

City of Salinas California



Basic Financial Statements

Fiscal Year Ended June 30, 2009

Basic Financial Statements

Fiscal Year Ended June 30, 2009



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City of Salinas

Finance Department • 200 Lincoln Avenue • Salinas, California 93901-2639 • (831) 758-7317

April 13, 2010

***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, 2009. 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, 2009, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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 the 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 152,597, as of January 1, 2009. The City budget includes 626 positions authorized on a full time equivalent basis.

Three elementary school districts, a unified high school district and several private schools at both the primary and secondary level operate at City of Salinas. 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 220 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 three major department stores – Macy's, Sears, Best Buy and J.C. Penney. 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 and in its retail area hosts Home Depot, Beverages and More, Kohl's, Babies-R-U'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

FINANCIAL INFORMATION

The City's management staff is responsible for establishing and maintaining internal controls that safeguard the assets of the government from loss, theft, or misuse and allow the compilation of adequate accounting data for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits and that the evaluation of costs and benefits is subject to management estimates and judgments.

Single Audit

As a recipient of Federal, State and County financial assistance, the City is responsible for providing assurance that adequate internal controls are in place to ensure compliance with applicable laws and regulations relating to these award programs. Internal controls are subject to periodic evaluation by management, the Office of the City Auditor, and the City's outside independent auditors.

As part of the City's single audit procedures, tests are performed to determine the effectiveness of the internal controls over major Federal award programs and the City's compliance with applicable laws and regulations related to these award programs.

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 also uses encumbrance accounting as another technique for accomplishing budgetary control. An encumbrance is a commitment of a future expenditure earmarked for a particular purpose that reduces the amount of budgetary authority available for general spending. At the end of the fiscal year, encumbered appropriations are carried forward and become part of the following year's budget while appropriations that have not been encumbered lapse and are available to be appropriated through the following fiscal year's budget process.

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. The City continues to meet its responsibility for sound financial management as demonstrated by the statements and schedules included in the financial section of this report.

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, 2009 and to provide a financial analysis of City performance.

Capital Assets and Depreciation

As of June 30, 2009, capital assets, including infrastructure assets, of the City of Salinas totaled \$578.0 million; accumulated depreciation totaled \$267.8 million, with the difference providing net capital assets of \$310.2 million. Net capital assets of the City's governmental activities (general government) are \$170.3 million and net capital assets for the City's business-type activities (enterprise funds) are \$139.9 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 FY 2008-09, depreciation expense on capital assets of the City's governmental activities (general government) was \$8.1 million and depreciation expense on capital assets of the City's business-type activities (enterprise funds) was \$6.1 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, 2009, the City had \$98.3 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.

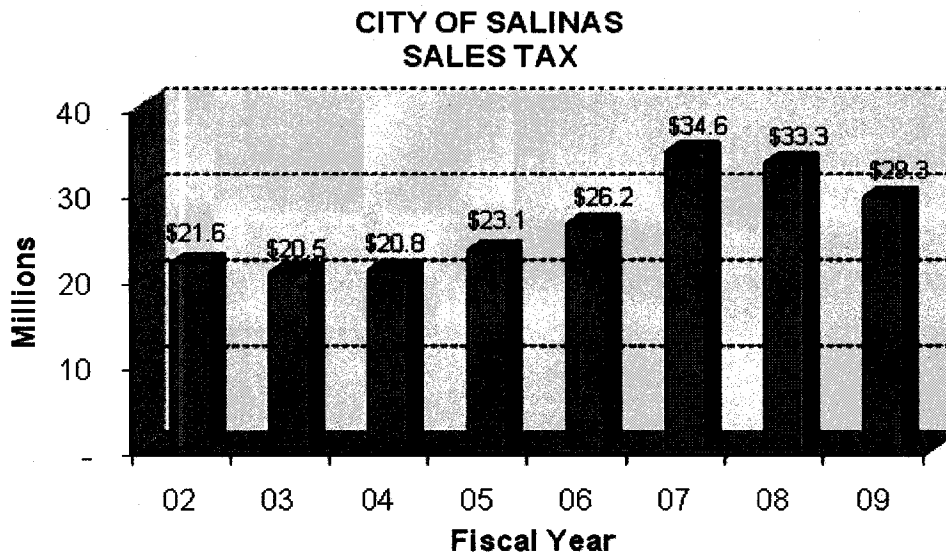
Please refer to the Note 18 for a complete discussion of the City's Long-term Debt.

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, 2009, total revenues for general governmental functions totaled \$113,476,195, a decrease of 4.9% over the previous fiscal year.

Sales Tax

Although the City has a well-diversified economy and sales tax base, Sales tax receipts decreased for the second consecutive year. The Sales tax decreased \$4 million from FY 2007-08. This decline is expected to continue into FY 2010-11 as consumers continue to spend less. Sales Tax was still the largest single category of revenue this fiscal year producing 18.1% of the combined governmental fund type revenues. Transactions and Use Tax (Measure V) represents 7.8% 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 \$29,383,399 or 36.6% of General and Measure V Fund revenues.



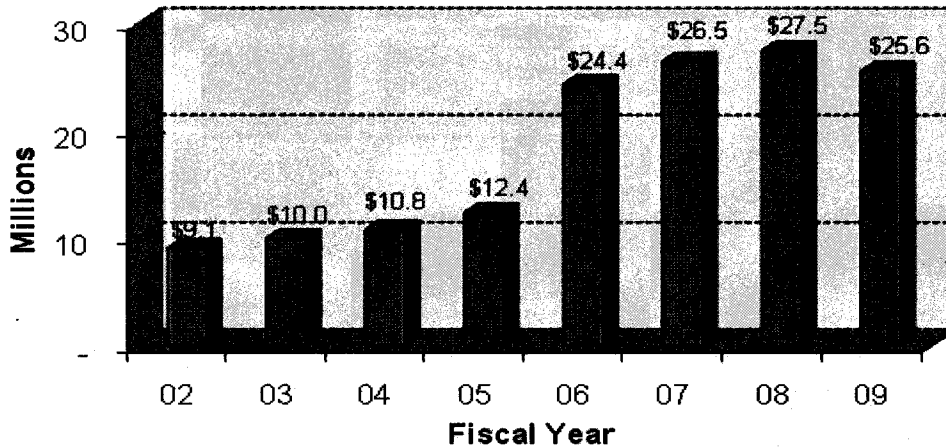
The sales tax and in-lieu sales tax receivable due from the State of California for FY 2008-09 totaled \$3,294,886 and is recorded as revenue for the year ended June 30, 2009.

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.

Property Tax

Property Tax revenue was the second largest source of revenue during this fiscal year, producing 31.8% of General and Measure V Fund revenues. Property Tax revenue includes Property Tax-In-Lieu of VLF (2/3 of vehicle license fees) of \$11,483,389 that is now determined by the City's growth in assessed property values.

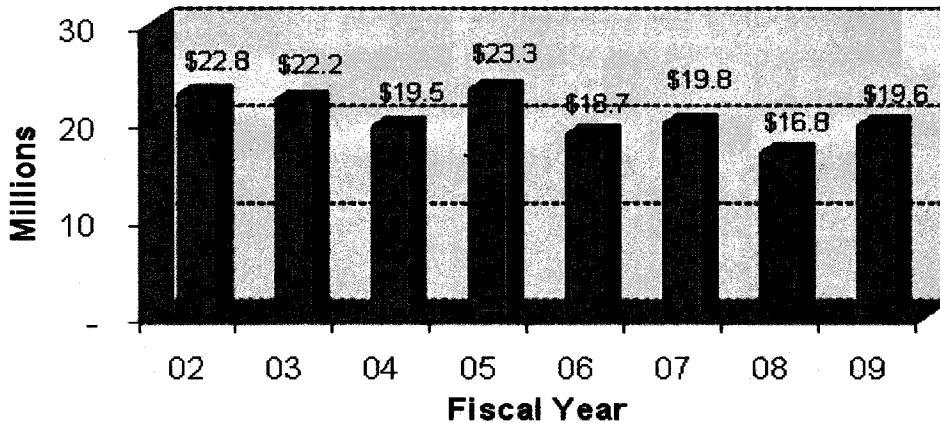
**CITY OF SALINAS
PROPERTY TAX**



Intergovernmental

Intergovernmental revenue was the third largest single category of revenue during the fiscal year producing 17.3% of the combined governmental fund revenues. Intergovernmental revenues consist of Vehicle Licenses Fees (1/3 of VLF), Federal and State Public Safety Funds, Federal Block Grants, State Gas Taxes and Federal and State Construction Grants.

**CITY OF SALINAS
INTERGOVERNMENTAL**



Other Taxes

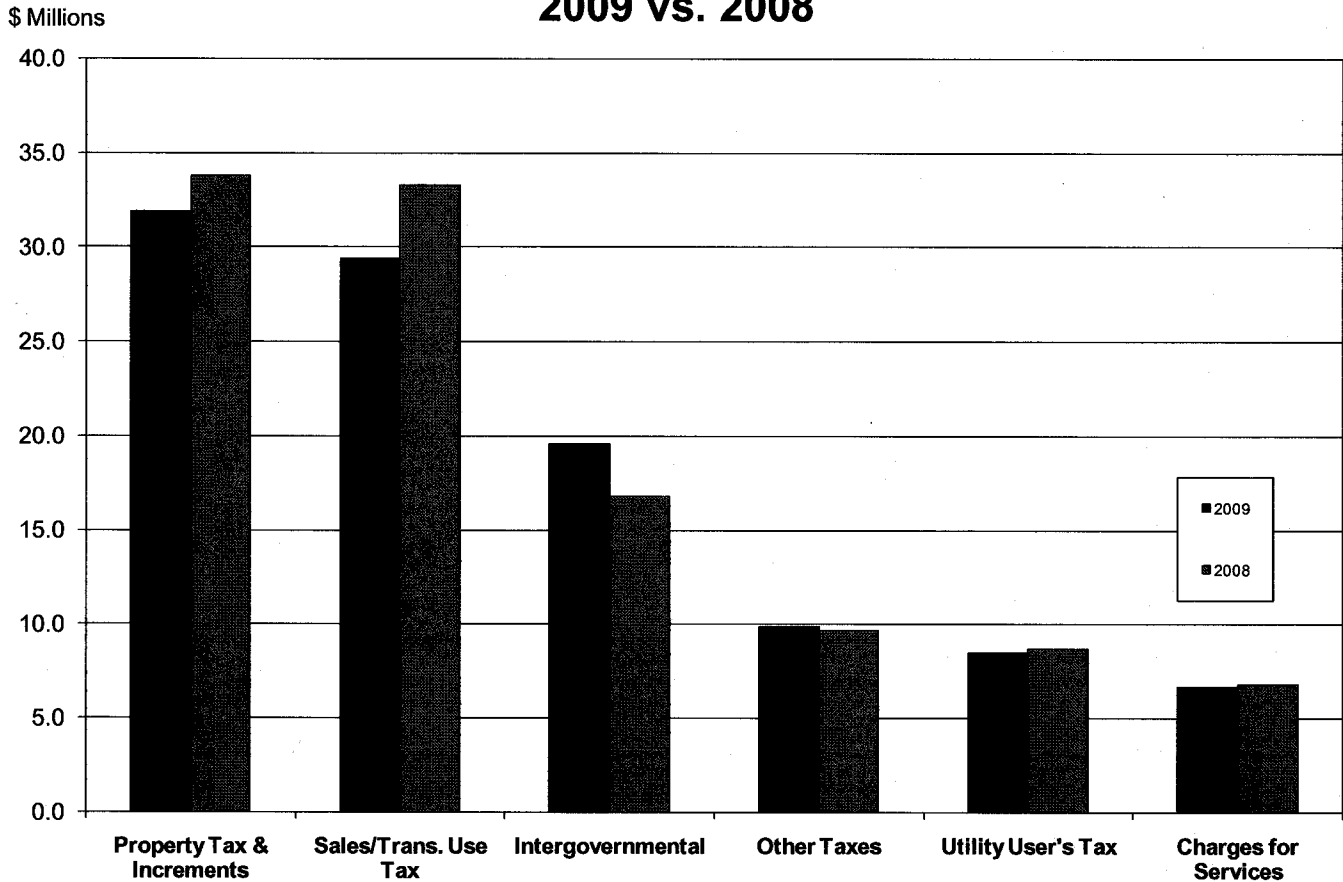
Other Taxes produced 15.9% of the combined governmental fund type revenues. Other Taxes include utility user's tax, business license tax and franchise fees among others.

Taxes receivable total \$6,355,203 for the year ended June 30, 2009 and are further explained in Note 4 to the financial statements.

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

Source of Revenues	2009 Amounts	Percent of Total	2008 Amounts	2008 vs. 2009 Increase/(Decrease)	
				Dollars	Percent
Assessment District:					
Taxes	\$ 3,354,483	2.96%	\$ 3,107,675	\$ 246,808	7.94%
Property Tax	25,539,640	22.51%	27,544,177	(2,004,537)	-7.28%
Property Tax Increment	6,402,803	5.64%	6,212,628	190,175	3.06%
Sales/Transaction & Use Tax	29,383,399	25.89%	33,346,584	(3,963,185)	-11.88%
Intergovernmental	19,596,433	17.27%	16,774,629	2,821,804	16.82%
Other Taxes	9,912,676	8.74%	9,704,802	207,874	2.14%
Utility User's Tax	8,488,643	7.48%	8,696,070	(207,427)	-2.39%
Charges for Service	6,745,068	5.94%	6,839,062	(93,994)	-1.37%
Interest	1,536,602	1.35%	3,452,771	(1,916,169)	-55.50%
Growth/Dev Fees	922,691	0.81%	1,009,939	(87,248)	-8.64%
Miscellaneous	677,202	0.60%	838,194	(160,992)	-19.21%
Fines/Forfeitures	810,740	0.71%	940,301	(129,561)	-13.78%
Developer Contributions	81,725	0.07%	796,218	(714,493)	-89.74%
License & Permits	24,090	0.02%	25,510	(1,420)	-5.57%
TOTAL	\$ 113,476,195	99.99%	\$ 119,288,560	\$ (5,812,365)	-4.87%

General Government Top Six Revenues 2009 vs. 2008



Fund Financial Statements-General Governmental Expenditures

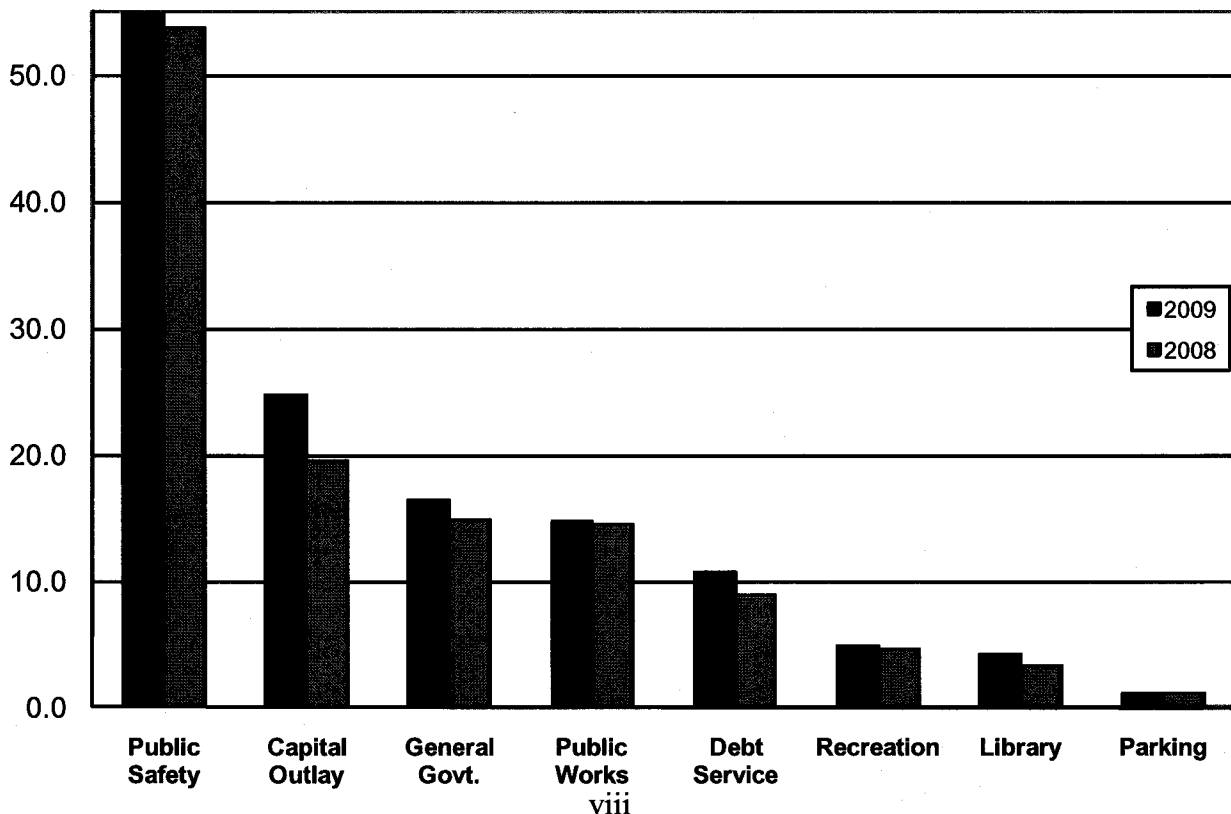
Expenditures for governmental operations during the fiscal year ended June 30, 2009, were \$134,543,163, an increase of 7.4% in operations and a net increase of 11.5% in total expenditures over the previous year.

Changes in expenditures by major function are as follows:

Function	2009	Percent of Total	2008	2008 vs. 2009 Increase/(Decrease)	
				Dollars	Percent
General Government	\$ 16,428,857	12.2%	\$ 14,868,066	\$ 1,560,791	10.5%
Public Safety	57,714,155	42.8%	53,781,883	3,932,272	7.3%
Public Works	14,795,430	11.0%	14,536,489	258,941	1.8%
Recreation	4,828,635	3.6%	4,656,452	172,183	3.7%
Library	4,249,009	3.2%	3,346,075	902,934	27.0%
Parking Structure Debt	1,050,000	0.8%	1,050,000	-	0.0%
Subtotal Operations	99,066,086	73.6%	92,238,965	6,827,121	7.4%
Capital Outlay	24,778,199	18.4%	19,549,703	5,228,496	26.7%
Debt Service:					
Principal	6,870,243	5.1%	5,182,616	1,687,627	32.6%
Interest	2,672,257	2.0%	2,776,676	(104,419)	-3.8%
Steinbeck Center Debt	115,566	0.1%	-	115,566	0%
Pass thru Tax	1,040,812	0.8%	963,417	77,395	8.0%
Total	\$ 134,543,163	100.0%	\$ 120,711,377	\$ 13,831,786	11.5%

General Government Expenditures 2009 vs. 2008

\$ Millions



Operating Expenditures increased by \$6,827,121 or 7.4% from \$92,238,965 in FY 2007-08 to \$99,066,086 in FY 2008-09.

Every expenditures category increased in comparison to the previous year as a result of higher employee costs.

Principal and interest payments increased \$1,776,169 mainly due to the repayment from the Sunset Avenue Area Loan Advance for operations and the recognition of debt related to the Steinbeck Center.

Capital Outlay (Project) expenditures increased \$5,228,496 or 26.7% from \$19,549,703 in FY 2007-08 to \$24,778,199 in FY 2008-09. Capital projects expenditures during FY 2008-09 include: 1) General and Measure V Fund investments of about \$2.9 million in police and fire vehicle replacements, Economic Development and Community Safety Alliance initiatives, and Graffiti Abatement program among other equipment and infrastructure projects. 2) Block Grant investments of over \$0.9 million for projects such as the construction of a new Municipal Pool and street lights and ADA modifications; 3) Development Impact Fee investments of about \$2.1 million of which \$1.1 was dedicated to the West Laurel Drive Widening; 4) Gas Tax investments of over \$1.8 million for street maintenance, traffic signals and NPDES storm drain projects; 5) Federal and State Grants and developer paid investments of over \$11.1 million for cost associated with annexation of future growth areas, construction of the new municipal pool, 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 \$110,445,449 at June 30, 2009.

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, 2009, the Internal Service Funds liabilities for estimated claims payable totaled \$8,855,717, with \$7,531,751 representing Worker's Compensation and \$1,323,966 representing General Liability.

Total Worker's Compensation insurance claims liabilities are \$9,668,244 at June 30, 2009. A portion of the liability is reported in the Internal Service Fund (\$7,531,751) and a portion is treated as long-term debt (\$2,136,493). The long-term debt portion represents future obligations of the Worker's Compensation Plan.

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 \$1,295,741 held by the City for Community Center and Sherwood Hall activities, MRWPCA Fees, Sales Tax, Payroll Taxes, Deposits, Construction Bonds and the like.

Pension Trust Funds held by the City of \$33,068,870 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 \$635,046.

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. 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 (55.75% of investment at FMV) are invested in the State's Local Agency Investment Fund (LAIF). LAIF yielded average returns of 2.32% for fiscal year ended June 30, 2009.

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, 2009 is as follows:

Balance at cost – June 30, 2009	\$ 62,643,035
Unrealized Gain	<u>85,458</u>
Balance at fair value – June 30, 2009	<u>\$ 62,728,493</u>

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

Property Assessment

Assessed valuation of citywide taxable properties declined \$1.1 billion to \$8,966,761,801 representing a decrease of 11.25% over FY 2008-09.

The following table summarizes the growth in assessed valuation.

	Before Redevelopment Increment	After Redevelopment Increment	Percent Change
2009-10	\$ 8,966,761,801	\$ 9,453,409,771	-0.39%
2008-09	10,102,973,741	9,490,709,729	-5.49%
2007-08	10,645,974,648	10,041,676,722	7.11%
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	5.71%
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%

Source: Monterey County Tax Rate Book.

Significant Events and Accomplishments

Highlights of activities and accomplishments for the fiscal year ended June 30, 2009 include the following:

In July 2008, the Council selected the "Boys and Girls Clubs" from several qualified organizations for the renovation, management and maintenance of the former "Church of Nazarene" as the newest Community Resource to serve the Alisal Community.

In August 2008, The City Council approved an amendment to the City Council Districts that paved the way for the annexation of the City's Future Growth Area. The annexation added approximately 2,443 acres. This area consisted of agriculturally cultivated row crops, grazing lands and open space riparian habitat along the Gabilan and Natividad Creeks and their tributaries. During the same month the City approved a Development Agreement in connection with a proposed remodeling of an existing two-story commercial building to include a nightclub and restaurant in the downtown area.

In September 2008, the City engaged in a contract with Rocky Mountain Institute to prepare an assessment of the five Salinas Valley communities (Salinas, Gonzales, Soledad, Greenfield and King City) related to sustainability with emphasis on climate-change mitigation and related economic development.

In October 2008, The City reaffirmed its commitment to provide affordable housing in Salinas by investing over \$2.5 million in the Gateway Apartments project which will provide 52 units to residents earning less than 30% of the Area Median Income and that have special needs. In October the Council accepted a National Leadership Grant in the amount of \$713,899 from the Institute of Museum and Library Services (IMLS) that will contribute to advance the ability of the Salinas Library system to preserve culture, heritage and knowledge while enhancing learning. Another significant event that took place in October was the agreement entered with the Community Partnership for Youth to develop a solution to spiking crime in the community and its effects in their most vulnerable, socio-economically disadvantaged children.

In January 2009, the City Council approved a project planning and negotiating rights to evaluate the City's downtown properties owned by the City or its Redevelopment Agency for potential improving of its public service use while accommodating private development. In January, City Council approved a spending plan of over \$2.2 million of Proposition 1B funds to improve the City's transportation infrastructure.

In February 2009 the City Council approved a three-phased approach to balance the FY 2009-10 budget. Significant declines in General Fund and Measure V revenues impacted negatively the City's budget considerably requiring immediate actions like employee concessions from all groups, and elimination of nineteen vacant positions. Total budget reductions of \$4.9 million were approved. During February the City Council issued a Certificate of Public Convenience and Necessity to American Medical Response West to provide paramedic ambulance transportation to residents of the City. Another significant event in February was the application in the amount of \$5.4 million of Federal Aviation Administration and Economic Stimulus and Recovery funds to construct airport improvement projects.

In March 2009, The City Council approved an amendment to the Police Management Association Memorandum of Understanding to implement a concession of seven and one-half percent from the members of this group as part of the budget balancing plan approved in February 2009. The City received in March a \$2.0 million donation from the Salinas Community Pool Foundation to be used for the ongoing construction of the Salinas Aquatic Center.

In April 2009, the City Council approved amendments to agreements and compensation plans with all miscellaneous employee groups to concessions of ten percent pay reductions through the implementation of a furlough program and the deferral of two future salary increases of 4% each.

In May 2009, the City Council declared a fiscal hardship due to the potential State seizure of local property tax funds under the proposed State budget balancing options to borrow over \$3 million of

property tax and \$1.4 million of Gas Tax funds, in addition to a "take of over \$2.5 million in Redevelopment Agency funds.

