating Income (Loss)	31,350	86,000	(366,054)	110,479	(138,225)
Nonoperating Revenues:					
Interest	-	-	366,054	95,888	461,942
Total Nonoperating Revenues	-	-	366,054	95,888	461,942
Income (Loss) Before Transfers	31,350	86,000	-	206,367	323,717
Transfers In	-	-	-	-	-
Change in Net Assets	31,350	86,000	-	206,367	323,717
Total Net Assets-Beginning	35,485	370,164	-	1,615,059	2,020,708
Total Net Assets-Ending	\$ 66,835	\$ 456,164	\$ -	\$ 1,821,426	\$ 2,344,425

CITY OF SALINAS
Combining Statement of Cash Flows
Internal Service Funds
For Fiscal Year Ended June 30, 2007

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Cash Flows from Operating Activities:					
Receipts from Customers and Users	\$ -	\$ 115,743	\$ 387,623	\$ 6,220	\$ 509,586
Receipts from interfund services provided	350,000	450,000	3,953,028	1,080,300	5,833,328
Payments to Suppliers	(42,987)	(386,715)	(652,838)	(376,213)	(1,458,753)
Payments to Employees	(265,869)	-	-	-	(265,869)
Payments to Claimants	-	(95,990)	(2,423,929)	(709,079)	(3,228,998)
Net Cash Provided (Used) by Operating Activities	<u>41,144</u>	<u>83,038</u>	<u>1,263,884</u>	<u>1,228</u>	<u>1,389,294</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	-	-	333,881	92,986	426,867
(Decrease) in Fair Value of Investments	-	-	3,667	1,449	5,116
Transfer (to) from Restricted Cash	-	-	(8,249)	(25,386)	(33,635)
Net Cash Provided by (Used for) Investing Activities	<u>-</u>	<u>-</u>	<u>329,299</u>	<u>69,049</u>	<u>398,348</u>
Net Increase(Decrease) in Cash and Cash Equivalents	41,144	83,038	1,593,183	70,277	1,787,642
Cash and Cash Equivalents - Beginning of Year	<u>63,271</u>	<u>392,819</u>	<u>6,456,935</u>	<u>2,116,420</u>	<u>9,029,445</u>
Cash and Cash Equivalents - End of Year	<u>\$ 104,415</u>	<u>\$ 475,857</u>	<u>\$ 8,050,118</u>	<u>\$ 2,186,697</u>	<u>\$ 10,817,087</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating Income (Loss)	\$ 31,350	\$ 86,000	\$ (366,054)	\$ 110,479	\$ (138,225)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:					
(Increase) Decrease in Accounts Receivable	-	-	-	-	-
(Increase) Decrease in Due from General Fund	-	-	1,154,265	-	1,154,265
Increase (Decrease) in Accounts Payable	5,958	(2,962)	16,070	-	19,066
Increase (Decrease) in Insurance Claims	-	-	459,603	(109,251)	350,352
Increase (Decrease) in Accrued Leave	3,836	-	-	-	3,836
Increase (Decrease) in Restricted Cash	-	-	8,249	25,386	33,635
Transfer (to) from Restricted Cash	-	-	(8,249)	(25,386)	(33,635)
Total Adjustments to Net Income	<u>9,794</u>	<u>(2,962)</u>	<u>1,629,938</u>	<u>(109,251)</u>	<u>1,527,519</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 41,144</u>	<u>\$ 83,038</u>	<u>\$ 1,263,884</u>	<u>\$ 1,228</u>	<u>\$ 1,389,294</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.

CITY OF SALINAS
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2007

	<u>Sherwood Hall Box Office</u>	<u>Sunrise House</u>	<u>Second Chance Youth Program</u>	<u>Cafeteria Plan</u>	<u>Retiree Health Insurance</u>	<u>Business Improvement District</u>	<u>Totals</u>
Assets:							
Cash and Investments	\$ 16,814	\$ 90,270	\$ -	\$ 76,647	\$ 1	\$ 27,354	\$ 211,086
Accounts Receivable	-	-	-	115,025	-	-	115,025
Due from Other Agencies	-	21,539	30,568	-	-	-	52,107
Total Assets	<u>\$ 16,814</u>	<u>\$ 111,809</u>	<u>\$ 30,568</u>	<u>\$ 191,672</u>	<u>\$ 1</u>	<u>\$ 27,354</u>	<u>\$ 378,218</u>
Liabilities:							
Accounts Payable	\$ 8,865	\$ 21,279	\$ 9,557	\$ 150,092	\$ -	\$ -	\$ 189,793
Accrued Leave	-	3,306	10,186	-	-	-	13,492
Due to Outside Agencies	-	-	48,241	-	-	-	48,241
Accrued Liabilities	7,949	87,224	(37,416)	41,580	1	27,354	126,692
Total Liabilities	<u>\$ 16,814</u>	<u>\$ 111,809</u>	<u>\$ 30,568</u>	<u>\$ 191,672</u>	<u>\$ 1</u>	<u>\$ 27,354</u>	<u>\$ 378,218</u>

“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 \$800,343 with expenditures of \$580,225 and a fund balance at June 30, 2007 of \$220,118. The donations were used to maintain skeletal library services from July 1, 2005 through December 31, 2005.