In June 2009, Council approved an amendment to the Firefighters Memorandum of Understanding to implement a concession of seven and one-half percent from the members of this group as part of the budget balancing plan approved in February 2009. Also on this month, Council authorized to submit an application to the State Housing and Community Development Neighborhood Stabilization Program for grant funding in the amount of \$2,621,660 to assist in acquiring residential properties that are abandoned or those that have been foreclosed on in the most impacted neighborhoods. A community engagement and volunteer service plan was also approved in June 2009. The focus of the plan was civic engagement and neighborhood collaborative problem solving while connecting community leaders to City resources.

Capital Improvement Projects focused on enhancing Salinas' transportation system by improving traffic operations and safety; adding capacity-increasing improvements to streets and intersections; improving alternative transportation travel for pedestrians, bicyclists, transit users, and motorists. Many projects enhanced the City's image by improving streetscapes; maintaining and upgrading infrastructure such as sidewalks and streets; and providing recreational facilities for our residents. Total investment in Capital projects during the fiscal year was \$24,778,199.

Labor Relations

All employee groups have approved Memorandum of Understandings (MOUs) with the City. Police Management Association (PMA) and Salinas Police Officers Association (SPOA) MOUs will expire December 31, 2009. Fire Supervisors Association (FSA) and International Association of Firefighters (IAFF) MOUs expired June 30, 2009. All other non-safety groups' contracts will expire December 31, 2011.

All non-safety employee groups agreed to defer two four-percent salary adjustments schedule to take place December 2009 and January 2011 for two-years, Police Management and Salinas Police Officers Associations agreed to defer postpone Financing of approved salary adjustments negotiated with all bargaining groups was dependant on normal economic growth and the success of various economic development initiatives anticipated to enhance the City's revenue base. Since that time, the economic out look has changed dramatically with the recession and housing downturn stalling economic development initiatives and development of the future growth area and other residential and commercial developments.

Economic Condition and Fiscal Outlook

Fiscal year 2008-2009 was an extraordinary period of economic turmoil for the country, including the City. Most economists expect the severe economic recession to linger well into calendar year 2010, marked by high unemployment, declines in gross domestic product (GDP), and low consumer confidence levels. A deep global recession has now enveloped the City, as evidenced by increasing job losses, rising unemployment, steep declines in home prices and related declines in property taxes, rising foreclosures, rising commercial property vacancies, and a large drop in development activities. The economic condition is reflected in significant reductions in Sales Tax, Property Tax, Utility Users Tax, and development related fees and taxes. Salinas' June 2009 unemployment rate of 9.9 percent represents a significant increase over the June 2008 unemployment rate of 6.4 percent. In addition, the City's June 2009 unemployment rate was less than the June 2009 statewide rate of 11.6 percent.

Like all local agencies throughout the State, the City of Salinas is facing significant budget shortfalls due to the current recession and decline in property values. Sales tax and property tax have declined over 14% or \$13.4 million from projections made prior to the recession and housing downturn. Over two-thirds of the City's discretionary revenue comes from sales tax, property tax and building related fees.

Since early FY 2009-10, the City embarked on an assessment and study to begin strategizing on ways to eliminate the structural budget deficit, one of the City's top priorities. As part of this effort, the City initiated a budget balancing process even before FY 2008-09 ended. The Plan is a policy guide and an operational blueprint for actions that, if taken, can assist in achieving fiscal stability and organizational sustainability. The Plan outlines specific strategies and timelines to eliminate the General Fund structural budget deficit over a three year timeframe ending in fiscal year 2010-2011. The strategies fall into three separate categories: (1) Cost Savings Strategies including employee concessions; (2) Revenue enhancing Strategies; and, (3) Service Reductions/Eliminations Strategies. Based on the revenue and expenditure projections contained in the Plan, the General Fund structural deficit was expected to total approximately \$12.1 million at June 30, 2011.

During fiscal year 2009-2010, the City conducted a comprehensive community outreach process which included a Council Goal setting Session and a series of three Community Budget meetings to determine the neighborhood revenue and expenditure priorities.

In March 2010, based in part on the input received, the City Council approved a Revised Budget Balancing Plan Framework for fiscal year 2010-2011, closing a funding gap of \$9.8 million through a combination of agreements reached with several employee groups to contain payroll costs and to restore specific City services which would otherwise have been eliminated, service reductions and eliminations including layoffs coupled with revenue increases and funding shifts.

In July 2009, Governor Schwarzenegger signed a State budget that closed California's \$24 billion deficit, with a cumulative impact of approximately \$5.2 million to the City. Under the State budget, the State will borrow approximately \$1.9 billion in property taxes from local governments, resulting in a General Fund loss of about \$2.5 million to the City in fiscal year 2009-2010. In addition, the State will take approximately \$2 billion from Redevelopment Agencies statewide, of which the Salinas Redevelopment Agency's share is approximately \$2.2 million in fiscal year 2009-2010, and another \$0.5 million in fiscal year 2010- 2011. The City participated in a third-party securitization program to sell the City's taxes receivable (with the exception of Redevelopment funds) at face value, which mitigated the negative effects of the "forced loan" action taken by the state.

The City receives 1.5% of the 7.75 % sales and use tax collected on retail sales. One-percent (1%) of the sales tax is credited to the General Fund and the one half-percent (0.5%) use tax is credited to the Measure V Fund. Sales tax has declined six consecutive quarters beginning in April 2007 and is expected to decline the next two quarters ending December 2008 and March 2009. This is a continuing pattern as the City's FY 2007-08 sales tax receipts declined 4.0% or a decline of \$989,619 from collections in FY 2006-07. Overall, the City's annual sales tax estimates for FY 2009-10 is reduced \$5.8 million from projections made in April 2007 (prior to the recession).

The City's property assessed value growth for property tax collections was 10.7% for FY 2004-05, 12.9% for FY 2005-06, and 12.7% for FY 2006-07. The City's property tax growth reflects tax reassessments with the continued buying and selling of existing homes during those years. As anticipated, property assessed value increases slowed to 7.3% for property tax collections in FY 2007-08. On August 7, 2008, the Monterey County Assessor reported that the City's assessed value for FY 2007-08 declined 5.1%. The decline is the result of Proposition 8 that requires counties to revalue properties when property values are rapidly declining. Additionally, with the continued decline of housing prices since January 1, 2008, the Monterey County Assessor estimates an additional 5% property tax decline in FY 2009-10. Overall, the City's annual property tax estimates for FY 2009-10 is reduced \$5.2 million from projections made in April 2007 (prior to the housing downturn).

Plan check fees and building permit collections have declined as follows: FY 2006-07 actual collections of \$2,073,841, FY 2007-08 actual collections of \$1,237,447 and FY 2008-09 revised estimate of \$800,000, a decline of 35% from the prior year. FY 2008-09 revenue estimates for plan check fees and building permits are reduced \$500,000 or about 40% from original estimates. Building related fees are projected to remain flat in FY 2009-10.

The significant decline in these major revenue sources and impacts to the City's budget is serious

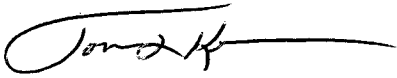
and the City Council will take immediate action to keep the City solvent.

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, Erika Rodriguez and James DeVincenzi. 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.

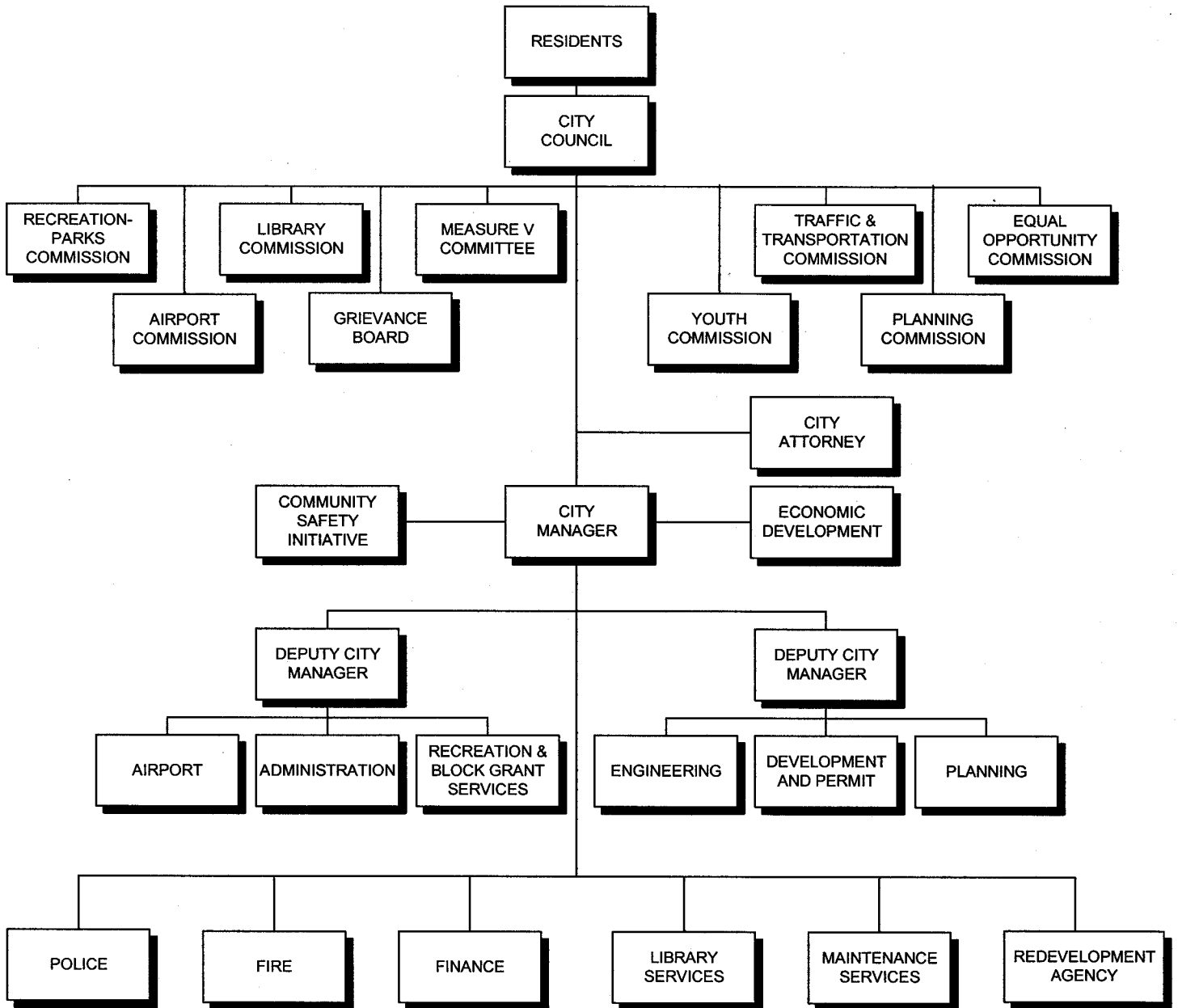
Sincere appreciation is also expressed to the City Manager and members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tom L. Kever", with a long horizontal flourish extending to the right.

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

Gloria De La Rosa
Councilmember
District 4

Tony Barrera
Councilmember
District 2

Steven Villegas
Councilmember
District 5

Janet Barnes
Councilmember
District 3

Jyl Lutes
Councilmember
District 6

Artie Fields
City Manager

Vanessa Vallarta
City Attorney

Jeffrey Weir
Economic Development Director

Rob Russell
Engineering/Transportation Director

Louis Fetherolf
Police Chief

Kim Raddatz
Fire Chief

Tom Kever
Director of Finance

Alan Stumpf
Community Development Director

Jim Pia
Parks/Community Service Director

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 Major and City Council
City of Salinas, 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, 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. The financial statements of the fiduciary funds – the private-purpose trust funds, the pension trust funds and the agency funds were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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

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

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, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress – retirement programs, and claims development – self-insurance programs as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and

comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

McGilloway, Ray, Brown & Kaufman

March 30, 2010



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CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2009

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, 2009. 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, 2009, the City's net assets (excess of assets over liabilities) were \$311.6 million. Of this amount, \$17.5 million are unrestricted assets.
- During the fiscal year ended June 30, 2009, the City's total net assets decreased by \$9.5 million. This change results from a decrease of \$4.3 million in governmental activities net assets and a decrease of \$5.2 million in business-type activities net assets.
- During the fiscal year governmental funds fund balances decreased \$16.9 million to \$73.9 million, of which \$35.5 million is reserved and thus unavailable.
- During the fiscal year the General Fund and Measure V fund balance decreased \$11.3 million (12.6% of operating expenditures) to \$18.0 million of which \$6.2 million is reserved. Unreserved General Fund and Measure V fund balance of \$11.8 million includes designated funds (\$9.5 million) and undesignated (carryover) funds (\$2.3 million).
- The City's total long-term liabilities decreased by \$2.8 million during the current fiscal year. The decrease is the result of regularly schedule debt service repayments in both governmental and business-type activities.
- The City's capital assets, net of depreciation, increased \$2.7 million to \$310.2 million.

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.

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.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2009

B. OVERVIEW OF FINANCIAL STATEMENTS: (Continued)

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, changes 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 expendable resources as well as balances of expendable 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 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 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.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2009

B. OVERVIEW OF FINANCIAL STATEMENTS: (Continued)

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 non-major 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 \$311.6 million, which is a decrease of \$9.6 million (2.9%) from the prior year.

At June 30, 2009, the largest portion of net assets (72.4%) 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

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS:(Continued)

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.

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2009 and 2008.

**City of Salinas
Condensed Statements of Net Assets
June 30, 2009**

	Governmental Activities		Business-type Activities		Total		Percent of Total
	2009	2008	2009	2008	2009	2008	
Assets:							
Current Assets	\$ 83,696,017	\$106,616,384	\$ 11,871,338	\$ 13,008,806	\$ 95,567,355	\$119,625,190	21.1 %
Other Assets	42,792,743	36,851,336	1,322,154	1,318,485	44,114,897	38,169,821	9.7 %
Capital Assets, Net	173,748,921	165,664,420	139,950,363	144,470,493	313,699,284	310,134,913	69.1 %
Total Assets	300,237,681	309,132,140	153,143,855	158,797,784	453,381,536	467,929,924	100.0 %
Liabilities:							
Current Liabilities	10,074,254	9,097,298	1,034,201	932,010	11,108,455	10,029,308	7.8 %
Other Liabilities	32,960,217	36,361,935	-	-	32,960,217	36,361,935	23.2 %
LTD - Annual Leave	6,134	23,916	267,509	269,664	273,643	293,580	0.2 %
LTD - Due in one year	5,588,721	5,226,665	1,190,254	1,362,307	6,778,975	6,588,972	4.8 %
Long-term Liabilities	50,494,790	52,990,384	40,206,442	40,541,141	90,701,232	93,531,525	64.0 %
Total Liabilities	99,124,116	103,700,198	42,698,406	43,105,122	141,822,522	146,805,320	100.0 %
Net Assets:							
Invested in Capital Assets, Net of Related Debt	127,173,880	116,367,342	98,553,667	102,567,045	225,727,547	218,934,387	72.5 %
Restricted	65,445,351	66,135,312	2,871,048	3,200,449	68,316,399	69,335,761	21.9 %
Unrestricted	8,494,334	22,929,288	9,020,734	9,925,168	17,515,068	32,854,456	5.6 %
Total Net Assets	\$201,113,565	\$205,431,942	\$110,445,449	\$115,692,662	\$311,559,014	\$321,124,604	100.0 %

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2009

Statement of Activities

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2009 and 2008:

City of Salinas						
Condensed Statement of Activities and Changes in Net Assets						
For the Fiscal Year Ended June 30, 2009						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for Services	\$ 6,583,907	\$ 6,817,445	\$ 5,776,904	\$ 6,745,452	\$ 12,360,811	\$ 13,562,897
Operating Grants & Contributions	12,261,460	12,290,965	591,989	639,046	12,853,449	12,930,011
Capital Grants & Contributions	13,580,524	12,103,863	1,014,929	941,654	14,595,453	13,045,517
General Revenues:						
Taxes	79,939,018	85,094,558	-	-	79,939,018	85,094,558
Licenses & Permits	24,090	25,510	-	-	24,090	25,510
Grants & Contributions						
not Restricted	449,809	667,571	-	-	449,809	667,571
Unrestricted Investment Earnings	672,387	1,732,334	419,483	711,538	1,091,870	2,443,872
Gain (Loss) on Disposal of Assets	77,600	93,204	-	-	77,600	93,204
Land Deeded and Sales Proceeds	-	122,176	-	-	-	122,176
Loans Receivable Forgiven	(36,000)	(36,000)	-	-	(36,000)	(36,000)
General Fund Advance Forgiven		(4,385,000)		4,385,000	-	-
Miscellaneous	242,683	351,171	-	-	242,683	351,171
Total Revenues	113,795,478	114,877,797	7,803,305	13,422,690	121,598,783	128,300,487
Expenses						
General Government	13,124,888	15,040,191	1,593,205	1,502,845	14,718,093	16,543,036
Public Safety	60,968,393	57,354,690	-	-	60,968,393	57,354,690
Public Works	30,763,773	26,606,330	10,264,996	9,799,502	41,028,769	36,405,832
Recreation	5,714,713	5,430,624	1,548,245	2,569,645	7,262,958	8,000,269
Library	4,551,007	3,559,387	-	-	4,551,007	3,559,387
Interest	2,635,153	2,763,901	-	-	2,635,153	2,763,901
Total Expenses	117,757,927	110,755,123	13,406,446	13,871,992	131,164,373	124,627,115
Increase in Net Assets before Transfers	(3,962,449)	4,122,674	(5,603,141)	(449,302)	(9,565,590)	3,673,372
Transfers	694,072	514,496	(694,072)	(514,496)	-	-
Increase in Net Assets	(3,268,377)	4,637,170	(6,297,213)	(963,798)	(9,565,590)	3,673,372
Net Assets - Beginning of Year	205,431,942	201,844,772	115,692,662	115,606,460	321,124,604	317,451,232
Transfer Parking Net Assets to Business-type Activities	(1,050,000)	(1,050,000)	1,050,000	1,050,000	-	-
Net Assets - Ending	\$201,113,565	\$205,431,942	\$110,445,449	\$115,692,662	\$311,559,014	\$321,124,604

CITY OF SALINAS
 Management's Discussion and Analysis
 Fiscal Year ended June 30, 2009

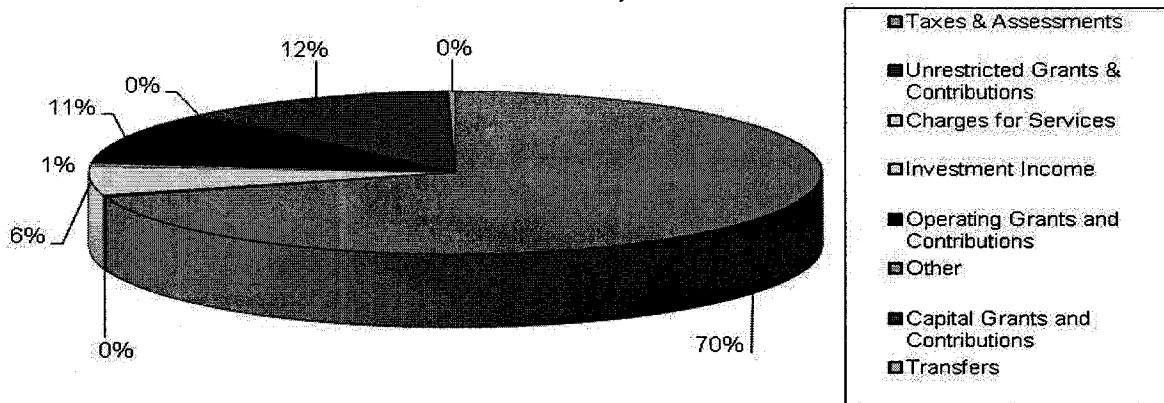
GOVERNMENT-WIDE FINANCIAL ANALYSIS: (Continued)

Total revenues decreased \$6.7 million and total expenditures increased \$9.1 million. Further analysis is provided within the governmental and business-type activities sections.

Governmental Activities

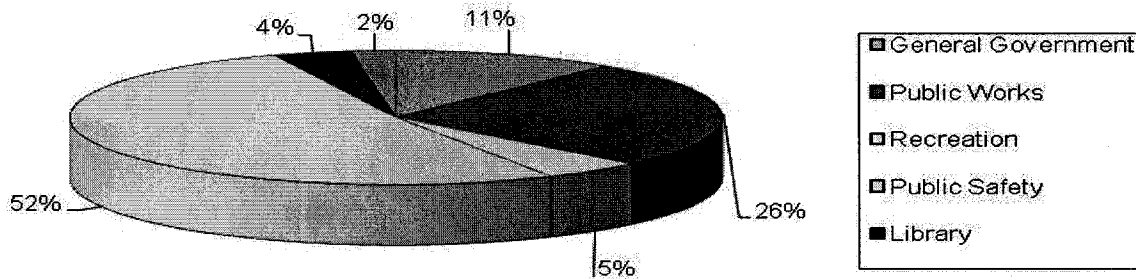
Governmental activities resources total \$113.4 million including revenues of \$113.8 million and transfers-out of \$0.4 million. The City's governmental activities decreased net assets by \$6.9 million. The following charts highlight the sources of revenues and purpose of expenses:

**Governmental Activities
 Revenues by Source
 June 30, 2009**



Total expenses for governmental activities were \$120.4 million including interest on long-term debt of \$2.6 million. Total expenditures that were funded by tax revenues, investment income and other general revenues were \$87.9 million.

**Governmental Activities
 Expenses by Function/Program
 June 30, 2009**



CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2009

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS: (Continued)

Governmental Activities, Continued

Functional expenses for the year ended June 30, 2009 were as follows:

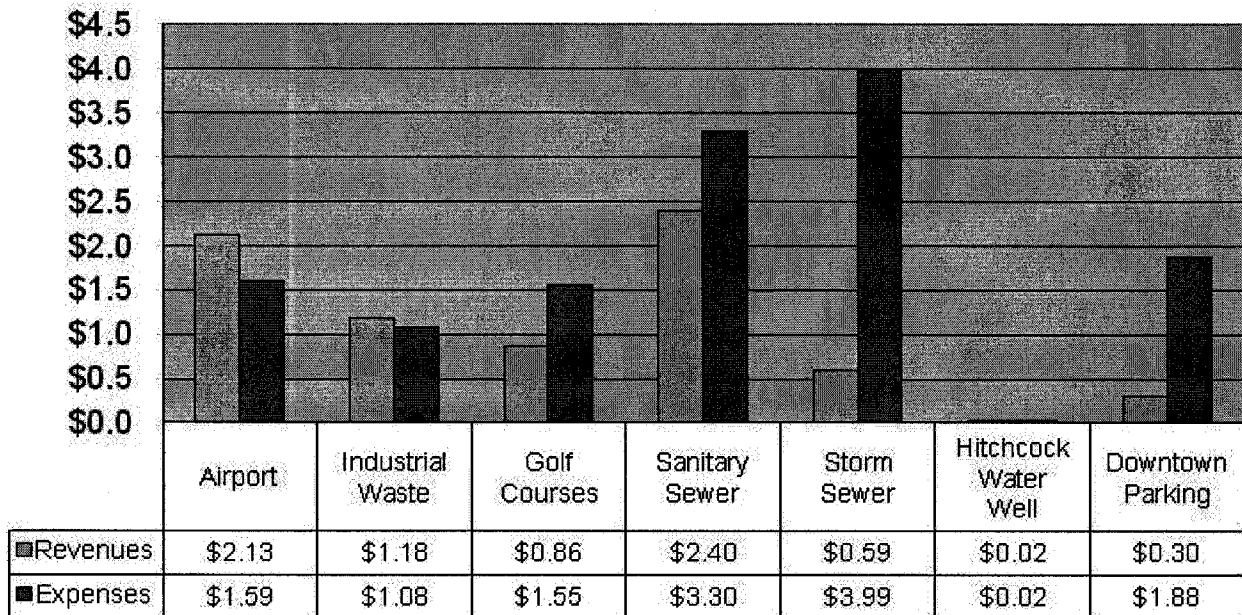
	<u>Total Cost of Services</u>	<u>Percent</u>	<u>Net Cost of Services</u>	<u>Percentage</u>
	<u>2009</u>	<u>2009</u>	<u>2009</u>	<u>2009</u>
Public Safety	\$ 60,968,393	51.8%	\$ 57,590,073	65.5 %
Public Works	30,763,773	26.1%	15,433,246	17.5 %
General Government	13,124,888	11.1%	3,253,465	3.7 %
Recreation	5,714,713	4.9%	4,885,548	5.6 %
Library	4,551,007	3.9%	4,137,822	4.7 %
Interest on long term debt	2,635,153	2.2%	2,635,153	3.0 %
Total	\$ 117,757,927	100 %	\$ 87,935,307	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 \$87.9 million.

Business Type Activities

The City's business-type activities net assets were \$110.4 million, a decrease of \$5.2 million from the prior fiscal year. Total program revenues for business-type activities were \$7.4 million. The largest program revenues were charges for services of \$5.8 million. Other program revenues included operating/capital grants and contributions of \$1.6 million. Total expenses for the business-type activities were \$13.4 million during FY 2008-09.

**Business Type Activities
Revenues, Expenses (in millions)
June 30, 2009**



CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2009

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 current fiscal year, the City's governmental funds reported combined ending fund balances of \$73.9 million. Of this amount, \$35.5 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 \$38.4 million, and are available for spending. Unreserved fund balances include General/Measure V Fund of \$11.8 million, Special Revenue Funds of \$22.2 million and Capital Projects Funds of \$4.4 million.

The General Fund is the chief operating fund of the City. The General Fund fund balance decreased by \$10.4 million in FY 2008-09 to \$13.5 million, of which \$6.2 million is reserved, \$1.1 million is undesignated and \$6.2 million is designated for subsequent years' expenditures. The designated fund balance of \$6.2 million 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 \$1.1 million is available for allocation and expenditure at June 30, 2009. General Fund reserves available for expenditure at June 30, 2009 total \$2.1 million, including the operating reserve of \$1.0 million, and the capital projects reserve of \$1.1 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 decreased by \$0.9 million in FY 2008-09 to \$4.5 million, of which \$1.2 million is undesignated and \$3.3 million is designated for subsequent years' expenditures.

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

The final amended General Fund and Measure V budget, including transfers out and advances, totaled \$95.5 million.

Significant Appropriations Increases/Decreases:

- Decrease in Transfers Out for capital projects \$2.6 million.

General Fund reserves available for expenditure at June 30, 2009 is \$2.1 million, inclusive of a capital projects reserve \$1.1 million and an operating reserve of \$1.0 million. The Unreserved General Fund balance available for expenditure at June 30, 2009 is \$7.4 million including \$6.2 million of designated funds and \$1.1 million of undesignated funds. The City's budget projections assume the \$2.1 million reserves and the \$7.7 million of unreserved funds will be mostly exhausted as expenses will exceed revenues during the fiscal year ended June 30, 2010.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2009

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets Including Infrastructure

The following is a summary of the City's capital assets as of June 30, 2009 and 2008.

City of Salinas' Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 22,674,022	\$ 22,079,133	\$ 3,629,739	\$ 3,629,739	\$ 26,303,761	\$ 25,708,872
Buildings	30,000,867	27,715,170	27,042,814	26,141,633	57,043,681	53,856,803
Improvements	11,224,091	10,208,470	15,202,866	15,202,866	26,426,957	25,411,336
Equipment	23,061,444	21,909,584	6,784,836	6,759,052	29,846,280	28,668,636
Infrastructure	211,272,792	205,658,057	213,284,032	213,284,032	424,556,824	418,942,089
Construction in Progress	12,470,550	7,911,076	1,370,220	733,817	13,840,770	8,644,893
	310,703,766	295,481,490	267,314,507	265,751,139	578,018,273	561,232,629
Accumulated Depreciation	(140,403,675)	(132,408,778)	(127,364,144)	(121,280,646)	(267,767,819)	(253,689,424)
	\$ 170,300,091	\$ 163,072,712	\$ 139,950,363	\$ 144,470,493	\$ 310,250,454	\$ 307,543,205

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, 2009, net capital assets of the governmental activities totaled \$170.3 million and the net capital assets of the business-type activities totaled \$139.9 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 \$15.2 million of capital assets during the year. The acquisitions include \$5.6 million in infrastructure improvements, \$4.6 million in construction in progress, \$1.2 million in machinery and equipment and \$3.8 million in improvements, buildings and land.

Business-type activities acquired \$1.6 million of capital assets during the year. The Federal Aviation contributed \$0.9 million to the Airport Fund while the Airport itself dedicated \$0.5 million for Airport buildings and construction in progress. Other additions of capital assets were routine replacements of current capital assets.

Long-Term Obligations

As of June 30, 2009, the City had \$98,283,241 in long-term debt composed of \$98,115,575 from governmental and business-type activities, and \$167,666 from fiduciary annual leave.

City of Salinas' Outstanding Debt

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Annual Leave	\$ 9,049,424	\$ 8,425,527	\$ 267,509	\$ 269,664	\$ 9,316,933	\$ 8,695,191
Estimated Insurance Claims	2,136,493	1,075,567	-	-	2,136,493	1,075,567
Net Pension Obligation	45,297	51,663	-	-	45,297	51,663
Capital Leases	1,115,502	1,310,453	816,696	997,205	1,932,198	2,307,658
Loans and Notes	471,184	319,530	-	-	471,184	319,530
Revenue Bonds	-	-	12,830,000	13,205,000	12,830,000	13,205,000
Tax Allocation Bonds	8,403,470	9,159,468	-	-	8,403,470	9,159,468
Certificates of Participation	14,110,000	14,573,757	27,750,000	27,701,243	41,860,000	42,275,000
Assessment District Bonds	21,120,000	23,325,000	-	-	21,120,000	23,325,000
	\$ 56,451,370	\$ 58,240,965	\$ 41,664,205	\$ 42,173,112	\$ 98,115,575	\$ 100,414,077

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2009

Further details on the City of Salinas' long-term debt can be found in Note 18 to the financial statements.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

On June 30, 2009, the City Council was presented and reviewed a recommended two-year operating budget (FY 2009-10 and FY 2010-11) for the City of Salinas and Salinas Redevelopment Agency. The Salinas City Council and Salinas Redevelopment Agency unanimously adopted FY 2009-10 Annual Operating Budgets on that day. An updated Six-Year Capital Improvement Budget for FY 2009-10 was also adopted on June 30, 2009. The FY 2009-10 combined General Fund/Measure V appropriations exceeded estimated revenues by \$9.0 million. This budget shortfall is being paid with reserves that will be exhausted by the end of FY 2009-10. Also on June 30, 2009 the City Council directed staff to develop a General Fund/Measure V budget balancing plan for FY 2010-11, inclusive of service level reductions and new revenue alternatives. On February 17, 2010, City Council's Finance Committee reviewed mid-year revenue estimates that included additional revenue declines in property tax, utility users' tax, investment earnings and other revenue totaling \$800,000. Overall annual revenues were down 19.7% or \$18.4 million from projections made prior to the recession and housing downturn. These revenue declines increased the budget shortfall in FY 2010-11 from \$9.5 million to \$10.3 million. On March 2, 2010, the Monterey County Tax Assessor provided a report on assessed property values to the City Council. The tax assessor expects a 10% decline in assessed property values in the City of Salinas for calendar year 2009. Based on this information, property tax estimates for FY 2010-11 have been reduced \$2.1 million, increasing the budget shortfall to \$12.4 million. To mitigate the revenue decline during the FY 2009-10, staff implemented a hiring freeze for all City departments. Approved budget/service reductions for FY 2010-11 total \$9.8 million or 11.2% of the General Fund/Measure V budgets and included 79 full time positions. Additional budget reductions will be required to balance the FY 2010-11 budget. See Note 24, Subsequent Events for discussion of the City's current budget balancing plan.

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.

BASIC FINANCIAL STATEMENTS



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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**



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CITY OF SALINAS
STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and Investments	\$ 66,119,784	\$ 4,482,560	\$ 70,602,344
Cash and Investments Restricted	4,289,161	2,882,399	7,171,560
Taxes Receivable	6,965,014		6,965,014
Accounts Receivable	295,573	885,856	1,181,429
Interest Receivable	644,781	13,231	658,012
Due from Other Agencies	5,279,152	3,709,274	8,988,426
Due from Other Funds	102,552	(101,982)	570
Short-term Internal Balances			-
Long-term Internal Balances	1,185,000	(1,185,000)	-
Assessments Receivable	19,030,000		19,030,000
Loans Receivable	20,119,583		20,119,583
Inventory	18,266		18,266
Deferred Charges	2,439,894	2,507,154	4,947,048
Capital Assets:			
Land and Nondepreciable Assets	35,144,572	4,999,959	40,144,531
Depreciable Assets-Net	135,155,519	134,950,404	270,105,923
Land Held for Resale	3,448,830		3,448,830
Total Assets	300,237,681	153,143,855	453,381,536
Liabilities:			
Accounts Payable	9,208,612	357,850	9,566,462
Accrued Leave	6,134	267,509	273,643
Prepaid Deposits		5,517	5,517
Matured Bonds & Interest Payable	5,358		5,358
Accrued Interest Payable	860,284	670,834	1,531,118
Deferred Revenues	21,494,085		21,494,085
Insurance Claims Payable	8,855,717		8,855,717
Net OPEB Obligation	2,744,197		2,744,197
Unamortized Discount on Bonds	(133,782)		(133,782)
Long Term Debt-Due Within One Year	5,588,721	1,190,254	6,778,975
Long Term Debt-Due in More than One Year	50,494,790	40,206,442	90,701,232
Total Liabilities	99,124,116	42,698,406	141,822,522
Net Assets:			
Invested in Capital Assets, Net of Related Debt	127,173,880	98,553,667	225,727,547
Restricted for:			
Housing	24,053,954		24,053,954
Capital Projects	11,717,937		11,717,937
Highways and Streets	17,404,370		17,404,370
Debt Service	11,458,399	2,882,399	14,340,798
Special Programs	810,691		810,691
Total Restricted Assets	65,445,351	2,882,399	68,327,750
Unrestricted	8,494,334	9,009,383	17,503,717
Total Net Assets	\$ 201,113,565	\$ 110,445,449	\$ 311,559,014

The accompanying notes are an integral part of this statement.

**CITY OF SALINAS
STATEMENT OF ACTIVITIES
FOR FISCAL YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 13,124,888	\$ 4,676,231	\$ 5,185,999	\$ 9,193
Public Safety	60,968,393	1,238,602	2,123,098	16,620
Public Works	30,763,773	21,515	4,394,239	13,518,045
Recreation	5,714,713	624,227	204,938	
Library	4,551,007	23,332	353,187	36,666
Interest on long-term debt	2,635,153			
Total Governmental Activities	117,757,927	6,583,907	12,261,461	13,580,524
Business-Type Activities:				
Airport	1,593,205	1,168,602	16,828	938,050
Industrial Waste	1,077,992	1,149,392		
Golf Courses	1,548,245	272,090	575,000	
Sanitary Sewer	3,303,382	2,367,785	161	
Storm Sewer	3,988,127	498,267		76,879
Water Utility	18,430	22,023		
Downtown Parking	1,877,065	298,745		
Total Business-Type Activities	13,406,446	5,776,904	591,989	1,014,929
Total Primary Government	\$ 131,164,373	\$ 12,360,811	\$ 12,853,450	\$ 14,595,453

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
\$ (3,253,465)	\$	\$ (3,253,465)
(57,590,073)		(57,590,073)
(12,829,974)		(12,829,974)
(4,885,548)		(4,885,548)
(4,137,822)		(4,137,822)
(2,635,153)		(2,635,153)
<u>(85,332,035)</u>		<u>(85,332,035)</u>
	530,275	530,275
	71,400	71,400
	(701,155)	(701,155)
	(935,436)	(935,436)
	(3,412,981)	(3,412,981)
	3,593	3,593
	<u>(1,578,320)</u>	<u>(1,578,320)</u>
	<u>(6,022,624)</u>	<u>(6,022,624)</u>
<u>(85,332,035)</u>	<u>(6,022,624)</u>	<u>(91,354,659)</u>
79,939,018		79,939,018
24,090		24,090
449,809		449,809
672,387	419,483	1,091,870
242,682		242,682
77,600		77,600
(36,000)		(36,000)
(1,050,000)	1,050,000	-
694,072	(694,072)	-
<u>81,013,658</u>	<u>775,411</u>	<u>81,789,069</u>
(4,318,377)	(5,247,213)	(9,565,590)
<u>205,431,942</u>	<u>115,692,662</u>	<u>321,124,604</u>
<u>\$ 201,113,565</u>	<u>\$ 110,445,449</u>	<u>\$ 311,559,014</u>



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FUND FINANCIAL STATEMENTS

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, 2009**

	General and Measure V	Housing & Urban Development	Development Fees
Assets:			
Cash and Investments	\$ 14,433,589	\$ 226,913	\$ 18,331,977
Cash and Investments- Restricted	200,612	-	-
Taxes Receivable	6,355,203	-	-
Accounts Receivable	108,995	-	61,651
Interest Receivable	84,579	203	64,076
Assessments Receivable	-	-	-
Due from Other Agencies	-	874,406	-
Due from Fiduciary Funds	-	-	-
Due from Other Funds	2,610,513	-	-
Advances to Other Funds	1,185,000	-	-
Loans Receivable	29,800	12,239,719	-
Inventory	18,266	-	-
Land Held for Resale	-	-	-
Total Assets	\$ 25,026,557	\$ 13,341,241	\$ 18,457,704
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$ 6,207,423	\$ 140,635	\$ -
Due to Other Funds	773,578	734,605	134,408
Advance from Other Funds	-	-	-
Deferred Revenues	-	12,239,719	-
Matured Bonds & Interest Payable	-	-	-
Total Liabilities	6,981,001	13,114,959	134,408
Fund Balances:			
Reserved for:			
Operations	1,034,987	-	-
Capital Projects	1,139,600	-	-
Capital Projects-Measure V	-	-	-
Encumbrances	403,216	615,717	185,749
Loans Receivable	29,800	-	-
Advances	1,185,000	-	-
Inventory	18,266	-	-
Condemnation Deposits	55,100	-	-
Carryover Appropriations	2,344,913	-	-
Future Budgets	-	-	-
Land Held for Resale	-	-	-
Parking Structure	-	-	-
Plaza Grande Operations	-	-	-
Debt Service	-	-	-
Reported in SR			
Reported in CP			
Unreserved, reported in:			
General Fund			
Designated	9,520,704	(389,435)	18,137,547
Undesignated	2,313,970	-	-
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Total Fund Balances	18,045,556	226,282	18,323,296
Total Liabilities and Fund Balances	\$ 25,026,557	\$ 13,341,241	\$ 18,457,704

<u>Construction Assistance</u>	<u>Assessment District Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 857,668	\$ 2,919,372	\$ 19,586,108	\$ 56,355,627
1,419,188	5,358	2,587,686	4,212,844
-	-	-	6,355,203
-	-	124,027	294,673
10,535	-	453,807	613,200*
-	19,030,000	-	19,030,000
2,979,441	-	1,425,305	5,279,152
-	-	-	-
-	-	1,398,144	4,008,657
-	-	43,781	1,228,781
-	-	7,850,064	20,119,583
-	-	-	18,266
-	-	3,448,830	3,448,830
<u>\$ 5,266,832</u>	<u>\$ 21,954,730</u>	<u>\$ 36,917,752</u>	<u>\$ 120,964,816</u>
\$ 1,044,174	\$ 250	\$ 1,740,895	\$ 9,133,377
2,341,873	-	613,110	4,597,574
-	-	43,781	43,781
1,610,369	19,030,000	399,295	33,279,383
-	5,358	-	5,358
<u>4,996,416</u>	<u>19,035,608</u>	<u>2,797,081</u>	<u>47,059,473</u>
-	-	-	1,034,987
-	-	-	1,139,600
-	-	1,178,846	2,383,528
-	-	7,491,863	7,521,663
-	-	43,781	1,228,781
-	-	-	18,266
-	-	-	55,100
-	-	1,043,919	3,388,832
-	-	1,950,500	1,950,500
-	-	1,657,553	1,657,553
-	-	-	-
-	-	298,300	298,300
-	2,919,122	8,539,277	11,458,399
-	-	395,278	395,278
448,286	-	2,494,894	2,943,180
-	-	-	27,268,816
(177,870)	-	-	2,136,100
-	-	4,572,950	4,572,950
-	-	4,453,510	4,453,510
<u>270,416</u>	<u>2,919,122</u>	<u>34,120,671</u>	<u>73,905,343</u>
<u>\$ 5,266,832</u>	<u>\$ 21,954,730</u>	<u>\$ 36,917,752</u>	<u>\$ 120,964,816</u>

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

Total Fund Balances - Total Governmental Funds	\$ 73,905,343
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	170,300,091
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	(860,284)
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	11,785,298
Taxes receivable not collectible within sixty days	609,811
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	1,627,338
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet	(55,949,729)
Net Other Post Employment Benefit Obligation (OPEB)	(2,744,197)
Deferred charges for bond issuance costs are not reported in the Governmental Funds Balance Sheet	<u>2,439,894</u>
Net Assets of Governmental Activities	<u>\$ 201,113,565</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, 2009

	<u>General and Measure V</u>	<u>Housing & Urban Development</u>	<u>Development Fees</u>
Revenues:			
Taxes	\$ 72,926,404	\$ -	\$ -
Taxes - Special Assessment		-	-
Licenses and Permits	24,090	-	-
Intergovernmental	1,554,046	4,558,299	-
Charges for Services	5,046,103	-	922,691
Interest	532,122	1,270	444,523
Rental Income	-		
Fines and Forfeits	-	-	-
Developer Contributions	-	-	-
Miscellaneous	289,735	123,543	-
Total Revenues	<u>80,372,500</u>	<u>4,683,112</u>	<u>1,367,214</u>
Expenditures:			
Current:			
General Government	12,204,038	3,821,469	-
Public Safety	54,694,654	-	-
Public Works	14,795,430	-	-
Recreation	3,777,805	-	-
Library	3,997,758	-	-
Parking Structure Debt	-	-	-
Capital Outlay	49,654	-	-
Debt Service:			
Principal Retirement	-	-	-
Interest and Fiscal Charges	-	-	-
Steinbeck Center Debt			
Pass Through Tax	-	-	-
Total Expenditures	<u>89,519,339</u>	<u>3,821,469</u>	<u>-</u>
Excess (Deficiency) of			
Revenues Over (Under) Expenditures	<u>(9,146,839)</u>	<u>861,643</u>	<u>1,367,214</u>
Other Financing Sources (Uses):			
Loan Proceeds	-	-	-
Loans Receivable Forgiven	-	-	-
Advance from SRA to Steinbeck	-	-	-
Operating Transfers In	2,100,000	-	-
Operating Transfers Out	(4,266,893)	(876,466)	(2,077,658)
Total Other Financing Sources (Uses)	<u>(2,166,893)</u>	<u>(876,466)</u>	<u>(2,077,658)</u>
Net Change in Fund Balances	(11,313,732)	(14,823)	(710,444)
Fund Balances at Beginning of Year	<u>29,359,288</u>	<u>241,105</u>	<u>19,033,740</u>
Fund Balances at End of Year	<u>\$ 18,045,556</u>	<u>\$ 226,282</u>	<u>\$ 18,323,296</u>

The accompanying notes are an integral part of this statement.

<u>Construction Assistance</u>	<u>Assessment District Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 6,800,757	\$ 79,727,161
-	3,354,483	-	3,354,483
-	-	-	24,090
7,591,978	-	5,892,110	19,596,433
-	-	1,698,965	7,667,759
78,547	-	480,140	1,536,602
-	-	30,136	30,136
-	-	810,740	810,740
81,725	-	-	81,725
-	-	233,788	647,066
<u>7,752,250</u>	<u>3,354,483</u>	<u>15,946,636</u>	<u>113,476,195</u>
-	-	403,350	16,428,857
-	-	3,019,501	57,714,155
-	-	-	14,795,430
-	-	1,050,830	4,828,635
-	-	251,251	4,249,009
-	-	1,050,000	1,050,000
10,958,469	-	13,770,076	24,778,199
-	2,205,000	4,665,243	6,870,243
-	1,240,593	1,431,664	2,672,257
-	-	115,566	115,566
-	-	1,040,812	1,040,812
<u>10,958,469</u>	<u>3,445,593</u>	<u>26,798,293</u>	<u>134,543,163</u>
<u>(3,206,219)</u>	<u>(91,110)</u>	<u>(10,851,657)</u>	<u>(21,066,968)</u>
-	-	3,395,900	3,395,900
-	-	(36,000)	(36,000)
-	-	115,566	115,566
3,951	215,865	12,918,172	15,237,988
-	-	(7,369,873)	(14,590,890)
<u>3,951</u>	<u>215,865</u>	<u>9,023,765</u>	<u>4,122,564</u>
(3,202,268)	124,755	(1,827,892)	(16,944,404)
<u>3,472,684</u>	<u>2,794,367</u>	<u>35,948,563</u>	<u>90,849,747</u>
<u>\$ 270,416</u>	<u>\$ 2,919,122</u>	<u>\$ 34,120,671</u>	<u>\$ 73,905,343</u>

The accompanying notes are an integral part of this statement.

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, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ (16,944,404)
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.	15,343,210
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.	(8,115,831)
Taxes Receivable not collectible within sixty days	609,811
Deferred Revenues of new housing loans are reported in the Government-Wide Statement of Net Assets	5,148,291
Deferred Revenues of principal payments are reported in the Government-Wide Statement of Net Assets	(207,554)
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	(1,678,457)
Interfund Loan Proceeds	(3,395,900)
Principal Repayments on Long-Term Debt	6,870,243
Capital leases Increases and repayments	194,951
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, 2007.	46,023
Net Other Post Employment Benefits (OPEB) expenses are recognized in Government-Wide Statements. The Net OPEB Obligation is the cumulative difference between annual OPEB costs and contributions made to the plan.	(1,352,734)
	142,701
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.	(826,995)
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	\$ (4,318,377)

The accompanying notes are an integral part of this statement.

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, 2009

Business-type Activities - Enterprise Funds

	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer
Assets:				
Current Assets:				
Cash and Investments	\$ 393,010	\$ 1,134,539	\$ 455,579	\$ 1,213,726
Cash and Investments Restricted	-	-	701,626	1,031,478
Accounts Receivable	66,848	92,738	95,833	535,654
Interest Receivable	1,474	4,192	1,162	3,760
Deferred Charges	-	14,858	1,385,519	197,508
Due from General Fund	-	-	-	-
Total Current Assets	461,332	1,246,327	2,639,719	2,982,126
Noncurrent Assets:				
Due from Other Agencies	-	-	-	-
Capital Assets:				
Nondepreciable	3,171,820	864,704	-	956,735
Depreciable buildings, property, and infrastructure, net	8,684,664	4,659,304	6,211,270	39,656,303
Total Capital Assets	11,856,484	5,524,008	6,211,270	40,613,038
Total Noncurrent Assets	11,856,484	5,524,008	6,211,270	40,613,038
Total Assets	12,317,816	6,770,335	8,850,989	43,595,164
Liabilities:				
Current Liabilities:				
Accounts Payable	38,816	142,485	250	58,977
Deposits	5,517	-	-	-
Due to Other Funds	24,535	49,468	-	22,057
Insurance claims Payable	-	-	-	-
Interest Payable	-	8,852	161,108	262,092
Long Term Debt - Due Within One Year	26,716	65,000	290,000	390,000
Total Current Liabilities	95,584	265,805	451,358	733,126
Noncurrent Liabilities:				
Accrued Leave	16,485	37,681	-	88,402
Advance from General Fund	-	-	-	-
Long Term Debt - Due in More than One year	169,199	415,000	11,570,000	12,440,000
Total Noncurrent Liabilities	185,684	452,681	11,570,000	12,528,402
Total Liabilities	281,268	718,486	12,021,358	13,261,528
Net Assets:				
Invested in Capital Assets, Net of Related Debt	11,660,569	5,044,008	(5,648,730)	27,783,038
Restricted	-	-	701,626	1,031,478
Unrestricted	375,979	1,007,841	1,776,735	1,519,120
Total Net Assets	\$ 12,036,548	\$ 6,051,849	\$ (3,170,369)	\$ 30,333,636

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
\$ 781,103	\$ -	\$ 45,117	\$ 459,486	\$ 4,482,560	\$ 9,764,157
-	-	-	1,149,295	2,882,399	76,317
35,991	-	5,523	53,269	885,856	900
2,414	-	-	229	13,231	31,581
-	-	-	909,269	2,507,154	-
-	-	-	-	-	691,469
819,508	-	50,640	2,571,548	10,771,200	10,564,424
-	3,709,274	-	-	3,709,274	-
-	-	-	6,700	4,999,959	-
61,112,445	-	148,880	14,477,538	134,950,404	-
61,112,445	-	148,880	14,484,238	139,950,363	-
61,112,445	3,709,274	148,880	14,484,238	143,659,637	-
61,931,953	3,709,274	199,520	17,055,786	154,430,837	10,564,424
70,346	-	1,854	45,122	357,850	75,235
-	-	-	-	5,517	-
5,886	-	-	36	101,982	-
-	-	-	-	-	8,855,717
6,196	-	-	232,586	670,834	-
38,538	-	-	380,000	1,190,254	-
120,966	-	1,854	657,744	2,326,437	8,930,952
107,390	-	-	17,551	267,509	6,134
-	-	-	1,185,000	1,185,000	-
102,243	-	-	15,510,000	40,206,442	-
209,633	-	-	16,712,551	41,658,951	6,134
330,599	-	1,854	17,370,295	43,985,388	8,937,086
60,971,664	-	148,880	(1,405,762)	98,553,667	-
-	-	-	1,149,295	2,882,399	-
629,690	3,709,274	48,786	(58,042)	9,009,383	1,627,338
\$ 61,601,354	\$ 3,709,274	\$ 197,666	\$ (314,509)	\$ 110,445,449	\$ 1,627,338

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For Fiscal Year Ended June 30, 2009