CITY OF SALINAS
Statement of Fiduciary Net Assets
Fiduciary Fund-Rally Salinas
June 30, 2007

	Rally Salinas Private Purpose Trust Fund
Assets:	
Cash and Investments	\$ 220,118
	<hr/>
Total Assets	220,118
	<hr/>
Liabilities:	
Accounts Payable	-
	<hr/>
Total Liabilities	-
	<hr/>
Net Assets:	
Held in trust for Library purposes	\$ 220,118
	<hr/> <hr/>

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, 2007

	Private Purpose Trust Funds
Additions:	
Contributions:	
Private Donations	\$ 706
Total Contributions	706
Investment earnings:	
Interest	-
Net investment earnings	-
Total Additions	706
Deductions:	
Payments on behalf of trustees for Library services	-
Payments on behalf of trustees to Community Foundation for Monterey County's Administrative Services	-
Total Deductions	-
Change in Net Assets	706
Net Assets - Beginning	219,412
Net Assets - Ending	\$ 220,118

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, 2007**

	General Fund	Measure V	Total
Assets:			
Cash and Investments	\$ 18,456,959	\$ 5,903,870	\$ 24,360,829
Taxes Receivable	6,961,514	2,009,449	8,970,963
Accounts Receivable	131,625		131,625
Interest Receivable	373,740	70,007	443,747
Due from Fiduciary Funds	48,241		48,241
Due from Other Funds	4,108,480		4,108,480
Advances to Other Funds:			
Golf Course Fund	3,735,000		3,735,000
Parking District Fund	600,000		600,000
Loans to Others	29,800		29,800
Inventory	12,495		12,495
	<u>\$ 34,457,854</u>	<u>\$ 7,983,326</u>	<u>\$ 42,441,180</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$ 4,531,936	\$ 627,038	\$ 5,158,974
Due to Capital Projects Fund	102,279	986,258	1,088,537
Due to Internal Service Fund			-
	<u>4,634,215</u>	<u>1,613,296</u>	<u>6,247,511</u>
Fund Balance:			
Reserved for:			
Operations	5,200,000		5,200,000
Capital Projects	6,353,900		6,353,900
Capital Projects-Measure V		1,268,732	1,268,732
Encumbrances	577,641	2,296,816	2,874,457
Loans Receivable	29,800		29,800
Advances	4,335,000		4,335,000
Inventory	12,495		12,495
Condemnation Deposits	137,673		137,673
Carry over Appropriations	2,933,918	725,026	3,658,944
Unreserved:			
Designated	7,316,669	2,079,456	9,396,125
Undesignated	2,926,543		2,926,543
	<u>29,823,639</u>	<u>6,370,030</u>	<u>36,193,669</u>
Total Liabilities and Fund Balances	<u>\$ 34,457,854</u>	<u>\$ 7,983,326</u>	<u>\$ 42,441,180</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, 2007

	<u>General Fund</u>	<u>Measure V</u>	<u>Total</u>
Revenues:			
Taxes:			
Sales	\$ 18,209,036	\$	\$ 18,209,036
In-lieu Sales	6,088,153		6,088,153
Transactions and Use Tax		10,279,477	10,279,477
Property	15,183,917		15,183,917
Property-Vehicle License Fees	11,281,580		11,281,580
Utility	8,714,661		8,714,661
Business License	3,928,651		3,928,651
Franchise	3,430,797		3,430,797
Other	1,523,729		1,523,729
Licenses and Permits	25,874		25,874
Intergovernmental	2,983,546		2,983,546
Charges for Services	6,233,568		6,233,568
Interest	1,368,172	210,624	1,578,796
Miscellaneous	378,656	347	379,003
Total Revenues	<u>79,350,340</u>	<u>10,490,448</u>	<u>89,840,788</u>
Expenditures:			
Current:			
General Government	9,992,842	326,248	10,319,090
Public Safety	46,115,234	723,330	46,838,564
Public Works	12,580,781	364,702	12,945,483
Recreation	2,256,889	928,264	3,185,153
Library		2,048,346	2,048,346
Capital Outlay	194,537	57,150	251,687
Total Expenditures	<u>71,140,283</u>	<u>4,448,040</u>	<u>75,588,323</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>8,210,057</u>	<u>6,042,408</u>	<u>14,252,465</u>
Other Financing Sources (Uses):			
Operating Transfers In	1,325,219		1,325,219
Operating Transfers Out	(2,701,024)	(1,875,281)	(4,576,305)
Total Other Financing Sources (Uses)	<u>(1,375,805)</u>	<u>(1,875,281)</u>	<u>(3,251,086)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	6,834,252	4,167,127	11,001,379
Fund Balance at Beginning of Year	<u>22,989,387</u>	<u>2,202,903</u>	<u>25,192,290</u>
Fund Balance at End of Year	<u>\$ 29,823,639</u>	<u>\$ 6,370,030</u>	<u>\$ 36,193,669</u>