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Airport</u>	<u>Industrial Waste</u>	<u>Municipal Golf Courses</u>	<u>Sanitary Sewer</u>
Operating Revenues:				
Charges for Services	\$ 1,168,602	\$ 1,149,392	\$ 272,090	\$ 2,367,785
Total Operating Revenues	<u>1,168,602</u>	<u>1,149,392</u>	<u>272,090</u>	<u>2,367,785</u>
Operating Expenses:				
Personnel Services	449,752	299,137	(33,760)	750,600
Administration	125,310	106,872	-	124,771
Contractual Services	164,061	167,836	548,521	29,153
Supplies	60,022	14,513	-	95,953
Insurance	20,428	14,300	-	38,345
Insurance Claims	-	-	-	-
Fees and Permits (Taxes)	39,582	10,014	-	-
Utilities	109,674	232,591	23,035	143,348
Depreciation	605,345	173,277	562,138	1,464,581
Amortization	-	2,476	71,153	9,877
Land Rent	-	-	91,376	-
Other	19,031	19,833	13,850	8,655
Total Operating Expenses	<u>1,593,205</u>	<u>1,040,849</u>	<u>1,276,313</u>	<u>2,665,283</u>
Operating Income (Loss)	<u>(424,603)</u>	<u>108,543</u>	<u>(1,004,223)</u>	<u>(297,498)</u>
Nonoperating Revenues (Expenses):				
Interest Revenue	11,938	35,425	16,485	36,506
Interest Expense	-	(37,143)	(271,932)	(638,099)
Other Nonoperating Revenues (Expenses)	16,828	-	575,000	161
Total Nonoperating Revenues(Expenses)	<u>28,766</u>	<u>(1,718)</u>	<u>319,553</u>	<u>(601,432)</u>
Income (Loss) Before				
Contributions and Transfers	(395,837)	106,825	(684,670)	(898,930)
Contributed Assets	938,050	-	-	-
Contribution to Parking from SRA	-	-	-	-
General Fund Advance Forgiven	-	-	-	-
Transfers In	-	-	75,000	-
Transfers Out	<u>(20,890)</u>	<u>(920,603)</u>	<u>-</u>	<u>(152,780)</u>
Change in Net Assets	521,323	(813,778)	(609,670)	(1,051,710)
Total Net Assets - Beginning of Year	<u>11,515,225</u>	<u>6,865,627</u>	<u>(2,560,699)</u>	<u>31,385,346</u>
Total Net Assets - End of Year	<u>\$ 12,036,548</u>	<u>\$ 6,051,849</u>	<u>\$ (3,170,369)</u>	<u>\$ 30,333,636</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
\$ 498,267	\$ -	\$ 22,023	\$ 298,745	\$ 5,776,904	\$ 3,576,508
498,267	-	22,023	298,745	5,776,904	3,576,508
921,978	-	-	111,105	2,498,812	290,735
125,298	-	715	50,438	533,404	-
97,119	-	7,447	296,192	1,310,329	368,789
132,822	-	-	18,560	321,870	2,098
16,000	-	-	-	89,073	810,039
-	-	-	-	-	3,159,320
-	-	-	-	49,596	-
3,555	-	-	40,370	552,573	-
2,688,964	-	10,268	578,925	6,083,498	-
-	-	-	72,741	156,247	-
-	-	-	-	91,376	-
5,009	-	-	-	66,378	4,154
3,990,745	-	18,430	1,168,331	11,753,156	4,635,135
(3,492,478)	-	3,593	(869,586)	(5,976,252)	(1,058,627)
16,844	298,586	-	3,699	419,483	231,632
2,618	-	-	(708,734)	(1,653,290)	-
-	-	-	-	591,989	-
19,462	298,586	-	(705,035)	(641,818)	231,632
(3,473,016)	298,586	3,593	(1,574,621)	(6,618,070)	(826,995)
76,879	-	-	-	1,014,929	-
-	-	-	1,050,000	1,050,000	-
-	-	-	-	-	-
925,000	-	-	-	1,000,000	-
(206,483)	(385,097)	-	(8,219)	(1,694,072)	-
(2,677,620)	(86,511)	3,593	(532,840)	(5,247,213)	(826,995)
64,278,974	3,795,785	194,073	218,331	115,692,662	2,454,333
\$ 61,601,354	\$ 3,709,274	\$ 197,666	\$ (314,509)	\$ 110,445,449	\$ 1,627,338

CITY OF SALINAS
Statement of Cash Flows
Proprietary Funds
For Fiscal Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds			
	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer
Cash Flows from Operating Activities:				
Receipts from Customer and Users	\$ 1,123,154	\$ 1,156,658	\$ 272,090	\$ 1,964,728
Receipts from interfund services provided	-	-	-	-
Payments to Suppliers	(543,752)	(499,813)	(758,053)	(443,142)
Payments to Employees	(444,611)	(290,991)	(15,448)	(750,697)
Payments to Claimants	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>134,791</u>	<u>365,854</u>	<u>(501,411)</u>	<u>770,889</u>
Cash Flows from Non-Capital				
Financing Activities:				
Other Non-Operating Revenue	16,828	-	575,000	161
Deposits	(8,375)	-	-	-
Advance Received from General Fund	-	-	-	-
Payment on Advance from General Fund	-	-	-	-
Contribution from SRA	-	-	-	-
Operating Transfers In	-	-	75,000	-
Operating Transfers Out	(20,890)	(920,603)	-	(152,780)
Net Cash Provided by (Used for)				
Non-Capital Financing Activities	<u>(12,437)</u>	<u>(920,603)</u>	<u>650,000</u>	<u>(152,619)</u>
Cash Flows from Capital and				
Related Financing Activities:				
Acquisition of Capital Assets	(1,611,907)	(109,611)	-	(53,216)
Proceeds from Capital Debt	-	-	-	-
Deferred Bond Issuance Costs	-	2,476	71,153	9,877
Capital Contributions (from developers/other funds)	-	-	-	-
Capital Grants Received	938,050	-	-	-
Capital Lease Payment, including interest	-	-	(16,915)	-
Principal paid on Capital Debt	-	(60,000)	(21,159)	(375,000)
Interest paid on Capital Debt	-	(38,250)	(208,374)	(646,135)
Net Cash Provided (Used) by Capital and				
Related Financing Activities	<u>(673,857)</u>	<u>(205,385)</u>	<u>(175,295)</u>	<u>(1,064,474)</u>
Cash Flows from Investing Activities:				
Interest Received	17,265	42,516	28,491	65,535
Increase (Decrease) in Fair Value of Investments	520	1,429	-	1,275
Transfer (to) from Restricted Cash	-	-	288,034	29,017
Net Cash Provided by Investing Activities	<u>17,785</u>	<u>43,945</u>	<u>316,525</u>	<u>95,827</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(533,718)	(716,189)	289,819	(350,377)
Cash and Cash Equivalents at Beginning of Year	<u>926,728</u>	<u>1,850,728</u>	<u>177,111</u>	<u>1,564,103</u>
Cash and Cash Equivalents at End of Year	<u>\$ 393,010</u>	<u>\$ 1,134,539</u>	<u>\$ 466,930</u>	<u>\$ 1,213,726</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
\$ 530,076	\$ -	\$ 39,689	\$ 246,916	\$ 5,333,311	\$ 283,406
-	-	-	-	-	2,825,188
(367,338)	-	(7,218)	(477,391)	(3,096,707)	(1,185,591)
(902,130)	-	-	(109,840)	(2,513,717)	(305,469)
-	-	-	-	-	(3,693,392)
<u>(739,392)</u>	<u>-</u>	<u>32,471</u>	<u>(340,315)</u>	<u>(277,113)</u>	<u>(2,075,858)</u>
-	-	-	-	591,989	-
-	-	-	-	(8,375)	-
-	-	-	285,000	285,000	-
-	-	-	-	-	-
-	-	-	1,050,000	1,050,000	-
925,000	-	-	-	1,000,000	-
<u>(206,483)</u>	<u>(385,097)</u>	<u>-</u>	<u>(8,219)</u>	<u>(1,694,072)</u>	<u>-</u>
<u>718,517</u>	<u>(385,097)</u>	<u>-</u>	<u>1,326,781</u>	<u>1,224,542</u>	<u>-</u>
79,725	-	-	(27,738)	(1,722,747)	-
-	86,511	-	-	86,511	-
-	-	-	72,741	156,247	-
-	-	-	-	-	-
-	-	-	-	938,050	-
-	-	-	-	(16,915)	-
(76,879)	-	-	(375,000)	(908,038)	-
-	-	-	(711,354)	(1,604,113)	-
<u>2,846</u>	<u>86,511</u>	<u>-</u>	<u>(1,041,351)</u>	<u>(3,071,005)</u>	<u>-</u>
18,812	298,586	-	25,846	497,051	263,504
809	-	-	79	4,112	10,624
-	-	-	12,349	329,400	328,100
<u>19,621</u>	<u>298,586</u>	<u>-</u>	<u>38,274</u>	<u>830,563</u>	<u>602,228</u>
1,592	-	32,471	(16,611)	(1,293,013)	(1,473,630)
<u>779,511</u>	<u>-</u>	<u>12,646</u>	<u>476,097</u>	<u>5,786,924</u>	<u>10,817,087</u>
<u>\$ 781,103</u>	<u>\$ -</u>	<u>\$ 45,117</u>	<u>\$ 459,486</u>	<u>\$ 4,493,911</u>	<u>\$ 9,343,457</u>

CITY OF SALINAS
Statement of Cash Flows
Proprietary Funds
For Fiscal Year Ended June 30, 2009

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Airport</u>	<u>Industrial Waste</u>	<u>Municipal Golf Courses</u>	<u>Sanitary Sewer</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating Income (Loss)	\$ (424,603)	\$ 108,543	\$ (1,004,223)	\$ (297,498)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Depreciation	605,345	173,277	562,138	1,464,581
(Increase) Decrease in Accounts Receivable	(45,448)	7,266	-	(403,057)
(Increase) Decrease in Prepaid Insurance	-	-	-	-
(Increase) Decrease in Due from General Fund	-	-	-	-
Increase (Decrease) in Accounts Payable	(5,227)	70,172	(25,007)	6,719
Increase (Decrease) in Insurance Claims	-	-	-	-
Increase (Decrease) in Accrued Leave	4,724	6,596	(34,318)	144
Loss-Disposed Assets	-	-	-	-
Increase (Decrease) in Restricted Cash	-	-	-	-
Transfer to Restricted Cash	-	-	-	-
Total Adjustments to Net Income	559,394	257,311	502,813	1,068,387
Net Cash Provided by Operating Activities	\$ 134,791	\$ 365,854	\$ (501,410)	\$ 770,889

Business-type Activities - Enterprise Funds					Governmental
Storm Sewer	Landfill Garbage Surcharge	Water Utility	Downtown Parking District	Totals	Activities - Internal Service Funds
\$ (3,492,478)	\$ -	\$ 3,593	\$ (869,586)	\$ (5,976,252)	\$ (1,058,627)
2,688,964	-	10,268	578,926	6,083,499	-
31,809	-	17,666	(51,829)	(443,593)	-
-	-	-	-	-	-
-	-	-	-	-	(691,839)
12,368	-	944	1,420	61,389	31,725
-	-	-	-	-	(339,335)
19,945	-	-	754	(2,155)	(17,782)
-	-	-	-	-	(328,100)
-	-	-	-	-	328,100
<u>2,753,086</u>	<u>-</u>	<u>28,878</u>	<u>529,271</u>	<u>5,699,140</u>	<u>(1,017,231)</u>
<u>\$ (739,392)</u>	<u>\$ -</u>	<u>\$ 32,471</u>	<u>\$ (340,315)</u>	<u>\$ (277,112)</u>	<u>\$ (2,075,858)</u>



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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, 2009

	Private Purpose Trust Funds	Pension Trust Funds	Agency Funds
Assets:			
Cash and Investments	\$ 1,427,665	\$ 33,262,725	\$ 423,588
Cash and Investments Restricted	-	-	
Deposits	-		
Accounts Receivable	14,826	-	122,855
Interest Receivable	-	2,363	635
Due from Other Agencies	1,002,620	-	87,968
Bond Issuance Costs	-	-	
Capital Assets, Net	-	-	-
Total Assets	2,445,111	33,265,088	635,046
Liabilities:			
Accounts Payable	1,120,207	196,218	228,788
Accrued Leave	-	-	59,597
Due to Outside Agencies	-	-	-
Due to Other Funds	570	-	-
Deferred Revenues	-	-	346,661
Interest Payable	-	-	
Long term debt	-	-	
Reserve-Encumbrances	-	-	-
Total Liabilities	1,120,777	196,218	635,046
Net Assets:			
Held in trust for pension benefits and other purposes	<u>\$ 1,324,334</u>	<u>\$ 33,068,870</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, 2009

	Private Purpose Trust Funds	Pension Trust Funds
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Plan members	\$ -	\$ 2,947,265
Private Donations	<u>2,585,659</u>	<u>-</u>
Total contributions	<u>2,585,659</u>	<u>2,947,265</u>
Investment earnings:		
Interest	<u>309</u>	<u>4,038,634</u>
Net investment earnings	<u>309</u>	<u>4,038,634</u>
Total Additions	<u>2,585,968</u>	<u>6,985,899</u>
Deductions:		
Benefit payments	-	17,249,033
Payments on behalf of trustees	<u>2,672,032</u>	<u>-</u>
Total Deductions	<u>2,672,032</u>	<u>17,249,033</u>
Change in Net Assets	(86,064)	(10,263,134)
Net Assets - Beginning	<u>1,381,805</u>	<u>43,332,004</u>
Net Assets - Ending	<u>\$ 1,295,741</u>	<u>\$ 33,068,870</u>

The accompanying notes are an integral part of this statement.



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CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies:

The basic financial statements of the City of Salinas have been prepared in conformity with the 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 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 legal 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 an 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, 2009

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 issued 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, on September 1, 2005 to issue Refunding Certification of Participation, Series 2005 A and B, and on August 21, 2008 to issue variable rate taxable refunding Certificates of Participation Series 2008. 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 it's 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 purpose 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 for 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
- 3) Capital grants and contributions

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

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 represented as internal balances and eliminated in the total primary government column. In the Statement of Activities and changes in Net Asset, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due To/From Other Funds
- Advanced To/From Other Funds
- Transfer In/Out

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 Balance present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net 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, 2009

1. Summary of Significant Accounting Policies: (Continued)

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the Balance Sheet and revenue is recognized. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the Balance Sheet and revenue is recognized.

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 amounts deemed uncollectible are written off. 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

C. Use of Restricted/Unrestricted Net Assets

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

D. Budgeting

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

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 government 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*

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

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
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 SRA Project, Debt Service and Housing Funds

F. Cash and Cash Equivalents

Cash and cash equivalents are considered to be amounts in demand deposits, and short-term investments with original, maturity of three months or less from the date of acquisition. For purposes of both the balance sheet and statements of cash flows, cash and cash equivalents include not only currency on hand, but deposits in the City's cash and investment pool. These deposits have the same characteristics for the participating funds as demand deposit accounts, in that the funds may deposit additional cash at any time and also effectively withdraw cash at any time without prior notice or penalty. Cash and cash equivalents also include restricted cash and money market funds held by fiscal agents.

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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

The City's cash and investments are stated at fair value, which is based on a quoted market price. This includes all investments except the City's investment in the California Local Agency Investment Fund (LAIF). LAIF determines fair value on its investments portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The City valued its investments in LAIF as of June 30, 2009, by multiplying its account balance with LAIF times a fair value factor determined by LAIF (1.001364207). This fair value factor was determined by dividing the total aggregate fair value for all LAIF participants by total aggregate amortized cost.

G. Restricted Cash and Investment with Fiscal Agents

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects.

H. 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.

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

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

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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

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

<i>Buildings</i>	<i>20-50 years</i>
<i>Other Improvements</i>	<i>15-45 years</i>
<i>Infrastructure</i>	<i>10-50 years</i>
<i>Equipment</i>	<i>5-20 years</i>

The Governmental Accounting Standard 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, sidewalk, 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.

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 cost 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.

N. 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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

integration in the General, Special Revenue, and Capital Projects Funds. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

O. *Compensated Absences*

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

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.

P. *Deferred Revenue*

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

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

Q. *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. This liability is recorded in the internal service fund that accounts for the City's self insurance activities.

R. *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 applicable premium or discount. Issuance costs are reported as deferred charges.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

Fund Financial Statements

The government fund financial statements do not represent 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.

S. 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 restricted net assets of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or to identify the portion of the fund equity not available for future expenditures.

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

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

T. Fund Balances – Reservations and Designations

In the Fund Financial Statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

U. Property Taxes

Assessed property values are determined annually by the County Assessor as of March 1, and become a lien on real property at July 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The County bills and collects property taxes and remits them to the City under the State authorized method of apportioning taxes whereby all local agencies, including cities, receive from the county their respective shares of the amount of ad valorem taxes collected. Property taxes revenue are recognized when levied provided the measurement and availability criteria have been met.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

V. 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.

W. New Pronouncements

In May 2007, GASB issued Statement No. 50, Pension Disclosure, which more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Government Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Application of this statement is effective for the City's fiscal year ended June 30, 2008. The additional disclosure concerning the implementation of GASB 50 is available in Note 14 and Note 15.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the City's fiscal year ending June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statement that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The Statement also addresses hedge accounting requirements and improve disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this Statement is effective for the City's fiscal year ending June 30, 2010.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

1. Summary of Significant Accounting Policies: (Continued)

usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Application of this Statement is effective for the City's fiscal year ending June 30, 2011.

2. Cash and Investments:

The City's cash and investment at June 30, 2009 are included in the accompanying basic financial statements as follows:

	Government-Wide Statement of Net Assets			Funds Financials	Total
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Assets	
Cash and Investments	\$ 66,119,784	\$ 4,482,560	\$ 70,602,344	\$ 35,113,978	\$105,716,322
Restricted Cash and Investments	4,289,161	2,882,399	7,171,560	-	7,171,560
Total Cash and Investments	<u>\$ 70,408,945</u>	<u>\$ 7,364,959</u>	<u>\$ 77,773,904</u>	<u>\$ 35,113,978</u>	<u>\$112,887,882</u>

Cash and Investments at June 30, 2009 consisted of the following:

Cash:	
Demand Accounts at Banks	\$ 360,998
Petty Cash and Revolving Fund	15,000
State Condemnation Deposits Fund	55,100
	<u>431,098</u>
Investments:	
State Local Agency Investment Fund	61,393,550
Certificates of Deposits	1,010,444
Money Market	9,054,675
Investments held in trust by Fiscal Agent	7,458,461
OPEB	200,612
Insurance Reserves	76,317
	<u>79,194,059</u>
Deferred Compensation:	
Cash in State Local Agency Investment Fund	1,334,943
Hartford	1,646,156
Central Coast Federal Credit Union	3,431,161
Trust Deeds	26,850,465
	<u>33,262,725</u>
Total Cash Investments	<u>\$ 112,887,882</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

2. Cash and Investments: (Continued)

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 investment held by fiscal agents is credited directly to the related fund.

Investments are stated at cost of 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, 2009 includes a portion of the pool funds invested in Structured Notes and Asset-Backed securities.

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.

Deposits

At June 30, 2009, the carrying amount of the City's deposits was \$267,066. The bank balance was \$1,722,024. 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 loans associations to secure an agency's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits.

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

2. Cash and Investments: (Continued)

Investments

As of June 30, 2009 the City had the following investment and maturities:

	Cost	Fair Value	0-12 months	1-5 years	over 5 years
Local Agency Investment Fund	\$ 62,643,035	\$ 62,728,493	\$ 62,728,493	\$	\$
Money Market	9,054,675	9,054,675	9,054,675		
Certificates of Deposits	1,010,444	1,010,444	1,010,444		
Investment Agreements	7,458,461	7,458,461			7,458,461
Insurance Reserves	76,317	76,317	76,317		
OPEB	200,612	200,612	200,612		
Trust Deeds-Def Comp	26,850,465	26,850,465		26,850,465	
Hartford/CCFCU-Def Comp	5,077,317	5,077,317		5,077,317	
	<u>\$ 112,371,326</u>	<u>\$ 112,456,784</u>	<u>\$ 73,070,541</u>	<u>\$ 31,927,782</u>	<u>\$ 7,458,461</u>

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, 2009 had an average life of 212 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. Information about the sensitivity of the fair values of the City investments to market interest rate fluctuations is provided by the preceding table that shows the distribution of the City's investment by maturity.

Summarized below are the ratings of the City's cash and investments:

	Fair Value	S&P	Moody's	% of Total
Local Agency Investment Fund	\$ 62,728,493	NR	NR	55.78%
Money Market				
Rabobank	8,054,320	AAA/Stable/A-1+	Aaa/P-1B+	7.16%
First Financial Equity Corp	1,000,355	A-	A3	0.89%
Certificates of Deposits				
Rabobank	10,444	AAA/Stable/A-1+	Aaa/P-1B+	0.01%
Pinnacle Bank	1,000,000	NR	NR	0.89%
Investment Agreements				
Fed PRM Obl	5,629,839	AAAm	Aaa	5.01%
Wells Fargo	579,672	AA	Aa2	0.52%
Westdeutsche Bank	975,467	AA-	Aa1	0.87%
AIG	273,480	A-/A-1	A3	0.24%
AMBAC	3	CC	Caa2	0.00%
Insurance Reserves	76,317	NR	NR	0.07%
OPEB	200,612	NR	NR	0.18%
Trust Deeds-Def Comp	26,850,465	NR	NR	23.88%
Hartford/CCFCU-Def Comp	5,077,317	NR	NR	4.51%
Total	<u>\$ 112,456,784</u>			<u>100.00%</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

2. Cash and Investments: (Continued)

Concentration of Credit Risk

The Local Agency Investment Fund, representing 55.78% of the portfolio, and the Trust Deed, representing 23.88% of the portfolio are not considered a concentrated risk.

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.

All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledge securities held in the trust department of the financial institution in the City's name.

3. Restricted Assets:

Cash and investments of \$7,171,560 are recorded as restricted assets at June 30, 2009 as follows:

General Fund - restricted for OPEB	\$	200,612
Construction Assistance - restricted for the construction of the Monterey Street Parking and for COP 2005B Projects		1,419,188
Assessment District Debt Service - restricted for unrepresented matured bonds of the North East Salinas Assessment District		5,358
Gas Tax - restricted for construction retentions		
Debt Service Fund - restricted to cover expenses of debt service		2,587,686
Capital Projects Fund - restricted for small business loans		-
Enterprise Fund - restricted to cover expenses of debt service		
Golf Courses Fund	\$	701,626
Sanitary Sewer		1,031,478
Downtown Parking District		1,149,295
		<u>2,882,399</u>
Internal Service Fund - restricted for liability expenses and workers compensation claims		76,317
Total Restricted Assets		<u>\$ 7,171,560</u>

4. Taxes Receivable:

Taxes receivable recorded in the General Funds of \$6,355,203 represent amounts due for the quarter ending June 30, 2009 for the following taxpayer – assessed taxes:

Sales Tax	\$ 2,418,723
Transaction and Use Tax	1,472,606
In-lieu Sales Tax	876,163
Utility Users Tax	768,173
Franchise Tax	327,379
Transient Occupancy Tax	389,678
Other Taxes	38,908
Property Transfer Tax	63,573
	<u>\$6,355,203</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

5. Assessment Receivable:

Debt Service Fund – Assessments receivable recorded in the Assessment District Debt Service Fund of \$19,030,000 at June 30, 2009, will be collected from property owners to retire outstanding bond principal issued for improvements in special assessment districts. Cash and investments at June 30, 2009 of \$2,919,372 are available to make bond and interest payments of \$2,661,411 that are due on September 1, 2009.

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 Development:				
CDBG Improvement Program	\$ 309,270			\$ 309,270
CDBG Recovery Program (ARRA)	3,966			3,966
HOME Investment Program	501,438			501,438
Emergency Shelter Grant	58,971			58,971
Homelessness Prevention (ARRA)	761			761
US Department of Justice	59,705			59,705
US Department of Justice (ARRA)	4,519			4,519
California Dept of Motor Vehicles		113,970		113,970
California Highway Users Tax		185,496		185,496
Gang Reduction, Interv. and Prevent.		140,679		140,679
California Office of Traffic Safety(US DOT)	106,165			106,165
National Leadership Grant	142,878			142,878
Weed and Seed Program	37,691			37,691
County of Monterey			178,505	178,505
	<u>1,225,364</u>	<u>440,145</u>	<u>178,505</u>	<u>1,844,014</u>
Capital Projects Funds:				
Federal Aviation Administration	455,697			455,697
Federal Train Grant	334			334
State Bond Acts		1,054,846		1,054,846
CA Dept.of Transportation Developers		1,247,241		1,247,241
			677,020	677,020
	<u>456,031</u>	<u>2,302,087</u>	<u>677,020</u>	<u>3,435,138</u>
Total Government Activities	<u>1,681,395</u>	<u>2,742,232</u>	<u>855,525</u>	<u>5,279,152</u>
Business-Type Activities:				
Enterprise Funds:				
Salinas Valley Solid Waste Authority	-	-	3,709,274	3,709,274
Trust and Agency Funds:				
Payroll Deposit Fund			1,002,620	1,002,620
Sunrise House:				
Monterey County			526	526
Second Chance Youth Program:				
SCYP Fees			10,000	10,000
Harden Foundation			20,000	20,000
City of Salinas			8,750	8,750
AB825 Categorical Education			7,585	7,585
MCOE Alt Education Program			29,653	29,653
County Probation			10,000	10,000
United Way			1,454	1,454
	<u>-</u>	<u>-</u>	<u>1,090,588</u>	<u>1,090,588</u>
Primary Government Totals	<u>\$ 1,681,395</u>	<u>\$ 2,742,232</u>	<u>\$ 5,655,387</u>	<u>\$ 10,079,014</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

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	Special Revenue	
Primary Government					
Governmental Activities:					
Major Funds:					
General Fund	\$	\$ 67,159	\$ 691,469	\$	\$ 758,628
Measure V		14,950			14,950
Comm Dev Act of 1974 Fund	729,790	4,815			734,605
Development Fee Fund	1,700	132,708			134,408
Special Construction Assist Fund	1,493,104	848,769			2,341,873
Non-Major Funds:					
Lighting, Landscape & Maintenance	22,134				22,134
Local Public Safety Fund	215,266			32,877	248,143
Recreation Parks Fund		4,653			4,653
Gas Tax Fund		157,069			157,069
SRA Project Fund		32,041			32,041
SRA Housing Fund		726			726
Debt Service					-
Grants Fund	147,949	395			148,344
Total Governmental Activities	<u>2,609,943</u>	<u>1,263,285</u>	<u>691,469</u>	<u>32,877</u>	<u>4,597,574</u>
Business Type Activities:					
Airport Fund		24,535			24,535
Industrial Waste		49,468			49,468
Sanitary Sewer Fund		22,057			22,057
Storm Sewer Fund		5,886			5,886
Downtown Parking		36			36
	<u>-</u>	<u>101,982</u>			<u>101,982</u>
Total Primary Government	<u>2,609,943</u>	<u>1,365,267</u>	<u>691,469</u>	<u>32,877</u>	<u>4,699,556</u>
Expendable Trust Funds:					
Trust Deposit Funds	570				570
Business Imp District	-				-
Second Chance	-				-
Total Expendable Trust Funds	<u>570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>570</u>
	<u>\$ 2,610,513</u>	<u>\$ 1,365,267</u>	<u>\$ 691,469</u>	<u>\$ 32,877</u>	<u>\$ 4,700,126</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

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 disbursements. 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, 2009:

	Operating Transfers In	Operating Transfers Out
General Fund	\$ 2,100,000	\$ 4,266,893
Special Revenue Funds:		
EMS	847,500	
Lighting, Landscape, & Maintenance	600,000	
Local Public Safety Fund	315	9,998
Community Development Act of 1974 Fund		876,466
Vehicle Abatement Program	85,000	
Emp Comm Van	1,540	
Development Fee Fund		2,077,658
Gas Tax Fund	1,075,000	4,836,696
Traffic Safety Fund		900,000
Recreation Parks Fund		26,534
Grants Fund		76,076
Central City Housing Fund	642,916	240,009
Sunset Avenue Merged Housing Fund	637,644	-
	<u>3,889,915</u>	<u>9,043,437</u>
Debt Service Funds:		
COPS 2005B	755,097	
COPS 1999	84,000	
Assessment District Debt Service	215,865	
Central City Debt Service Fund	240,009	642,916
Sunset Avenue Merged Debt Service Fund		637,644
	<u>1,294,971</u>	<u>1,280,560</u>
Capital Projects Funds:		
Special Const Assist	3,951	
Capital Project Fund	7,949,151	
	<u>7,953,102</u>	<u>-</u>
Total Governmental Activities	<u>15,237,988</u>	<u>14,590,890</u>
Enterprise Funds:		
Airport Fund		20,890
Industrial Waste Fund		920,603
Municipal Golf Courses Fund	75,000	-
Sanitary Sewer Fund		152,780
Storm Sewer Fund	925,000	206,483
Solid Waste Fund		385,097
Downtown Parking District Fund		8,219
Total Business Type Activities	<u>1,000,000</u>	<u>1,694,072</u>
Total Governmental & Business Activities	<u>16,237,988</u>	<u>16,284,962</u>
Expendable Trust Fund:		
Trust Deposits Fund	76,074	29,100
Total Expendable Trust Fund	<u>76,074</u>	<u>29,100</u>
	<u>\$ 16,314,062</u>	<u>\$ 16,314,062</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

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

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

Enterprise Advance

An advance of \$285,000 from the General Fund to the Downtown Parking District fund was made during fiscal year 2008-09. The total advances made from the General Fund to the Downtown Parking District fund totaled \$1,185,000. The advance offset the operating deficit experienced while the Downtown Parking Management Plan is designed and implemented.

This advance is recorded in the General Fund – Advances to Other Funds and in the Enterprise Fund – Advances from General Fund for the year ended June 30, 2009.

8. Loans Receivable:

At June 30, 2009, the Government-Wide and Fund Financial Statements show the City had \$20,119,583 in long-term loans receivable, summarized as follows:

Beginning Balance	\$	12,049,053
New Loans		8,026,899
Principal Repayments/Adjustments		43,631
Ending Balance	\$	20,119,583

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. \$ 29,800

Special Revenue Funds

Loans recorded in the CDBG Under Title I of the Housing and Community Development Act and HOME under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990 are:

Deferred housing rehabilitation loans at three percent simple interest are reviewed for extension every five years, and are due upon transfer of property title. 1,890,981

Direct housing rehabilitation loans at five to eight percent interest amortized over fifteen years, and due upon transfer of property title. 272,332

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

8. Loans Receivable: (Continued)

First time homebuyers loans with three percent simple interest forgiven if owner occupied for thirty years, are due upon transfer of property title.	1,735,000
Deferred payment loan to Community Housing Improvement Systems and Planning Association Inc. (CHISPA) for:	
(a) 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. CHISPA assigned loan to Sherwood Village L.P., a California limited partnership.	
(b) Wesley Oaks subdivision, bearing simple interest at an annual rate of three percent (3%). Interest charges will accrue beginning October 1, 2008; repayment of principal and interest is due in full no later than September 30, 2015.	3,520,353
Deferred payment loan to Salinas Gateway, L.P. for the development of the Gateway Apartments located at 39 West Market bearing simple interest at three percent (3%) annually. Repayment in full due by June 30, 2028.	704,346
Small business loans with various terms.	43,837
Plaza House loan for costs related to the interior replacement and improvements of the property located at 30 E. Market Street.	95,370
Deferred payment loan for the acquisition of La Gloria Apartments located at 531-539 E. Market Street. Loan bears a simple annual interest rate of three percent (3%) for 30 years. Interest charges will accrue beginning July 1, 2009. Repayment of principal and interest is due in full no later than December 31, 2029.	425,000
Deferred payment loan is at three percent (3%) for 55 years. Loan to acquire, rehabilitate and covert Los Padres' 219-unit apartment complex to affordable housing. Interest charges began accruing July 1, 2003. Repayment of principal and interest is due in full no later than June 30, 2058.	300,000
Acquisition of 7 Spoleto Circle by Children's Circle of Friends, a foster case housing. Deferred payment loan bearing simple interest at an annual rate of one percent (1%) for 30 years. Interest charges began accruing July 1, 2007. Repayment of principal and interest is due in full no later than December 31, 2024.	75,000
Loan to Tynan Affordable Housing Limited Partnership for construction of Tynan Village; a mixed income apartment project for low and very low income households. The loan is secured by a deed of trust and bears an annual interest of one percent for 55 years. Interest charges began accruing on July 1, 2007. Repayment of principal and interest is due in full no later than June 30, 2062.	2,600,000

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

8. Loans Receivable: (Continued)

Deferred payment loan bearing simple interest at an annual rate of three percent (1%) for 55 ½ years. Loan is for the acquisition of complex at Sun Street by Interim Inc Sunflower Housing Corp. Interest charges will accrue from the date of acquisition or upon full repayment of CalHFA MSA loan. 420,000

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). 157,500

Total Housing Urban Development Loans Receivable. 12,239,719

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

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

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

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

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

Loan 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 2007. The amount of the loan authorized was increased to \$1,290,000 and an additional \$311,447 was loaned during fiscal year ended June 30, 2008. In October 2008, the amount authorized was increased to \$1,590,000 and an additional \$300,000 was loaned during the fiscal year ended June 30, 2009. The loan is secured by a deed of trust and bears interest at 3%. The terms of the loan call for annual repayments equal to 50% of the residual receipts (rent less operating expenses) commencing on the May 1 following the issuance of the certificate of occupancy. 1,590,000

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

8. Loans Receivable: (Continued)

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

1,275,000

Total Central City Housing Fund Loans Receivable

4,243,480

Sunset Avenue Merged Housing Fund

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

1,500,000

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

95,000

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

300,000

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

725,000

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

403,883

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

224,500

Total Sunset Avenue Merged Housing Fund Loans Receivable

3,248,383

Capital Projects Fund

26 Unreinforced Masonry Loans for engineering and retrofitting of downtown buildings to meet City code earthquake requirements.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

8. Loans Receivable: (Continued)

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. 295,516

Sunset Avenue Merged Project Fund

Sixteen Emergency Small Business Loans due in 10 years interest free. 62,685

Total Loans Receivable \$20,119,583

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	\$ 393,560
117 Main St – Alley by Steinbeck	24,445
150 Main St – Vacant lot – future hotel site	<u>523,272</u>
Total land available for sale in Central City Capital Project Fund	<u>941,277</u>

Central City Low and Moderate Income Housing Fund

17 & 19 Soledad Street	370,693
9 & 11 Soledad Street	<u>129,738</u>
	<u>500,431</u>

Sunset Avenue Merged Project Fund

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

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

Total Land Held for Resale \$3,448,830

10. Capital Assets:

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

10. Capital Assets: (Continued)

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.

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 assets 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 to 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, 2009

10. Capital Assets: (Continued)

	Balance June 30, 2008	Additions	Adjustments/ Retirements	Balance June 30, 2009
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 22,079,133	\$ 597,191	\$ (2,302)	\$ 22,674,022
Construction in progress	7,911,076	10,238,077	(5,678,603)	12,470,550
Total assets not being depreciated	<u>29,990,209</u>	<u>10,835,268</u>	<u>(5,680,905)</u>	<u>35,144,572</u>
Capital assets, being depreciated:				
Buildings and improvements	27,715,170	2,116,561	169,136	30,000,867
Improvements other than buildings	10,208,470	112,902	902,719	11,224,091
Machinery and equipment	21,909,584	999,900	151,960	23,061,444
Infrastructure	205,658,057	1,226,602	4,388,133	211,272,792
Total assets being depreciated	<u>265,491,281</u>	<u>4,455,965</u>	<u>5,611,948</u>	<u>275,559,194</u>
Less accumulated depreciation	<u>(132,408,778)</u>	<u>(8,115,831)</u>	<u>120,934</u>	<u>(140,403,675)</u>
Total capital assets being depreciated, net	<u>133,082,503</u>	<u>(3,659,866)</u>	<u>5,732,882</u>	<u>135,155,519</u>
Governmental Activities capital assets, net	<u>\$ 163,072,712</u>	<u>\$ 7,175,402</u>	<u>\$ 51,977</u>	<u>\$ 170,300,091</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 3,629,739	\$ 1,112,112	\$ -	\$ 3,629,739
Construction in progress	733,817	1,112,112	(475,709)	1,370,220
Total assets not being depreciated	<u>4,363,556</u>	<u>1,112,112</u>	<u>(475,709)</u>	<u>4,999,959</u>
Capital assets, being depreciated:				
Buildings and improvements	26,141,633	425,472	475,709	27,042,814
Improvements other than buildings	15,202,866			15,202,866
Machinery and equipment	6,759,052	25,784	-	6,784,836
Infrastructure	213,284,032	-	-	213,284,032
Total assets being depreciated	<u>261,387,583</u>	<u>451,256</u>	<u>475,709</u>	<u>262,314,548</u>
Less accumulated depreciation	<u>(121,280,646)</u>	<u>(6,083,498)</u>	<u>-</u>	<u>(127,364,144)</u>
Total capital assets being depreciated, net	<u>140,106,937</u>	<u>(5,632,242)</u>	<u>475,709</u>	<u>134,950,404</u>
Business-type Activities capital assets, net	<u>\$ 144,470,493</u>	<u>\$ (4,520,130)</u>	<u>\$ -</u>	<u>\$ 139,950,363</u>

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

Governmental Activities:

General Government	\$ 172,475
Police	778,242
Fire	440,500
Public Works, including infrastructure assets	5,898,957
Recreation and Parks	720,187
Library	105,470
Total depreciation expense - Governmental Activities	<u>\$ 8,115,831</u>

Business-type Activities:

Airport	\$ 605,345
Industrial Waste	173,277
Golf Courses	562,138
Sanitary Sewer	1,464,581
Storm Sewer	2,688,964
Water Utility	10,268
Downtown Parking	578,925
Total depreciation expense - Business-type Activities	<u>\$ 6,083,498</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

11. Contingent Assets:

The City has made land acquisition advances totaling \$725,837 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 sales proceeds of the La Terraza Project, \$42,933.

12. Deferred Revenues:

Deferred revenues are those where assets recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenues are stated at \$21,494,085 in the Government-Wide Statements and \$33,279,383 in the Fund Statements. The difference of \$11,785,298 represents long-term loans in the Special Revenue Funds recorded as deferred revenue. These are not available resources. Deferred revenues of \$33,279,383 at June 30, 2009 consists of the following:

Governmental Activities:

Major Funds:

Community Development Act of 1974 Fund	
Housing Rehab Loans	\$ 2,163,313
First Time Homebuyers Loans	1,735,000
Salinas Redevelopment Agency Loan	157,500
Small Business Loans	43,837
CDBG/Home Program Deferred Revenue	8,140,069
	12,239,719

Construction Assistance	1,610,369
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Assessment District Debt Service Fund	
Assessments Receivable	19,030,000

Non-major Funds:

Special Revenue and Capital Projects grants, advances	399,295
	399,295

Total Governmental Activities	\$ 33,279,383
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13. Deferred Compensation Plan:

The City has two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The Small Business Job Protection Act of 1996 requires the establishment of a trust or similar vehicle to ensure that the assets of 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 laws 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 paying distributions must be subject to the Trust. The existence of the Trust does little to

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

13. Deferred Compensation Plan: (Continued)

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 \$13,881,608 at June 30, 2009. 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, 2009 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 the voluntary salary reductions. All employees are eligible to participate. The plan has \$33,068,870 in net assets at June 30, 2009. 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, 2009.

14. Retirement Programs:

As of June 30, 2009, the city was contributing to three employee retirement programs. Total pension expenses for the fiscal year were \$17,082,675, 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. The Fire Safety Plan is required to participate in a risk pool since there were less than one hundred active members in at least one valuation since June 30, 2003. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law establish a menu of benefits provisions, as well as other requirements. The City of Salinas selects optional benefit provisions from the benefit menu by contact with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

The City amended its contract with CalPERS effective June 1, 2001 to provide 3% at 50 for the Police Public Safety Group and 2% at 55 for Local Miscellaneous Members. The City contract with CalPERS for the Fire Public Safety Group provided 2% at 50 through

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

14. Retirement Programs: (Continued)

November 30, 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 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 2008/09 was 35.925% for firefighters, 26.952% for police officers and 10.698% for miscellaneous employees of their annual covered payroll. The contribution requirements of the plan members are established by State statute and CalPERS actuarially determines the employer contribution rate annually.

Annual Pension Cost – For fiscal year 2008/09, the City of Salinas' annual pension cost of \$14,238,804 was equal to the City's required and actual contributions. The City of Salinas actually contributed \$10,418,484 while the employees contributed \$3,820,320. The required contribution for fiscal year 2008/09 was determined as part of the June 30, 2006 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%. CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of assumed future payroll on a closed basis.

THREE YEAR TREND INFORMATION

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008-09	\$ 14,238,804	100%	\$ 0
2007-08	13,149,123	100%	0
2006-07	10,994,272	100%	0

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

14. Retirement Programs: (Continued)

The Annual Pension Cost represents the contribution rate as determined by CalPERS for the period of July 1, 2008 to June 30, 2009 multiplied by the payroll of covered employees that was actually paid during the same period.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing overtime relative to the actuarial accrued liability for benefits. The reference to the schedule of funding progress presented as RSI does not represent or imply incorporation of the schedule of funding progress into notes to the basic financial statements.

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. 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, 2009 was \$4,304,535.

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

14. Retirement Programs: (Continued)

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, 2009 was \$1,551,524. During fiscal year 2008/09, the City contributed \$1,551,525 to the New York Life retirement plan, while the employees contributed \$174,273. The City also contributed \$59,781 on behalf of employees represented by SEIU.

The Net Pension Obligation as determined by the Actuarial valuation of September 1, 2008 is \$45,297 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 include (a) 7.0% investment return (net of administrative expenses) (b) projected salary increases of 3.0% per year and (c) projected cost of living adjustment of 2%. 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.

THREE YEAR TREND INFORMATION

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/08	\$ 1,358,413	114.22%	\$ 45,297
06/30/07	1,303,107	100.48%	51,663
06/30/06	1,207,428	100.50%	57,936

The Annual Pension Cost represents the contribution rate as determined by the New York Life actuary for the period of July 1, 2008 to June 30, 2009 multiplied by the payroll of covered employees that was actually paid during the same period.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

14. Retirement Programs: (Continued)

overtime relative to the actuarial accrued liability for benefits. The reference to the schedule of funding progress presented as RSI does not represent or imply incorporation of the schedule of funding progress into notes to the basic financial statements.

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, 2008 through April 23, 2009 was 32.7% of the participant's covered payroll, and 36.04% for April 24, 2009 through June 30, 2009. During the fiscal year 2008-09, the City's contribution to this plan was \$325,477, while the employees had a mandatory contribution of 4.5% of their salary or \$44,371. 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 investments options available under the ICMA 401(a) Plan. Plan investments are reported at fair market value. At June 30, 2009, the total Plan Assets totaling \$3,057,024 consisted of \$2,438,857 of earnings and employer contributions, \$449,985 of employee mandatory contributions, \$22,644 of employee after-tax voluntary contributions and, \$145,538 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, 2009, there were 9 participants in this program and the City's annual contribution was \$87,343 while the employees had an equal mandatory matching contribution of \$87,343.

15. Post Employment Benefits:

Plan Description: The City participates in the Public Employees Medical and Hospital Care (PEMHCA) for Police and Miscellaneous employees, offered through the California Public Employees' Retirement System (CalPERS), a multi-employer healthcare plan which provides medical insurance benefits to active and eligible retirees and their

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

15. Post Employment Benefits: (Continued)

families in accordance with various labor agreements. Fire employees receive healthcare benefits for active and retiree members from a union sponsored plan.

Post Employment Benefits Eligibility: The City provides postretirement healthcare benefits to eligible employees who retire directly from the City. The City pays 25% of retiree and spouse health insurance premium up to \$100 per month for safety retirees (Police and Fire). The payment is made until Medicare eligibility, but no more than 10 years for non-supervisory Police retirees. For Miscellaneous employees and all non-IAFF (Firefighters) safety employees, the City pays the PEMHCA "unequal method" monthly benefit to retirees (45.45 per month in 2009). Membership of the plan consisted of the following at June 30, 2006, the date of the latest actuarial valuation:

	Miscellaneous	Fire	Police	Total
Active plan members				
Count	308	83	163	554
Average Age	46.5	41.1	38.0	43.2
Average Service	13.3	11.1	10.3	12.1
Average PERS Pay	\$ 52,683	\$ 84,219	\$ 82,468	\$ 66,171
Total PERS Payroll (millions)	\$ 16.2	\$ 7.0	\$ 13.4	\$ 36.7
Retirees				
Count	55	23	51	129
Average Age	64.1	57.8	58.5	60.8
Currently Receiving \$100 Monthly Benefit		17	26	43
Average Years of Benefit		6.0	4.3	5.0

Funding Policy-The City's policy approved by Council on May 20, 2008, established a contribution of \$100,000 to be made during fiscal year 2007-08, increasing by \$25,000 per year until reaching \$250,000 and \$250,000 annually thereafter to the CERBT (CalPERS OPEB) trust account. Additionally, the City will continue paying the portion of the retiree premiums outside of the trust (Pay-as-you-go approach). In accordance with established policy, the City made a contribution of \$125,000 during FY 2008-09. After recognizing administrative fees and accruing earning and losses experienced in the Trust Plan, the City shows an ending balance of \$200,612 at June 30, 2009.

Annual OPEB Cost and Net OPEB Obligation-The City's annual other post employment benefit (OPEB) cost (Expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

15. Post Employment Benefits: (Continued)

	June 30, 2009
Annual Required Contribution	\$ 1,591,000
Interest on Net OPEB Obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	1,591,000
Contributions made to CERBT Trust	(125,000)
Contributions under "pay-as-you-go"	
Payment to Retirees	(74,165)
Payment to CalPERS	(39,101)
Increase in net OPEB obligation	1,352,734
Net OPEB obligation - beginning of the year	1,391,463
Net OPEB obligation - end of the year	\$ 2,744,197

The City's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for 2009 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/09	\$ 1,591,000	15.0%	\$ 2,744,197
06/30/08	1,591,000	12.5%	1,391,462
06/30/07	N/A	N/A	N/A

Funded Status and Progress-As of June 30, 2006, the first and most recent valuation date, the plan was 100% unfunded. The 2008-09 Annual Required Contribution included the normal cost at \$921,000 plus a 30-year amortization of the Unfunded Actuarial Accrued Liability (UAAL) of \$670,000, for a total Annual Required Contribution of \$1,591,000 representing 4.2% of the annual payroll. The estimated covered payroll (annual payroll of active employees covered by the plan) was \$36.7 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amount determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions-Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

15. Post Employment Benefits: (Continued)

actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal (EAN) cost method. Under the EAN cost method, the normal cost for each participant is determined as a level percent of payroll throughout the participant's working lifetime. (the EAN cost method is required by CalPERS for agencies funding with the CERBT.)

The unfunded actuarial accrued liability was amortized over a fixed 30-year period as a level percentage of payroll beginning with the 2007-08 fiscal year. The Plan is assumed to be ongoing for cost purposes. This does not imply that an obligation to continue the Plan exists.

The discount rate applied was 4.5% for the portion of the Annual Required Contribution (ARC) not funded and 7.75% for the portion of the ARC funded.

A 3% per annum is assumed for the inflation rate and a 3.25% per annum for aggregate payroll increases.

The assumption includes also the "Implied Subsidy" factor for the Fire Safety Medical Plan. GASB 45 generally requires recognition of retiree healthcare obligation when retirees participate in the active medical plan and are charged a composite rate based on active and retiree experience. This obligation, referred to as the implied subsidy, is based on the difference between the per capita cost and the premium charged. The implied subsidy represents \$356,000 of the total Annual Required Contribution of \$1,591,000.

16. Self Insurance:

The City has a self-insurance program and carries excess insurance for catastrophic losses. Markel American Insurance Company provides general liability coverage up to a maximum of \$10,000,000 after the self-insured retention of \$1,000,000 per occurrence met. Safety National Casualty Corporation provides Worker's Compensation excess coverage with statutory coverage (pursuant to California Worker's Compensation Act) after the self-insurance retention of \$1,000,000 for Public Safety and \$750,000 for non Public Safety is met.

Liabilities for estimated claims payable for the self-insurance programs represent settled claims, claims incurred but not paid and claims incurred but not reported based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2009 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

16. Self Insurance: (Continued)

1. Worker's Compensation insurance liability of \$9,668,244 includes \$7,734,595 for claims incurred but not paid and \$1,933,649 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, 2009, Worker's Compensation Insurance liability of \$9,668,244 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, 2009 is \$7,531,751 and is reported in the Internal Service Fund; \$2,136,493 of this is treated as long-term debt.
2. General liability insurance liability at June 30, 2009 of \$1,323,966 includes \$914,916 for claims incurred but not paid and \$409,050 for claims incurred but not reported which is based on expected claims and past claims history. Unreserved retained earnings is \$1,161,003 at June 30, 2009 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 represents reconciliation of the changes in total claims liability.

	<u>Workers Compensation</u>	<u>General Liability</u>
Beginning balance of claims liability	\$ 9,789,127	\$ 481,492
Less beginning provision for incurred but not reported claims	<u>(1,957,825)</u>	<u>(377,228)</u>
Beginning provisions for incurred but not paid claims	7,831,302	104,264
Increase (decrease) in claims incurred and reported	2,983,614	1,324,770
Claim expenses paid	<u>(3,080,321)</u>	<u>(514,118)</u>
Ending balance provision for incurred but not paid claims	7,734,595	914,916
Provisions for incurred but not reported claims	<u>1,933,649</u>	<u>409,050</u>
Ending balance of claims liability	<u>\$ 9,668,244</u>	<u>\$ 1,323,966</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

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,	
2010	\$ 302,685
2011	307,925
2012	296,689
	<u>\$ 907,299</u>

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 \$15,871 for the year ended June 30, 2009.

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 \$47,334 for the year ended June 30, 2009.

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, 2009 was \$19,000.

Police – Office space lease at 100 West Alisal Street, Steinbeck Post Office is currently on a month-to-month lease. Rent at \$1,425 per month. Cost of the lease was \$17,100 for year ended June 30, 2009.

Police/Fire – The 10 year lease of 801 Abbott Place will provide a facility for firefighters training, space for police storage and for maintenance equipment. Rent at \$12,750 per month. Total cost of the lease for the year ended June 30, 2009 was \$153,000.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt:

The following is a summary of Long Term Debt transactions for the fiscal year ended June 30, 2009.

	June 30, 2008	Increases	Decreases	June 30, 2009	Due Within One Year
Governmental Activities:					
Annual Leave	\$ 8,425,527	\$ 695,596	\$ 71,699	\$ 9,049,424	\$ 1,809,885
Estimated Insurance claims	1,075,567	1,060,926	-	2,136,493	
Net Pension Obligation	51,663	-	6,366	45,297	11,324
Capital Leases	1,310,453	-	194,951	1,115,502	254,314
Loans and Notes Payable:					
City Loan - Sunset Ave Project	-	3,395,900	3,395,900	-	
City Loan - Homeless Shelter	157,500	-	-	157,500	
Breadbox Gym Note Payable	162,030	-	34,913	127,117	38,404
Church Purchase Note Payable	-	200,000	13,433	186,567	37,054
Total Loans & Notes Payable	319,530	3,595,900	3,444,246	471,184	75,458
Certificates of Participation					
Series B-2005	11,020,000	-	365,000	10,655,000	375,000
Series A-1999	1,028,757	1,243	40,000	990,000	40,000
Series A-2002	2,525,000	-	60,000	2,465,000	65,000
Total Certificates	14,573,757	1,243	465,000	14,110,000	480,000
Tax Allocation Refunding Bonds:					
Series A-1996	6,345,000	-	580,000	5,765,000	610,000
Series A-1992	2,814,468	-	175,998	2,638,470	161,796
Total Bonds Payable	9,159,468	-	755,998	8,403,470	771,796
Assessment District 1915 Act Bonds	23,325,000	-	2,205,000	21,120,000	2,090,000
Government Activities	58,240,965	5,353,665	7,143,260	56,451,370	5,492,777
Business-type Activities					
Annual Leave	269,664	-	2,155	267,509	53,502
Capital Leases:					
Street Sweeper	217,659	-	76,878	140,781	38,538
Golf Course Equipment	16,915	-	16,915	-	-
Industrial Waste Lease	540,000	-	60,000	480,000	65,000
Airport Fuel Facility Lease	222,631	-	26,716	195,915	26,716
Total Leases	997,205	-	180,509	816,696	130,254
Bonds Payable:					
Sanitary Sewer Revenue Bonds	13,205,000	-	375,000	12,830,000	390,000
Certificates of Participation A-1999	3,951,243	-	3,951,243	-	-
Certificates of Participation A-2004	16,265,000	-	375,000	15,890,000	380,000
Certificates of Participation A-2005	7,485,000	-	285,000	7,200,000	290,000
Certificates of Participation 2008	-	4,660,000	-	4,660,000	-
Total Bonds Payable	40,906,243	4,660,000	4,986,243	40,580,000	1,060,000
Business-type Activities	42,173,112	4,660,000	5,168,907	41,664,205	1,243,756
Fiduciary Activities					
Annual Leave	124,393	47,286	4,013	167,666	33,533
Total Long-Term Liability	\$ 100,538,470	\$ 10,060,951	\$ 12,316,180	\$ 98,283,241	\$ 6,770,066

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

The annual requirements to amortize capital leases, loans and notes, certificates of participation and bonds outstanding as of June 30, 2009 by activity are as follows:

Fiscal Year Ending June 30,	Governmental-Wide Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 3,625,989	\$ 2,387,703	\$ 1,190,254	\$ 1,853,563
2011	3,615,397	2,225,492	1,237,023	1,807,844
2012	3,771,272	2,050,778	1,298,873	1,758,767
2013	4,102,678	1,862,328	1,331,495	1,705,004
2014	4,268,367	1,663,161	1,376,716	1,648,563
2015-2019	11,293,473	9,259,517	7,392,335	7,322,626
2020-2024	9,485,480	6,483,208	13,055,000	5,491,449
2025-2029	4,405,000	632,892	9,760,000	3,087,831
2030-2034	495,000	50,501	4,755,000	1,132,306
2035-2039	157,500	-	-	226,125
	<u>\$ 45,220,156</u>	<u>\$ 26,615,580</u>	<u>\$ 41,396,696</u>	<u>\$ 26,034,078</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, 2009 the liability for all compensated absences totaled \$9,484,599. It includes \$9,467,700 in annual leave and \$16,899 in sick leave. These amounts are reported on the financial statements in the following funds:

	June 30, 2008	Increases	Decreases	June 30, 2009	Due Within One Year
Governmental Activities:					
General Fund	\$ 7,679,535	\$ 693,248	\$ 4,792	\$ 8,367,991	\$ 1,673,596
Measure V	534,010	-	23,152	510,858	102,172
Special Revenue Funds	176,573	2,348	25,756	153,165	30,633
Debt Service Funds	11,493	-	217	11,276	2,255
Internal Service Funds	23,916	-	17,782	6,134	4,783
	<u>\$ 8,425,527</u>	<u>\$ 695,596</u>	<u>\$ 71,699</u>	<u>\$ 9,049,424</u>	<u>\$ 1,813,439</u>
Business-type Activities:					
Enterprise Funds	\$ 269,664	\$ -	\$ 2,155	\$ 267,509	\$ 53,502
Fiduciary Activities:					
Agency Funds	\$ 124,393	\$ 47,286	\$ 4,013	\$ 167,666	\$ 33,533

Estimated Insurance Claims

At June 30, 2009, the estimated insurance claims liability recorded in the Internal Service Funds is as follows:

Worker's Compensation	\$7,531,751
General Liability	<u>1,323,966</u>
Total	<u>\$8,855,717</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

An additional \$2,136,493 of Worker's Compensation claims liability is reported in the Long-Term Debt under estimated insurance claims.

Net Pension Obligation

At June 30, 2009, a negative Net Pension Obligation of \$45,297 is reported as determined by the September 1, 2008 actuarial valuation of the New York Life retirement plan.

Governmental Type Activities

Capital Leases

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

	Principal	Interest	Total
Fire Pumpers (4.53%), annual payments, expiring July 28, 2013	\$ 1,115,502	\$ 156,070	\$ 1,271,572

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 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:

Fiscal Year Ending June 30,

Later Years	\$157,500
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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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

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>
2010	\$ 38,404	\$ 12,712	\$ 51,116
2011	42,244	8,871	51,115
2012	46,469	4,646	51,115
	<u>\$ 127,117</u>	<u>\$ 26,229</u>	<u>\$ 153,346</u>

Church of the Nazarene Note Payable

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

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 42,007	\$ 8,650	\$ 50,657
2011	38,952	7,724	46,676
2012	40,900	4,803	45,703
2013	42,971	2,732	45,703
2014	21,737	557	22,294
	<u>\$ 186,567</u>	<u>\$ 24,466</u>	<u>\$ 211,033</u>

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).

On September 14, 2005, the Salinas Public Financing Authority issued City of Salinas Refunding Certificates of Participation Series 2005B (1997 Capital Improvement Projects). The Refunding Certificates were issued to refund Series A-1997 Certificates. Series 2005B 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 these refunding liens removed from the City's Public Safety Building, 65 West Alisal Building

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

and Steinbeck Library. Refunding Certificates 2005B are rated Aaa (insured by Ambac) with an underlying AAAM rating from Standard and Poor's. In conjunction with this refunding, Standard and 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
2010	\$ 375,000	\$ 413,780	\$ 788,780
2011	390,000	401,330	791,330
2012	395,000	387,593	782,593
2013	415,000	373,418	788,418
2014	425,000	358,717	783,717
2015-2019	2,375,000	1,550,451	3,925,451
2020-2024	2,830,000	1,048,314	3,878,314
2025-2029	3,450,000	388,892	3,838,892
	<u>\$ 10,655,000</u>	<u>\$ 4,922,495</u>	<u>\$ 15,577,495</u>

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 2005A (Twin Creeks Golf Course). The Refunding Certificates were issued to refund the portion of Series A-1999 Certificates attributed to Twin Creeks Golf Course (\$7,210,000). The outstanding Refunding Certificates Series 2005A of \$8,005,000 is reported in the Golf Course Enterprise Fund.

The portion of Series A 1999 Certificates attributed to the Animal Shelter and Fairways Golf Course remained not refunded until August 2008, when the Fairways Golf Course portion was refunded by Series 2008 Certificates. The annual debt service requirements for Animal Shelter are illustrated in table below and they are reported as Governmental activities. New Series 2008, refunding Certificates of Participation for Fairways Golf Course are reported as Business-type activities.

Debt service requirements to maturity are as follow:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 40,000	\$ 47,250	\$ 87,250
2011	40,000	45,550	85,550
2012	45,000	43,722	88,722
2013	45,000	41,765	86,765
2014	45,000	39,763	84,763
2015-2019	270,000	161,250	431,250
2020-2024	340,000	85,500	425,500
2025-2027	165,000	8,375	173,375
	<u>\$ 990,000</u>	<u>\$ 473,175</u>	<u>\$ 1,463,175</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

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 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 \$2,465,000 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 for Steinbeck Center are as follow:

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 65,000	\$ 118,426	\$ 183,426
2011	65,000	115,989	180,989
2012	70,000	113,389	183,389
2013	70,000	110,589	180,589
2014	75,000	107,614	182,614
2015-2019	420,000	485,993	905,993
2020-2024	525,000	375,000	900,000
2025-2029	680,000	228,750	908,750
2029-2032	495,000	50,501	545,501
	<u>\$ 2,465,000</u>	<u>\$ 1,706,251</u>	<u>\$ 4,171,251</u>

Tax Allocation Bonds

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

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

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

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

Assessment Districts Bonds

At June 30, 2009, outstanding Assessment District Bonds totaled \$21,120,000. 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 bonds payments from the special reserve fund and to foreclosure on delinquent property.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2010	\$ 2,090,000	\$ 1,089,906	\$ 3,179,906
2011	2,030,000	982,117	3,012,117
2012	2,130,000	869,211	2,999,211
2013	2,450,000	745,897	3,195,897
2014	2,580,000	611,035	3,191,035
2015-2019	6,520,000	1,611,794	8,131,794
2020-2024	3,210,000	433,571	3,643,571
2025-2027	110,000	6,875	116,875
	<u>\$ 21,120,000</u>	<u>\$ 6,350,406</u>	<u>\$ 27,470,406</u>

Business-Type Activities

Capital Leases

Street Sweepers

On August 17, 2004, the City of Salinas purchased a street sweeper using lease purchase financing. Annual payments were \$41,750, including interest at 4.29% for five years. Last payment was made in December 1, 2008.

The City, using lease purchase financing, purchased another street sweeper on June 12, 2007. The City of Salinas will make five annual payments of \$45,000 and a sixth remaining payment of \$20,686. Debt payable of \$140,781 for all sweepers is recorded in the Storm Sewer Enterprise Fund at June 30, 2009.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

Debt service requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 38,538	\$ 6,462	\$ 45,000
2011	40,307	4,693	45,000
2012	42,157	2,843	45,000
2013	19,779	908	20,687
	<u>\$ 140,781</u>	<u>\$ 14,906</u>	<u>\$ 155,687</u>

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 \$480,000 is recorded in the Industrial Waste Enterprise Fund at June 30, 2009.

Debt service requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 65,000	\$ 33,563	\$ 98,563
2011	70,000	28,500	98,500
2012	75,000	23,062	98,062
2013	85,000	17,063	102,063
2014	90,000	10,500	100,500
2015	95,000	3,562	98,562
	<u>\$ 480,000</u>	<u>\$ 116,250</u>	<u>\$ 596,250</u>

Airport Fuel Facility Lease

On December 12, 2007 the City Council entered 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 Coast for the costs of construction and installation of \$250,000 and to credit the total amount of rent due under the Fuel Facility and Offices Leases for a ten year period. The Airport has paid \$99,377 toward the cost and rent credits have been applied to the total cost leaving an outstanding balance of \$195,915 for fiscal year ending June 30, 2009.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

Debt service requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 26,716	\$ -	\$ 26,716
2011	26,716	-	26,716
2012	26,716	-	26,716
2013	26,716	-	26,716
2014	26,716	-	26,716
2015-2017	62,335	-	62,335
	<u>\$ 195,915</u>	<u>\$ -</u>	<u>\$ 195,915</u>

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 \$12,830,000 is recorded in the Sanitary Sewer Enterprise Fund at June 30, 2009.

Debt service requirements and maturity are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	450,000	567,585	1,017,585
2014	470,000	545,280	1,015,280
2015-2019	2,735,000	2,341,375	5,076,375
2020-2024	3,490,000	1,567,250	5,057,250
2025-2029	4,455,000	578,875	5,033,875
	<u>\$ 12,830,000</u>	<u>\$ 7,423,915</u>	<u>\$ 20,253,915</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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

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 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 of \$575,000) and refinanced that golf course portion with a new Refunding issue of Certificate of Participation.

On September 14, 2005, the Salinas Public Financing Authority issued City of Salinas Refunding Certificates of Participation Series 2005A, in the amount of \$8,005,000, to refund the portion of the 1999 Certificates attributed 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 2005A Certificates (\$572,308) will be paid by the annual lease payments (\$575,000) from Future Citizens 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 ultimately responsibility of the City.

Debt service requirements to maturity for the Twin Creeks Golf Course is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 290,000	\$ 274,208	\$ 564,208
2011	300,000	264,608	564,608
2012	310,000	253,933	563,933
2013	320,000	242,908	562,908
2014	335,000	231,445	566,445
2015-2019	1,845,000	967,676	2,812,676
2020-2024	2,230,000	574,698	2,804,698
2025-2029	1,570,000	104,094	1,674,094
	<u>\$ 7,200,000</u>	<u>\$ 2,913,570</u>	<u>\$ 10,113,570</u>

Refunding Certificates Series 2005A 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 funding 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 2005A are secured by a lien on Twin Creeks golf course.

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

Certificates of Participation, Series A-2008 – Fairways Golf Course

On August 2008, the City of Salinas was issued Refunding Certificates of Participation Series 2008, in the amount of \$4,660,000, to refund the outstanding portion of the 1999 Certificates pertaining to the Fairways Golf Project. Bond started September 1st, 2008 and will end after 30 years on September 1st, 2038. Following the execution and delivery of the Certificates of Participation Series 2008, the 1999 Certificates, attributed to the animal shelter, will remain outstanding.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

The annual debt service requirements to maturity for Fairways Golf Course are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	\$ 209,700	\$ 209,700
2011	-	209,700	209,700
2012	10,000	209,700	219,700
2013	15,000	209,250	224,250
2014	25,000	208,575	233,575
2015-2019	250,000	1,019,250	1,269,250
2020-2024	520,000	939,825	1,459,825
2025-2029	910,000	790,425	1,700,425
2030-2034	1,305,000	546,750	1,851,750
2035-2039	1,625,000	226,125	1,851,125
	<u>\$ 4,660,000</u>	<u>\$ 4,569,300</u>	<u>\$ 9,229,300</u>

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

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.

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. Both the public parking structure and multiplex movie theatre complex were completed and opened during July 2005.

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>
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	415,000	667,291	1,082,291
2014	430,000	652,763	1,082,763
2015-2019	2,405,000	2,990,764	5,395,764
2020-2024	2,975,000	2,409,675	5,384,675
2025-2029	3,735,000	1,614,438	5,349,438
2030-2034	4,755,000	585,554	5,340,554
	<u>\$ 15,890,000</u>	<u>\$ 10,996,137</u>	<u>\$ 26,886,137</u>

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

18. Long Term Debt: (Continued)

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.

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, 2009 the total conduit debt outstanding related to these bonds is \$5,115,000.

In June 14, 2007, the City of Salinas issued Economics 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, 2009, total conduit debt outstanding related to the Economic Development Revenue Bonds is \$19,340,000.

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.

19. Legal Liability on Assessment Bonds Payable:

In accordance with Governmental Accounting Standards Board Statement No. 6, the City included it's 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 bonds payments from the special reserve fund and to foreclose on the delinquent property owner. As of June 30, 2008, assessment bonds outstanding are \$21,120,000. On March 2nd, 2009, there was a bond call in the amount of \$180,000, which reduced the outstanding balance. This is reflected in the annual debt service table for Assessment District Bonds in the long-term debt. The Assessment District Reserve Fund balance is \$2,919,122 at June 30, 2009.

20. Restricted Net Assets:

The government-wide statement of net assets reports \$68,316,399 of restricted net assets, of which enabling legislation restricts \$1,031,478 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

21. Deficit Fund Equities:

The following are deficit fund equities at June 30, 2009:

Enterprise Funds – Municipal Golf Courses Fund \$3,170,369.

The deficit net assets in Municipal Golf Courses Fund of \$3,170,369 represents the amount of debt issued for the purchase of capital assets that exceed the value of those capital assets net of accumulated depreciation. Cash flow advances made out the General Fund totaling \$4,385,000 since fiscal year 2001-02 were forgiven by Council on June 3, 2008 with the approval of a twenty-year private management agreement for the operation of the Fairways Golf Course. Twin Creeks Golf Course continues under the sub-lease agreement with the Future Citizens Foundation, dba The First Tee of Monterey County to operate and manage the Golf Course.

Enterprise Funds – Downtown Parking District Fund \$314,509.

The deficit fund equity in the Downtown Parking District Fund of \$314,509 is due to a significant reduction of revenue and an increase in operating expenses.

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 had no measurable equity interest in the Authority and does not receive a share of operating results.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

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 those 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 on 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 monies available and the cumulative amounts expended by the Merged Redevelopment Project. Statutory pass through payments for the Sunset Avenue Project totaled \$855,159 for fiscal year ending June 30, 2009.

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

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

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

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

23. Commitments and Contingent Liabilities: (Continued)

loans of the Steinbeck Center used to construct the Steinbeck Center building and release the collateral posted by the Agency. In addition, the funds repaid and 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 Certificated 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 has also 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 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 the debt service with respect to the Certificates, however, such revenues are not pledged to the payment of debt service, and no assurance can be given that parking revenues will be sufficient to pay for debt service with respect to the Certificates.

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

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

23. Commitments and Contingent Liabilities: (Continued)

State Budget Implications – The State of California has a history of balancing its budget using local government resources. Annual property tax shifts began in the early 1990s and have not been restored. While Proposition 1A (2004) protects local government property tax, sales tax and vehicle license fees, the State legislature can upon a two-thirds vote, borrow these funds. In spite of that protection, as part of the 2009-2010 budget package, the California Legislature suspended the local agency protections of Proposition 1A and passed a provision to withhold more than \$2 billion of property tax revenue from cities, counties and special districts. In a plan equivalent to a “forced loan”, the State exercised the right to hold those funds to close the budget gap, with the intent to repay these local government agencies in three years. As an alternative, the budget package also permitted the establishment of a third-party securitization program for local governments to use to relieve the burden of loaning the state property tax revenues. The City was a participant in this voluntary program and all costs of issuance and interest incurred were paid by the State. This allowed the City to maintain 100-percent of its receivables. The bonds were issued on November 19th by the California Statewide Communities Development Authority and the first of two payments was received on January 15, 2010 in the amount of \$1,239,771 with a second payment due on May 3, 2010 in the same amount.

SERAF shift of property tax increments from the Salinas Redevelopment Agency began in FY 2002-03 and continued through FY 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. The State of California FY 2009-10 budget included an ERAF shift of property tax increments to schools. An estimated payment of \$2,230,576 is due in May 2010. The California Redevelopment Association (CRA) filed on October 2009 a lawsuit in Sacramento Superior Court to stop ABX4-26, a state budget trailer bill passed in July 2009 as part of the 2009-10 State budget. ABX4-26 authorizes a \$2.05 billion raid of local redevelopment funds to use for state purposes. The lawsuit challenges the constitutionality of ABX4-26 and seeks to prevent the State from taking redevelopment funds for non-redevelopment purposes. This is the second lawsuit filed by CRA.

Under the state’s existing cash management plan for FY 2009-10, local HUTA revenues were among a variety other revenues being deferred and are scheduled to be repaid in April, 2010. The City of Salinas received its last HUTA payment in September 2009. State budget for FY 2010-11 includes a change in allocation of sales tax on gasoline that is currently 6 percent, but will go back down to 5 percent in FY 2011-12. At \$3 per gallon, the 6 percent sales tax on gasoline equates to about 18 cents per gallon. The proposal would repeal the sales tax on gas, and create a new excise tax of 17.3 cents per gallon beginning July 1, 2010. Beginning in FY 2011-12, the Board of Equalization would be required to adjust the tax so that it is consistent with the estimated revenues from the repealed 5 percent sales tax on gas. Under this new formula, 50 percent of the revenues will be evenly split between cities and counties using current Highway User Tax Account (HUTA) formulas.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

24. Subsequent Events:

1. Amendment to the California Public Employees Retirement Plan for Miscellaneous Employees

On November 17, 2009, as part of the City's longer-term cost saving measures and to assist in the balancing of FY 2010-11 budget, The City Council adopted a Resolution of Intention to provide an open enrollment period for the City employees in the miscellaneous group who were participants of the Local Retirement System "New York Life" Plan. The City's goals were to reduce employee retirement plan costs, and provide a retirement incentive to employees to minimize potential layoffs. Thirty-five employees of the seventy-six participants in the New York Life Plan decided to transfer to the California Public Employees Retirement System representing cost savings of about \$300,000 annually. The effective date of the contract amendment was January 25, 2010.

2. Budget Balancing Efforts

The City Council and city staff have been engaged since July 2009 in determining a strategy to address the projected deficit of \$12.4 million in FY 2010-11. At its hearing on June 30, 2009, the City Council directed staff to develop a General Fund/Measure V budget balancing plan for FY 2010-11, inclusive of service level reductions and new revenue alternatives. Over the following seven months budget reductions and revenue alternatives were discussed in several forums including, two City Council meetings, the "Budget Congress" that involved all City commissions and committees, one Measure V Committee meeting, three community meetings, two City Council Workshops, over twenty City Council Finance Committee meetings and the formation of a "Blue Ribbon" Committee. Additionally, City employee input was solicited at employee briefings and union leadership meetings.

On, February 17, 2010, City Council's Finance Committee reviewed mid-year revenue estimates that included additional revenue declines in property tax, utility users' tax, investment earnings, and other revenue totaling \$800,000 (annual revenues were down 19.7% or \$18.4 million from projections made prior to the recession/housing downturn). These revenue declines increased the budget shortfall in FY 2010-11 from \$9.5 million to \$10.3 million. To mitigate the revenue decline during FY 2009-10 budget, staff implemented a hiring freeze for all City departments. On March 2, 2010, the Monterey County Tax Assessor forecasted a \$2.1 million (10%) decline in property tax for FY 2010-11, increasing the budget shortfall to \$12.4 million. Approved FY 2010-11 budget/service reductions total \$9.8 million, were 11.2% of the General Fund/Measure V budgets and included 79 full time positions. Additional budget reductions will be required to balance the budget for FY 2010-11.

3. Fiscal Year 2010 State Budget Impacts

On July 28, 2009, Governor Schwarzenegger signed a package of bills to close the State's fiscal year 2009-10 \$23.0 billion budget shortfall. The following are the significant impacts to the City and the Redevelopment Agency as a result of the State's actions:

Borrows City Property Taxes – The State's suspension of Proposition 1A would divert \$1.9 billion of local government property tax revenues in fiscal year 2009-10. The suspension diverts 8% of the total property tax revenues received by cities, counties and

CITY OF SALINAS
Notes to Financial Statements
June 30, 2009

24. Subsequent Events: (Continued)

special districts in 2009-10 (excluding debt levies). The county auditors are instructed to shift 8% of each local government's share of property taxes to the county-level Supplemental Revenue Augmentation Fund to fund K-12 schools and other State programs that would otherwise be funded from the State General Fund. The State must repay the amount shifted, with interest, no later than June 30, 2013. The City's Proposition 1A property tax shift is \$2,497,542. In addition to suspending Proposition 1A, the 2009 State Budget package also authorized the securitization of Proposition 1A Receivables. California Communities has been authorized to implement the Proposition 1A Securitization Program to enable local agencies to sell their respective Proposition 1A Receivable to California Communities. Under the Securitization Program, California Communities will simultaneously purchase the Proposition 1A Receivable from participating local agencies, issue bonds, and provide each participating local agency with the cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010, to coincide with the dates that the State will be shifting property tax from local agencies thereby not impacting the City's expected cash flow. The purchase price of Proposition 1A Receivable paid to the local agencies will equal 100% of the amount of the property tax reduction. All transaction costs of issuance and interest will be paid by the State of California. Participating local agencies will have no obligation on the bonds and no credit exposure to the State.

On October 20, 2009, City Council adopted a resolution approving the sale of the City's Proposition 1A Receivable from the State of California. The proceeds of the sale are expected to be received in two equal installments, on January 15, 2010 and May 3, 2010 to offset the City's reduced property tax allocation in fiscal year 2009-10 due to the State's suspension of Proposition 1A.

Supplemental Educational Revenue Augmentation Fund (SERAF) Taxes – On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26x 4, which requires redevelopment agencies statewide to deposit a total of \$2.1 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.1 billion will be made over two years, \$1.7 billion in fiscal year 2010 and \$350,000,000 in fiscal year 2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately \$2,230,576 in fiscal year 2009-10 and \$458,794 in fiscal year 2010-11. Payments are to be made by May 10 of each respective fiscal year. In response to AB 26x 4, the Agency will attempt to renegotiate the tax sharing and other payment agreements with the County of Santa Clara by deferring payments for the next three years and negotiate with the City in obtaining a loan from the Housing 20% Set-aside Funds.

On October 20, 2009, the California Redevelopment Association (CRA) together with two redevelopment agencies filed a lawsuit in Sacramento Superior Court challenging the constitutionality of AB 26x 4. The lawsuit asserted that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserted impairment of contract and gift of public funds arguments.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

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Fiscal Year Ended June 30, 2009

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.

BUDGETARY INFORMATION

The adopted FY 2008-09 budget represents the financial and organizational plan by which the policies and programs approved by the City Council will be implemented. It includes: (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget for a second fiscal year (2009-10) plan is also presented for planning purpose only. On January 12, 2008 the City Council held its annual goals and objectives session during which the previously adopted 2007 goals were re-affirmed. The four (4) goals are:

- Economic Vitality – develop, enhance, and protect an expanded local economic base
- Salinas as a City of Peace
- Image of the Community
- Consistent Community Outreach and Engagement

On May 23, 2008, 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 FY 2008-09 Annual Operating Budgets on May 23, 2008. An updated Six-Year Capital Improvement Budget for FY 2008-09 was also adopted on May 23, 2008. The Capital Improvement Budget is generally updated every two years.

Annual budgets are prepared for the General Government Funds, Internal Service, Enterprise Operations, Assessment and maintenance Districts, Block Grant and Home programs, certain Grant and City Agencies, Deferred Compensation and Retirement, Debt Service, Redevelopment Agency and Capital Project Funds.

The annual appropriation resolution adopts the budget at an appropriation level by fund, with a detail expenditure by departments and programs included in the budget document.

Capital project budget is updated annually with major revisions occurring every two years. Major revisions to the CIP were made during FY 2008-09 through FY 2013-14. Potential investments of \$364,591,800 were identified for the six (6) year period from July 1, 2008, to June 30, 2014. The required investments range from deferred maintenance needs of existing facilities (e.g. fire station repairs) to the construction of long overdue new and expanded facilities (e.g. a new police facility and the expansion of Chavez Library) necessary to continue providing basic services to the residents of Salinas. The CIP projects were funded from a variety of sources, including very modest General Fund investments. Due to the economic downturn and the requirement to balance the two-

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year General Fund Operating Budget, almost \$2,700,000 of capital projects were reduced or cancelled.

The General Fund fund balance decreased \$10,410,419 to \$13,530,212, of which \$6,156,637 is reserved and \$7,373,575 is unreserved.

The General Fund unreserved fund balance of \$7,373,575 includes designated funds of \$6,243,305 and undesignated funds of \$1,130,270. The designated fund balance of \$6,243,305 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 \$1,130,270 is available for allocation and expenditure at June 30, 2009. General Fund resources available for expenditure at June 30, 2009 total \$3,304,857, including the operating reserve of \$1,034,987, the capital projects reserve of \$1,139,600 and the undesignated fund balance of \$1,130,270. General Fund reserves have been set-aside by Council for specific purposes.

After the allocation of the June 30, 2009 budget carryover, General Fund reserves available for expenditure at June 30, 2009 are \$3,304,857, inclusive of a capital projects reserve for projects budgeted in both FY 2009-10 and FY 2010-11 of \$1,139,600, an operating reserve of \$2,165,257.

Measure V is a general tax and is reported as part of the General Fund. The Measure V fund balance decreased \$903,313 to \$4,515,344, of which \$54,245 is reserved and \$4,461,099 is unreserved.

Of the \$4,461,099 Measure V unreserved fund balance, \$3,277,399 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 Undesignated fund balance is \$1,183,700.

Measure V reserved fund balance at June 30, 2009 totals \$54,245 and represents the reserves for encumbrances. Measure V reserves have been set-aside by Council for specific purposes.

BUDGETARY RESULTS RECONCILED TO GAAP

The budgetary process is based upon accounting for certain transactions on a basis other than the accounting principles generally accepted in the United States (GAAP) basis. The results of operations are presented in the accompanying budget and actual comparison schedules in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget. The major differences between the budgetary basis actual and GAAP basis are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until the equipment, supplies, or services are received.
- Certain loan transactions are recognized as expenditures for the budgetary basis but not for the GAAP basis. When these loans are made, they are recorded as receivables

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for the GAAP basis and as expenditures for the budgetary basis. When loan repayments are received, they are recorded as reductions to receivables for the GAAP basis, but are recognized as revenues for the budgetary basis.

- Certain accounts such as the change in fair value of investments included in the City's GAAP basis amounts, for which no formal budgets are prepared, are excluded from the budgetary basis financial statements.
- Certain grant revenues received in advance are recognized on the budgetary basis financial statements, but are deferred and not recognized as revenue on the GAAP basis financial statements. This process normally creates a variance in recognized revenue from the prior year to the current year.

BUDGET REVISIONS

The following is a summary of the actions taken after the approval of the Fiscal year 2008-09 budget:

- *General Fund Budget was balanced with the use of \$6.9 million of reserves.*
- *During June-August 2008, further declines in sales tax and property tax revenues accelerated the use of General Fund Reserves.*
- *During October 2008, \$3.1 million of capital projects were reduced.*
- *During November 2008, Budget savings of \$3.4 million was achieved through spending and hiring freezes.*
- *During March-May 2009, Negotiated employee concessions totaling \$12 million over a two-year period were achieved.*

The budget amounts presented in the accompanying schedule of revenues, expenditures, and changes in fund balances – budget and actual (budgetary basis) reflect such budget revisions.

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Budgetary Comparison Schedule
General Fund and Measure V
Fiscal Year Ended June 30, 2009

2009

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2008	\$ 29,359,288	\$ 29,359,288	\$ 29,359,288	\$ -
Resources (inflows):				
Taxes:				
Sales	18,100,000	16,450,000	15,139,365	(1,310,635)
In-lieu Sales	6,000,000	5,550,000	5,349,783	(200,217)
Transactions and Use	10,350,000	9,550,000	8,894,251	(655,749)
Property	14,970,000	14,340,000	14,056,251	(283,749)
Property-Vehicle License Fees	12,450,000	11,500,000	11,483,389	(16,611)
Utility	8,900,000	8,600,000	8,488,643	(111,357)
Business License	4,300,000	4,100,000	4,148,463	48,463
Franchise	3,445,000	3,510,000	3,773,558	263,558
Other	1,765,000	1,750,000	1,592,701	(157,299)
Licenses and Permits	37,000	37,000	24,090	(12,910)
Intergovernmental	1,583,000	1,488,000	1,554,046	66,046
Charges for Services	5,345,700	5,060,700	5,043,707	(16,993)
Interest	700,000	600,000	534,121	(65,879)
Miscellaneous	181,000	256,000	290,132	34,132
Operating Transfers In	1,325,000	1,325,000	2,100,000	775,000
Total Resources	<u>89,451,700</u>	<u>84,116,700</u>	<u>82,472,500</u>	<u>(1,644,200)</u>
Charges to Appropriations (outflows):				
General Government	11,755,595	12,028,040	12,204,038	(175,998)
Public Safety	50,862,335	52,161,590	54,694,654	(2,533,064)
Public Works	15,760,355	15,790,839	14,795,430	995,409
Recreation	3,736,564	3,799,478	3,777,805	21,673
Library	4,491,052	4,491,052	3,997,758	493,294
Capital Outlay	364,438	288,161	49,654	238,507
General Fund Advance Forgiven				
Transfers Out	9,495,306	6,945,148	4,266,893	2,678,255
Total Charges to Appropriations	<u>96,465,645</u>	<u>95,504,308</u>	<u>93,786,232</u>	<u>1,718,076</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(7,013,945)</u>	<u>(11,387,608)</u>	<u>(11,313,732)</u>	<u>73,876</u>
Fund Balance, June 30, 2009	<u>\$ 22,345,343</u>	<u>\$ 17,971,680</u>	<u>\$ 18,045,556</u>	<u>\$ 73,876</u>

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Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Measure V Fund
Fiscal Year Ended June 30, 2009

2009

	Original Budget	Amended Budget	Actual	Variance with Final Budget
Fund Balance, July 1, 2008	\$ 5,418,657	\$ 5,418,657	\$ 5,418,657	\$ -
Resources (inflows):				
Taxes:				
Transaction and Use Tax	10,350,000	9,550,000	8,894,251	(655,749)
Interest	100,000	100,000	101,163	1,163
Miscellaneous			854	854
Total Resources	<u>10,450,000</u>	<u>9,650,000</u>	<u>8,996,268</u>	<u>(653,732)</u>
Charges to Appropriations (outflows):				
General Government	763,009	763,009	673,837	89,172
Public Safety	2,233,435	2,233,435	1,744,471	488,964
Public Works	1,253,245	1,253,245	957,605	295,640
Recreation	1,178,660	1,178,660	1,090,465	88,195
Library	4,491,052	4,491,052	3,997,758	493,294
Capital Outlay	24,038	24,038	23,825	213
Transfers Out	3,800,406	2,656,314	1,411,620	1,244,694
Total Charges to Appropriations	<u>13,743,845</u>	<u>12,599,753</u>	<u>9,899,581</u>	<u>2,700,172</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(3,293,845)</u>	<u>(2,949,753)</u>	<u>(903,313)</u>	<u>2,046,440</u>
Fund Balance, June 30, 2009	<u>\$ 2,124,812</u>	<u>\$ 2,468,904</u>	<u>\$ 4,515,344</u>	<u>\$ 2,046,440</u>

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Housing and Urban Development Fund
Fiscal Year Ended June 30, 2009

	2009			
	Original Budget	Amended Budget	Actual	Variance with Final Budget
Fund Balance, July 1, 2008	\$ 241,105	\$ 241,105	\$ 241,105	\$ -
Resources (inflows):				
Intergovernmental	4,538,050	4,538,050	4,558,299	20,249
Interest	2,500	2,500	1,270	(1,230)
Miscellaneous	250,000	250,000	123,543	(126,457)
Total Resources	<u>4,790,550</u>	<u>4,790,550</u>	<u>4,683,112</u>	<u>(107,438)</u>
Charges to Appropriations (outflows):				
General Government	3,629,050	6,003,574	3,821,469	2,182,105
Transfers Out	800,000	995,225	876,466	118,759
Total Charges to Appropriations	<u>4,429,050</u>	<u>6,998,799</u>	<u>4,697,935</u>	<u>2,300,864</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>361,500</u>	<u>(2,208,249)</u>	<u>(14,823)</u>	<u>2,193,426</u>
Fund Balance, June 30, 2009	<u>\$ 602,605</u>	<u>\$ (1,967,144)</u>	<u>\$ 226,282</u>	<u>\$ 2,193,426</u>

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Development Fees Fund
Fiscal Year Ended June 30, 2009

2009

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2008	\$ 19,033,740	\$ 19,033,740	\$ 19,033,740	\$ -
Resources (inflows):				
Charges for Services	1,065,500	921,000	922,691	1,691
Interest	296,000	476,000	444,523	(31,477)
Total Resources	<u>1,361,500</u>	<u>1,397,000</u>	<u>1,367,214</u>	<u>(29,786)</u>
Charges to Appropriations (outflows):				
Transfers Out	<u>3,275,000</u>	<u>11,873,581</u>	<u>2,077,658</u>	<u>9,795,923</u>
Total Charges to Appropriations	<u>3,275,000</u>	<u>11,873,581</u>	<u>2,077,658</u>	<u>9,795,923</u>
Excess of Resources Over (Under) Charges to Appropriations	<u>(1,913,500)</u>	<u>(10,476,581)</u>	<u>(710,444)</u>	<u>9,766,137</u>
Fund Balance, June 30, 2009	<u>\$ 17,120,240</u>	<u>\$ 8,557,159</u>	<u>\$ 18,323,296</u>	<u>\$ 9,766,137</u>

**SCHEDULE OF
FUNDING PROGRESS
RETIREMENT PROGRAMS**

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
06/30/07						
Safety Fire *	\$ 7,986,055,176	\$ 6,826,599,459	\$ 1,159,455,717	85.5%	\$ 831,607,658	139.4%
Safety Police	145,056,902	122,292,310	22,764,592	84.3%	15,326,560	148.5%
Miscellaneous	32,643,889	27,097,605	5,546,284	83.0%	12,982,187	42.7%
06/30/06						
Safety Fire *	7,278,049,834	6,102,615,567	1,175,434,267	83.8%	754,730,438	155.7%
Safety Police	135,391,829	112,424,701	22,967,128	83.0%	14,036,339	163.6%
Miscellaneous	29,280,508	23,606,229	5,674,279	80.6%	10,614,334	53.5%
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%

* 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)
09/01/07	\$ 19,439,416	\$ 12,114,163	\$ 12,114,163	\$ 4,173,341	290.3%	290.3%
09/01/06	19,185,746	10,403,408	10,403,408	4,482,434	232.1%	232.1%
09/01/05	18,493,011	12,127,776	12,127,776	4,578,741	264.9%	264.9%

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.

CITY OF SALINAS
Schedule of Funding Progress
For Other Post Employment Benefits (OPEB)
Last Three Years

Actuarial Valuation Date	Present Value of Benefits	Unfunded Actuarial Accrued Liability	Annual Required Contribution (ARC)	Covered Payroll	ARC as a Percentage Payroll
06/30/07	\$ 23,904,000	\$ 13,954,000	\$ 1,591,000	\$ 37,850,000	4.2%
06/30/06	23,904,000	13,954,000	1,591,000	37,850,000	4.2%
06/30/05	-	-	-	-	-

**CLAIMS DEVELOPMENT
SELF INSURANCE
PROGRAMS**

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net earned required contribution and investment revenues	\$ 1,410,921	\$	\$	\$	\$	\$	\$	\$	\$	\$
Unallocated expenses	156,847	22,821	79,270							
Estimated incurred claims and expenses, end of policy year	745,074									
Paid Claims as of:										
End of policy year	726,674									
One year later	726,674									
Two years later	726,674									
Three years later	726,674									
Four years later	726,674									
Five years later	726,674									
Six years later	726,674									
Seven years later	726,674									
Eight years later	726,674									
Nine years later	726,674									
Reestimated incurred claims and expenses:										
End of policy year	745,074									
One year later	726,674									
Two years later	726,674									
Three years later	726,674									
Four years later	726,674									
Five years later	726,674									
Six years later	726,674									
Seven years later	726,674									
Eight years later	726,674									
Nine years later	726,674									

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net earned required contribution and investment revenues	\$ 1,046,115	\$ 4,761,826	\$ 1,147,873	\$ 4,475,047	\$ 4,149,058	\$ 3,505,072	\$ 2,778,669	\$ 3,164,817	\$ 3,057,272	\$ 2,043,505
Unallocated expenses	242,998	280,917	213,935	238,297	298,405	190,140	333,401	262,483	285,455	214,582
Estimated incurred claims and expenses, end of policy year	683,596	1,437,162	803,863	1,638,917	884,881	365,761	573,047	985,428	830,790	1,039,527
Paid Claims as of:										
End of policy year	226,184	531,327	337,595	523,536	381,349	86,965	172,929	368,902	286,530	423,304
One year later	603,248	967,462	955,731	1,445,346	646,877	598,110	442,713	770,525	976,701	
Two years later	841,216	1,525,619	1,285,960	1,315,046	1,258,171	930,440	564,497	916,943		
Three years later	1,165,160	2,182,978	1,639,282	2,234,558	1,364,326	1,179,374	670,100			
Four years later	1,456,185	2,199,416	1,908,898	2,447,722	1,492,652	1,432,898				
Five years later	2,579,035	2,657,619	2,092,574	2,520,320	1,591,470					
Six years later	1,904,618	2,745,688	2,208,878	2,593,256						
Seven years later	1,990,157	2,892,935	2,125,698							
Eight years later	2,042,745	3,003,853								
Nine years later	2,061,572									
Reestimated incurred claims and expenses:										
End of policy year	683,596	1,437,162	803,863	1,638,917	884,881	365,761	573,047	985,428	830,790	1,039,527
One year later	1,422,221	1,701,099	1,733,044	2,795,346	1,417,837	1,474,307	808,841	1,250,090	1,794,518	
Two years later	1,570,347	2,525,806	1,982,692	2,376,572	2,001,544	1,648,658	928,207	1,128,907		
Three years later	1,785,987	3,313,828	2,336,243	2,955,286	2,030,432	1,686,940	872,237			
Four years later	2,023,759	3,142,608	2,664,479	3,069,088	1,929,366	1,914,075				
Five years later	3,471,007	3,466,913	2,848,147	3,099,424	1,942,370					
Six years later	2,193,165	3,521,841	2,997,310	2,895,825						
Seven years later	2,255,699	3,754,996	2,893,110							
Eight years later	2,261,500	3,557,950								
Nine years later	2,233,105									

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net earned required contribution and investment revenues	\$ 467,389	\$ 632,196	\$ 849,782	\$ 522,712	\$ 497,091	\$ 792,050	\$ 1,070,533	\$ 1,182,409	\$ 892,752	\$ 935,129
Unallocated expenses	246,724	267,154	352,255	408,817	416,248	381,750	395,222	376,213	370,771	371,076
Estimated incurred claims and expenses, end of policy year	117,282	157,251	495,393	13,564	18,734	87,777	32,657	30,502	56,732	238,703
Paid Claims as of:										
End of policy year	8,692	2,211	13,724	9,381	12,823	27,599	7,560	17,711	24,230	43,408
One year later	54,067	77,900	55,162	34,073	86,364	174,067	185,850	138,651	156,683	
Two years later	184,800	48,917	75,637	384,408	103,591	627,037	186,424	320,071		
Three years later	520,517	48,917	200,433	438,986	143,679	831,228	186,424			
Four years later	520,517	3,762	576,931	439,507	197,741	953,978				
Five years later	391,866	3,762	587,953	439,507	226,482					
Six years later	391,866	3,762	587,953	439,507						
Seven years later	391,866	3,762	587,953							
Eight years later	391,866	77,900								
Nine years later	391,866									
Reestimated incurred claims and expenses:										
End of policy year	117,282	157,251	495,393	13,564	18,734	87,777	32,657	30,502	56,732	238,703
One year later	184,880	96,693	600,238	315,468	90,628	332,764	189,355	297,814	753,135	
Two years later	185,900	60,293	625,823	428,290	125,215	666,564	186,424	443,240		
Three years later	570,517	48,917	722,874	459,677	150,214	852,482	186,424			
Four years later	520,517	3,762	576,931	439,507	203,005	953,978				
Five years later	391,866	3,762	597,355	439,507	226,482					
Six years later	391,866	3,762	587,953	439,507						
Seven years later	391,866	3,762	587,953							
Eight years later	391,866	77,900								
Nine years later	391,866									

**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.

Cable Franchise - This fund accounts for broadcasting of City Council Meetings.

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.

Non-Major Governmental Funds

These funds are used to improve and increase the supply of low and moderate income housing within the City.

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

Non-Major Governmental Funds

reimbursement agreement the Salinas Redevelopment Agency is responsible for the debt service. As with any City sponsored debt, the City's General Fund is 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, 2009

SPECIAL REVENUE FUNDS

	Emergency Medical Services	Asset Seizure	Lighting, Landscape and Maintenance District	Local Public Safety	Gas Tax
Assets:					
Cash and Investments	\$ 202,379	\$ 9,154	\$ 2,774,554	\$ 112,873	\$ 2,653,265
Cash and Investments Restricted	-	-	-	-	-
Accounts Receivable	-	-	-	-	-
Interest Receivable	-	25	9,197	25	9,299
Due from Other Agencies	-	-	-	371,532	185,496
Due from Other Funds	-	-	-	32,877	-
Advance to Redevelopment	-	-	-	-	-
Loans Receivable	-	-	-	-	-
Land Held for Resale	-	-	-	-	-
Total Assets	\$ 202,379	\$ 9,179	\$ 2,783,751	\$ 517,307	\$ 2,848,060
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	\$ 28,005	\$ 2,699	\$ 86,841	\$ 99,617	\$ -
Due to Other Funds	-	-	22,134	248,143	157,069
Advance from Other Funds	-	-	-	-	-
Deferred Revenues	-	-	-	-	-
Total Liabilities	28,005	2,699	108,975	347,760	157,069
Fund Balances:					
Reserved for:					
Encumbrances	-	-	-	198,441	380,028
Future Budgets	-	-	-	-	-
Advances	-	-	-	-	-
Carryover Appropriations	-	-	-	-	1,043,919
Land	-	-	-	-	-
Debt Service	-	-	-	-	-
Plaza Grande Operations	-	-	-	-	-
Loans Receivable	-	-	-	-	-
Reported in SR	174,374	6,480	-	-	-
Reported in CP	-	-	-	-	-
Unreserved:					
Reported in SR	-	-	2,674,776	(28,894)	1,267,044
Reported in CP	-	-	-	-	-
Total Fund Balances	174,374	6,480	2,674,776	169,547	2,690,991
Total Liabilities and Fund Balances	\$ 202,379	\$ 9,179	\$ 2,783,751	\$ 517,307	\$ 2,848,060

SPECIAL REVENUE FUNDS

Vehicle Abatement	Traffic Safety	Recreation Parks	Housing Trust	Cable Franchise	Grants	Central City Housing	Sunset Avenue Merged Housing
\$ 96,665	\$ 100,454	\$ 226,063	\$ 199,734	\$ 60,672	\$ 25,683	\$ 1,812,863	\$ 1,229,042
-	-	-	-	-	-	-	-
-	-	7,276	-	-	40	-	-
-	-	-	-	-	-	94,917	305,966
-	113,970	-	-	73,672	224,938	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	43,781	-
-	-	-	-	-	-	4,243,480	3,248,383
-	-	-	-	-	-	500,431	1,157,122
\$ 96,665	\$ 214,424	\$ 233,339	\$ 199,734	\$ 134,344	\$ 250,661	\$ 6,695,472	\$ 5,940,513
\$ 6,776	\$ -	\$ -	\$ -	\$ 1,193	\$ 85,966	\$ 9,358	\$ 192,019
-	-	4,653	-	-	148,344	-	726
-	-	-	-	-	-	-	-
-	-	-	-	-	7,787	89,099	302,409
6,776	-	4,653	-	1,193	242,097	98,457	495,154
-	-	-	-	-	-	2,260	598,117
-	-	-	-	-	-	1,508,763	441,737
-	-	-	-	-	-	43,781	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	500,431	1,157,122
-	-	-	-	-	-	-	-
-	-	-	-	-	-	298,300	-
-	-	-	-	-	-	4,243,480	3,248,383
-	214,424	-	-	-	-	-	-
-	-	-	-	-	-	-	-
89,889	-	228,686	199,734	133,151	8,564	-	-
-	-	-	-	-	-	-	-
89,889	214,424	228,686	199,734	133,151	8,564	6,597,015	5,445,359
\$ 96,665	\$ 214,424	\$ 233,339	\$ 199,734	\$ 134,344	\$ 250,661	\$ 6,695,472	\$ 5,940,513

Continued

CITY OF SALINAS, CALIFORNIA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

DEBT SERVICE FUNDS

	Assessment District Reserve	Assessment District Administration	Certificates of Participation (2005 B)
Assets:			
Cash and Investments	\$ 3,068,566	\$ 59,993	\$ 60,114
Cash and Investments Restricted	-	-	808,860
Accounts Receivable	-	-	-
Interest Receivable	7,572	-	-
Due from Other Agencies	-	-	-
Due from Other Funds	-	-	-
Advance to Redevelopment	-	-	-
Loans Receivable	-	-	-
Land Held for Resale	-	-	-
Total Assets	\$ 3,076,138	\$ 59,993	\$ 868,974
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$ -	\$ 1,960	\$ 250
Due to Other Funds	-	-	-
Advance from Other Funds	-	-	-
Deferred Revenues	-	-	-
Total Liabilities	-	1,960	250
Fund Balances:			
Reserved for:			
Encumbrances	-	-	-
Future Budgets	-	-	-
Advances	-	-	-
Carryover Appropriations	-	-	-
Land	-	-	-
Debt Service	3,076,138	58,033	868,724
Plaza Grande Operations	-	-	-
Loans Receivable	-	-	-
Reported in SR	-	-	-
Reported in CP	-	-	-
Unreserved:			
Reported in SR	-	-	-
Reported in CP	-	-	-
Total Fund Balances	3,076,138	58,033	868,724
Total Liabilities and Fund Balances	\$ 3,076,138	\$ 59,993	\$ 868,974

DEBT SERVICE FUNDS

Certificates of Participation (1999)	Certificates of Participation (2002)	Central City Debt Service	Sunset Avenue Merged Debt Service
\$ 75,935	\$ 1,595	\$ 1,642,504	\$ 1,181,844
31,191	192,496	1,555,139	-
-	115,566	-	-
302	3,434	-	5,793
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 107,428</u>	<u>\$ 313,091</u>	<u>\$ 3,197,643</u>	<u>\$ 1,187,637</u>
\$ 250	\$ 250	\$ -	\$ 225,136
-	-	-	-
-	-	43,781	-
-	-	-	-
<u>250</u>	<u>250</u>	<u>43,781</u>	<u>225,136</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
107,178	312,841	3,153,862	962,501
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>107,178</u>	<u>312,841</u>	<u>3,153,862</u>	<u>962,501</u>
<u>\$ 107,428</u>	<u>\$ 313,091</u>	<u>\$ 3,197,643</u>	<u>\$ 1,187,637</u>

Continued

CITY OF SALINAS, CALIFORNIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2009

CAPITAL PROJECT FUNDS

	Special Aviation	Capital Projects	Assessment District Projects	Central City Project	Sunset Avenue Merged Project	Total Nonmajor Funds
Assets:						
Cash and Investments	\$ 2,082,883	\$ 1,087,181	\$ 375,038	\$ 394,416	\$ 52,638	\$ 19,586,108
Cash and Investments Restricted	-	-	-	-	-	2,587,686
Accounts Receivable	-	-	-	-	1,145	124,027
Interest Receivable	7,089	-	1,270	8,918	-	453,807
Due from Other Agencies	455,697	-	-	-	-	1,425,305
Due from Other Funds	-	1,365,267	-	-	-	1,398,144
Advance to Redevelopment	-	-	-	-	-	43,781
Loans Receivable	-	-	-	295,516	62,685	7,850,064
Land Held for Resale	-	-	-	941,277	850,000	3,448,830
Total Assets	\$ 2,545,669	\$ 2,452,448	\$ 376,308	\$ 1,640,127	\$ 966,468	\$ 36,917,752
Liabilities and Fund Balances:						
Liabilities:						
Accounts Payable	\$ 467,817	\$ 452,448	\$ -	\$ 34,382	\$ 45,928	\$ 1,740,895
Due to Other Funds	-	-	-	28,562	3,479	613,110
Advance from Other Funds	-	-	-	-	-	43,781
Deferred Revenues	-	-	-	-	-	399,295
Total Liabilities	467,817	452,448	-	62,944	49,407	2,797,081
Fund Balances:						
Reserved for:						
Encumbrances	-	-	-	-	-	1,178,846
Future Budgets	-	-	-	-	-	1,950,500
Advances	-	-	-	-	-	43,781
Carryover Appropriations	-	-	-	-	-	1,043,919
Land	-	-	-	-	-	1,657,553
Debt Service	-	-	-	-	-	8,539,277
Plaza Grande Operations	-	-	-	-	-	298,300
Loans Receivable	-	-	-	-	-	7,491,863
Reported in SR	-	-	-	-	-	395,278
Reported in CP	745	-	-	1,577,183	916,966	2,494,894
Unreserved:						
Reported in SR	-	-	-	-	-	4,572,950
Reported in CP	2,077,107	2,000,000	376,308	-	95	4,453,510
Total Fund Balances	2,077,852	2,000,000	376,308	1,577,183	917,061	34,120,671
Total Liabilities and Fund Balances	\$ 2,545,669	\$ 2,452,448	\$ 376,308	\$ 1,640,127	\$ 966,468	\$ 36,917,752

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CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR FISCAL YEAR ENDED JUNE 30, 2009

	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	\$ -	\$ -	\$ -	\$ 397,954	\$ -
Special Assessments	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Intergovernmental	93,000	-	-	1,403,992	2,507,318
Charges for Services	-	-	1,492,602	-	-
Interest	-	263	47,598	46	78,921
Rental Income	-	-	-	-	-
Fines and Forfeits	-	25,647	-	-	-
Developer Contributions	-	-	-	-	-
Miscellaneous	-	-	-	-	425
Total Revenues	<u>93,000</u>	<u>25,910</u>	<u>1,540,200</u>	<u>1,801,992</u>	<u>2,586,664</u>
Expenditures:					
Current:					
General Government	-	-	-	-	-
Public Safety	857,644	37,682	-	1,832,340	-
Public Works	-	-	-	-	-
Recreation	-	-	885,907	-	-
Library	-	-	-	-	-
Parking Structure Debt	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Steinbeck Center Debt	-	-	-	-	-
Pass Through Tax	-	-	-	-	-
Total Expenditures	<u>857,644</u>	<u>37,682</u>	<u>885,907</u>	<u>1,832,340</u>	<u>-</u>
Excess(Deficiency) of Revenues					
Over(Under) Expenditures	<u>(764,644)</u>	<u>(11,772)</u>	<u>654,293</u>	<u>(30,348)</u>	<u>2,586,664</u>
Other Financing Sources (Uses):					
Loan Proceeds	-	-	-	-	-
Advance from SRA to Steinbeck	-	-	-	-	-
Loans Receivable Forgiven	-	-	-	-	-
Operating Transfers In	847,500	-	600,000	315	1,075,000
Operating Transfers Out	-	-	-	(9,998)	(4,836,696)
Total Other Financing Sources(Uses)	<u>847,500</u>	<u>-</u>	<u>600,000</u>	<u>(9,683)</u>	<u>(3,761,696)</u>
Excess (Deficiency) of Revenues and Other Sources Over(Under) Expenditures and Other Uses	<u>82,856</u>	<u>(11,772)</u>	<u>1,254,293</u>	<u>(40,031)</u>	<u>(1,175,032)</u>
Fund Balances at Beginning of Year	<u>91,518</u>	<u>18,252</u>	<u>1,420,483</u>	<u>209,578</u>	<u>3,866,023</u>
Fund Balances at End of Year	<u>\$ 174,374</u>	<u>\$ 6,480</u>	<u>\$ 2,674,776</u>	<u>\$ 169,547</u>	<u>\$ 2,690,991</u>

Vehicle Abatement Fund	Traffic Safety Fund	Recreation Parks Fund	Housing Trust Fund	Cable Franchise	Grants Fund	Central City Housing Fund	Sunset Avenue Merged Housing Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
159,955	-	-	-	-	653,950	9,069	15,000
-	-	-	-	148,468	-	-	-
-	-	-	-	-	-	54,333	31,511
-	-	-	-	-	-	-	-
-	785,093	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	32,015	-	-	-	-	25,000
<u>159,955</u>	<u>785,093</u>	<u>32,015</u>	<u>-</u>	<u>148,468</u>	<u>653,950</u>	<u>63,402</u>	<u>71,511</u>
-	-	-	-	15,317	69,651	197,684	120,698
161,324	-	-	-	-	130,511	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	164,923	-	-
-	-	-	-	-	251,251	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	22,102	42,252
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>161,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,317</u>	<u>616,336</u>	<u>219,786</u>	<u>162,950</u>
(1,369)	785,093	32,015	-	133,151	37,614	(156,384)	(91,439)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(36,000)	-
85,000	-	-	-	-	1,540	642,916	637,644
-	(900,000)	(26,534)	-	-	(76,076)	(240,009)	-
<u>85,000</u>	<u>(900,000)</u>	<u>(26,534)</u>	<u>-</u>	<u>-</u>	<u>(74,536)</u>	<u>366,907</u>	<u>637,644</u>
83,631	(114,907)	5,481	-	133,151	(36,922)	210,523	546,205
6,258	329,331	223,205	199,734	-	45,486	6,386,492	4,899,154
<u>\$ 89,889</u>	<u>\$ 214,424</u>	<u>\$ 228,686</u>	<u>\$ 199,734</u>	<u>\$ 133,151</u>	<u>\$ 8,564</u>	<u>\$ 6,597,015</u>	<u>\$ 5,445,359</u>

Continued

CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR FISCAL YEAR ENDED JUNE 30, 2009

	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	-	57,895	-	-
Interest	55,376	-	5,211	1,814
Rental Income	-	-	-	-
Fines and Forfeits	-	-	-	-
Developer Contributions	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	<u>55,376</u>	<u>57,895</u>	<u>5,211</u>	<u>1,814</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Recreation	-	-	-	-
Library	-	-	-	-
Parking Structure Debt	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal Retirement	-	-	365,000	40,000
Interest and Fiscal Charges	-	64,320	430,461	50,855
Steinbeck Center Debt	-	-	-	-
Pass Through Tax	-	-	-	-
Total Expenditures	<u>-</u>	<u>64,320</u>	<u>795,461</u>	<u>90,855</u>
Excess(Deficiency) of Revenues				
Over(Under) Expenditures	<u>55,376</u>	<u>(6,425)</u>	<u>(790,250)</u>	<u>(89,041)</u>
Other Financing Sources (Uses):				
Loan Proceeds	-	-	-	-
Advance from SRA to Steinbeck	-	-	-	-
Loans Receivable Forgiven	-	-	-	-
Operating Transfers In	-	-	755,097	84,000
Operating Transfers Out	-	-	-	-
Total Other Financing Sources(Uses)	<u>-</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>55,376</u>	<u>(6,425)</u>	<u>(35,153)</u>	<u>(5,041)</u>
Fund Balances at Beginning of Year	<u>3,020,762</u>	<u>64,458</u>	<u>903,877</u>	<u>112,219</u>
Fund Balances at End of Year	<u>\$ 3,076,138</u>	<u>\$ 58,033</u>	<u>\$ 868,724</u>	<u>\$ 107,178</u>

DEBT SERVICE FUNDS

Certificates of Participation (2002) Fund	Central City Debt Service Fund	Sunset Avenue Merged Debt Service Fund
\$ -	\$ 3,214,582	\$ 3,188,221
-	-	-
-	-	-
-	-	-
10,051	67,705	22,705
-	-	-
-	-	-
-	-	-
176,333	-	-
<u>186,384</u>	<u>3,282,287</u>	<u>3,210,926</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	1,050,000	-
-	-	-
60,000	755,998	3,395,900
127,553	701,640	31,264
-	115,566	-
-	185,653	855,159
<u>187,553</u>	<u>2,808,857</u>	<u>4,282,323</u>
(1,169)	473,430	(1,071,397)
-	-	-
115,566	-	-
-	-	-
-	240,009	-
-	(642,916)	(637,644)
<u>115,566</u>	<u>(402,907)</u>	<u>(637,644)</u>
114,397	70,523	(1,709,041)
<u>198,444</u>	<u>3,083,339</u>	<u>2,671,542</u>
\$ 312,841	\$ 3,153,862	\$ 962,501

Continued

CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
FOR FISCAL YEAR ENDED JUNE 30, 2009

CAPITAL PROJECTS FUNDS

	Special Aviation Fund	Capital Projects	Assessment District Project Fund	Central City Project Fund	Sunset Avenue Merged Project Fund	Total
Revenues:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,800,757
Special Assessments	-	-	-	-	-	-
Licenses and Permits	-	-	-	-	-	-
Intergovernmental	1,049,826	-	-	-	-	5,892,110
Charges for Services	-	-	-	-	-	1,698,965
Interest	44,598	-	12,153	47,727	128	480,140
Rental Income	-	-	-	-	30,136	30,136
Fines and Forfeits	-	-	-	-	-	810,740
Developer Contributions	-	-	-	-	-	-
Miscellaneous	-	-	-	15	-	233,788
Total Revenues	1,094,424	-	12,153	47,742	30,264	15,946,636
Expenditures:						
Current:						
General Government	-	-	-	-	-	403,350
Public Safety	-	-	-	-	-	3,019,501
Public Works	-	-	-	-	-	-
Recreation	-	-	-	-	-	1,050,830
Library	-	-	-	-	-	251,251
Parking Structure Debt	-	-	-	-	-	1,050,000
Capital Outlay	1,088,051	7,949,124	815,865	430,449	3,422,233	13,770,076
Debt Service:						
Principal Retirement	-	-	-	-	48,345	4,665,243
Interest and Fiscal Charges	-	-	-	-	25,571	1,431,664
Steinbeck Center Debt	-	-	-	-	-	115,566
Pass Through Tax	-	-	-	-	-	1,040,812
Total Expenditures	1,088,051	7,949,124	815,865	430,449	3,496,149	26,798,293
Excess(Deficiency) of Revenues						
Over(Under) Expenditures	6,373	(7,949,124)	(803,712)	(382,707)	(3,465,885)	(10,851,657)
Other Financing Sources (Uses):						
Loan Proceeds	-	-	-	-	3,395,900	3,395,900
Advance from SRA to Steinbeck	-	-	-	-	-	115,566
Loans Receivable Forgiven	-	-	-	-	-	(36,000)
Operating Transfers In	-	7,949,151	-	-	-	12,918,172
Operating Transfers Out	-	-	-	-	-	(7,369,873)
Total Other Financing Sources(Uses)	-	7,949,151	-	-	3,395,900	9,023,765
Excess (Deficiency) of Revenues and Other Sources Over(Under) Expenditures and Other Uses	6,373	27	(803,712)	(382,707)	(69,985)	(1,827,892)
Fund Balances at Beginning of Year	2,071,479	1,999,973	1,180,020	1,959,890	987,046	35,948,563
Fund Balances at End of Year	\$ 2,077,852	\$ 2,000,000	\$ 376,308	\$ 1,577,183	\$ 917,061	\$ 34,120,671

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, 2009

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Assets:					
Current Assets:					
Cash and Investments	\$ 120,814	\$ 401,736	\$ 6,784,435	\$ 2,457,172	\$ 9,764,157
Cash and Investments Restricted	-	-	56,269	20,048	76,317
Accounts Receivable		900			900
Interest Receivable	-	-	23,832	7,749	31,581
Due from General Fund	-	-	691,469	-	691,469
Total Assets	120,814	402,636	7,556,005	2,484,969	10,564,424
Liabilities:					
Current Liabilities:					
Accounts Payable	7,154	43,827	24,254	-	75,235
Insurance Claims Payable	-	-	7,531,751	1,323,966	8,855,717
Total Current Liabilities	7,154	43,827	7,556,005	1,323,966	8,930,952
Noncurrent Liabilities:					
Accrued Leave	6,134	-	-	-	6,134
Total Noncurrent Liabilities	6,134	-	-	-	6,134
Total Liabilities	13,288	43,827	7,556,005	1,323,966	8,937,086
Net Assets:					
Invested in Capital Assets	-	-	-	-	-
Restricted	-	-	-	-	-
Unrestricted	107,526	358,809	-	1,161,003	1,627,338
Total Net Assets	\$ 107,526	\$ 358,809	\$ -	\$ 1,161,003	\$ 1,627,338

CITY OF SALINAS
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For Fiscal Year Ended June 30, 2009

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Operating Revenues:					
Charges for Services	\$ 326,974	\$ 502,532	\$ 1,861,657	\$ 885,345	\$ 3,576,508
Total Operating Revenues	<u>326,974</u>	<u>502,532</u>	<u>1,861,657</u>	<u>885,345</u>	<u>3,576,508</u>
Operating Expenses:					
Personnel Services	290,735	-	-	-	290,735
Contractual Services	656	95,161	214,582	58,390	368,789
Supplies	2,098	-	-	-	2,098
Insurance	-	344,496	152,857	312,686	810,039
Insurance Claims	-	126,662	1,676,066	1,356,592	3,159,320
Other	4,154	-	-	-	4,154
Total Operating Expenses	<u>297,643</u>	<u>566,319</u>	<u>2,043,505</u>	<u>1,727,668</u>	<u>4,635,135</u>
Operating Income (Loss)	<u>29,331</u>	<u>(63,787)</u>	<u>(181,848)</u>	<u>(842,323)</u>	<u>(1,058,627)</u>
Nonoperating Revenues:					
Interest	-	-	181,848	49,784	231,632
Total Nonoperating Revenues	<u>-</u>	<u>-</u>	<u>181,848</u>	<u>49,784</u>	<u>231,632</u>
Income (Loss) Before Transfers	29,331	(63,787)	-	(792,539)	(826,995)
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	29,331	(63,787)	-	(792,539)	(826,995)
Total Net Assets-Beginning	<u>78,195</u>	<u>422,596</u>	<u>-</u>	<u>1,953,542</u>	<u>2,454,333</u>
Total Net Assets-Ending	<u>\$ 107,526</u>	<u>\$ 358,809</u>	<u>\$ -</u>	<u>\$ 1,161,003</u>	<u>\$ 1,627,338</u>

CITY OF SALINAS
Combining Statement of Cash Flows
Internal Service Funds
For Fiscal Year Ended June 30, 2009

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Cash Flows from Operating Activities:					
Receipts from Customers and Users	\$ 1,973	\$ 52,161	\$ 223,927	\$ 5,345	\$ 283,406
Receipts from interfund services provided	325,000	450,000	1,170,188	880,000	2,825,188
Payments to Suppliers	(7,521)	(439,555)	(367,439)	(371,076)	(1,185,591)
Payments to Employees	(305,469)	-	-	-	(305,469)
Payments to Claimants	-	(98,952)	(3,080,322)	(514,118)	(3,693,392)
Net Cash Provided (Used) by Operating Activities	<u>13,983</u>	<u>(36,346)</u>	<u>(2,053,646)</u>	<u>151</u>	<u>(2,075,858)</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	-	-	208,816	54,688	263,504
(Decrease) in Fair Value of Investments	-	-	8,036	2,588	10,624
Transfer (to) from Restricted Cash	-	-	249,420	78,680	328,100
Net Cash Provided by (Used for) Investing Activities	<u>-</u>	<u>-</u>	<u>466,272</u>	<u>135,956</u>	<u>602,228</u>
Net Increase(Decrease) in Cash and Cash Equivalents	13,983	(36,346)	(1,587,374)	136,107	(1,473,630)
Cash and Cash Equivalents - Beginning of Year	<u>106,831</u>	<u>438,082</u>	<u>8,371,809</u>	<u>2,321,065</u>	<u>11,237,787</u>
Cash and Cash Equivalents - End of Year	<u>\$ 120,814</u>	<u>\$ 401,736</u>	<u>\$ 6,784,435</u>	<u>\$ 2,457,172</u>	<u>\$ 9,764,157</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating Income (Loss)	\$ 29,331	\$ (63,787)	\$ (181,848)	\$ (842,323)	\$ (1,058,627)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:					
(Increase) Decrease in Accounts Receivable	-	-	-	-	-
(Increase) Decrease in Due from General Fund	-	(370)	(691,469)	-	(691,839)
Increase (Decrease) in Accounts Payable	2,434	27,811	1,480	-	31,725
Increase (Decrease) in Insurance Claims	-	-	(1,181,809)	842,474	(339,335)
Increase (Decrease) in Accrued Leave	(17,782)	-	-	-	(17,782)
Increase (Decrease) in Restricted Cash	-	-	(249,420)	(78,680)	(328,100)
Transfer (to) from Restricted Cash	-	-	249,420	78,680	328,100
Total Adjustments to Net Income	<u>(15,348)</u>	<u>27,441</u>	<u>(1,871,798)</u>	<u>842,474</u>	<u>(1,017,231)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 13,983</u>	<u>\$ (36,346)</u>	<u>\$ (2,053,646)</u>	<u>\$ 151</u>	<u>\$ (2,075,858)</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, 2009

	Sherwood Hall Box Office	Sunrise House	Economic Development	Second Chance Youth Program	Cafeteria Plan	Retiree Health Insurance	Business Improvement District	Totals
Assets:								
Cash and Investments	\$ 18,786	\$ 199,172	\$ 35,820	\$ 68,722	\$ 93,931	\$ 1	\$ 7,156	\$ 423,588
Accounts Receivable	-	-	-	-	122,855	-	-	122,855
Due from Other Agencies	-	526	-	87,442	-	-	-	87,968
Interes Receivable	-	635	-	-	-	-	-	635
Total Assets	<u>\$ 18,786</u>	<u>\$ 200,333</u>	<u>\$ 35,820</u>	<u>\$ 156,164</u>	<u>\$ 216,786</u>	<u>\$ 1</u>	<u>\$ 7,156</u>	<u>\$ 635,046</u>
Liabilities:								
Accounts Payable	\$ 7,240	\$ 18,057	\$ 18,305	\$ 25,905	\$ 159,281	\$ -	\$ -	\$ 228,788
Accrued Leave	-	6,006	42,659	10,932	-	-	-	59,597
Due to Outside Agencies	-	-	-	-	-	-	-	-
Accrued Liabilities	11,546	176,270	(25,144)	119,327	57,505	1	7,156	346,661
Total Liabilities	<u>\$ 18,786</u>	<u>\$ 200,333</u>	<u>\$ 35,820</u>	<u>\$ 156,164</u>	<u>\$ 216,786</u>	<u>\$ 1</u>	<u>\$ 7,156</u>	<u>\$ 635,046</u>

**GENERAL
and
MEASURE V FUNDS**

**CITY OF SALINAS, CALIFORNIA
GENERAL AND MEASURE V FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2009**

	<u>General Fund</u>	<u>Measure V</u>	<u>Total</u>
Assets:			
Cash and Investments	\$ 10,796,072	\$ 3,838,129	\$ 14,634,201
Taxes Receivable	4,882,597	1,472,606	6,355,203
Accounts Receivable	108,995		108,995
Interest Receivable	69,691	14,888	84,579
Due from Other Funds	2,610,513		2,610,513
Advances to Parking District Fund	1,185,000		1,185,000
Loans to Others	29,800		29,800
Inventory	18,266		18,266
	<u>\$ 19,700,934</u>	<u>\$ 5,325,623</u>	<u>\$ 25,026,557</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$ 5,412,094	\$ 795,329	\$ 6,207,423
Due to Capital Projects Fund	67,159	14,950	82,109
Due to Other Funds	691,469		691,469
	<u>6,170,722</u>	<u>810,279</u>	<u>6,981,001</u>
Fund Balance:			
Reserved for:			
Operations	1,034,987		1,034,987
Capital Projects	1,139,600		1,139,600
Encumbrances	348,971	54,245	403,216
Loans Receivable	29,800		29,800
Advances	1,185,000		1,185,000
Inventory	18,266		18,266
Condemnation Deposits	55,100		55,100
Carry over Appropriations	2,344,913		2,344,913
Unreserved:			
Designated	6,243,305	3,277,399	9,520,704
Undesignated	1,130,270	1,183,700	2,313,970
	<u>13,530,212</u>	<u>4,515,344</u>	<u>18,045,556</u>
	<u>\$ 19,700,934</u>	<u>\$ 5,325,623</u>	<u>\$ 25,026,557</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, 2009**

	<u>General Fund</u>	<u>Measure V</u>	<u>Total</u>
Revenues:			
Taxes:			
Sales	\$ 15,139,365	\$	\$ 15,139,365
In-lieu Sales	5,349,783		5,349,783
Transactions and Use Tax		8,894,251	8,894,251
Property	14,056,251		14,056,251
Property-Vehicle License Fees	11,483,389		11,483,389
Utility	8,488,643		8,488,643
Business License	4,148,463		4,148,463
Franchise	3,773,558		3,773,558
Other	1,592,701		1,592,701
Licenses and Permits	24,090		24,090
Intergovernmental	1,554,046		1,554,046
Charges for Services	5,046,103		5,046,103
Interest	430,959	101,163	532,122
Miscellaneous	288,881	854	289,735
	<u>71,376,232</u>	<u>8,996,268</u>	<u>80,372,500</u>
Total Revenues			
Expenditures:			
Current:			
General Government	11,530,201	673,837	12,204,038
Public Safety	52,950,183	1,744,471	54,694,654
Public Works	13,837,825	957,605	14,795,430
Recreation	2,687,340	1,090,465	3,777,805
Library		3,997,758	3,997,758
Capital Outlay	25,829	23,825	49,654
	<u>81,031,378</u>	<u>8,487,961</u>	<u>89,519,339</u>
Total Expenditures			
Excess (Deficiency) of			
Revenues Over Expenditures	<u>(9,655,146)</u>	<u>508,307</u>	<u>(9,146,839)</u>
Other Financing Sources (Uses):			
Operating Transfers In	2,100,000		2,100,000
Operating Transfers Out	<u>(2,855,273)</u>	<u>(1,411,620)</u>	<u>(4,266,893)</u>
Total Other Financing Sources (Uses)	<u>(755,273)</u>	<u>(1,411,620)</u>	<u>(2,166,893)</u>
Excess (Deficiency) of			
Revenues and Other Sources			
Over (Under) Expenditures and			
Other Uses	(10,410,419)	(903,313)	(11,313,732)
Fund Balance at Beginning of Year	<u>23,940,631</u>	<u>5,418,657</u>	<u>29,359,288</u>
Fund Balance at End of Year	<u>\$ 13,530,212</u>	<u>\$ 4,515,344</u>	<u>\$ 18,045,556</u>



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CITY OF SALINAS

INDEPENDENT AUDITOR'S REPORTS
on
FEDERAL FINANCIAL AWARDS,
INTERNAL CONTROL,
COMPLIANCE
and
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

MCGILLOWAY, RAY, BROWN & KAUFMAN
ACCOUNTANTS & CONSULTANTS

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CITY OF SALINAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2009

<u>Federal Grantor, Pass Through Control, Program Title</u>	<u>CFDA Number</u>	<u>Grant or Pass- Through Number</u>	<u>Program Expenditures</u>
U.S. Department of Housing and Urban Development			
Community Planning and Development			
Community Development Block Grant Program	14.218	B06MC-06-0005	\$ 44,884
Community Development Block Grant Program	14.218	B07MC-06-0005	2,055,464
Community Development Block Grant Program	14.218	B08MC-06-0005	988,989
Program Income			<u>58,897</u>
Total CFDA No. 14.218			<u>3,148,234</u>
Emergency Shelter Grants Program	14.231	S08MC-06-0005	<u>109,345</u>
Home Investment Partnership Program	14.239	M05-MC-06-0212	609,142
Home Investment Partnership Program	14.239	M06-MC-06-0212	150,062
Home Investment Partnership Program	14.239	M07-MC-06-0212	24,312
Home Investment Partnership Program	14.239	M08-MC-06-0212	576,101
Program Income			<u>59,651</u>
Total CFDA No. 14.239			<u>1,419,268</u>
Economic Development Initiative-Special Project (EDI)	14.251	B04-SP-CA-0111	<u>45,085</u>
Community Development Block Grant Program			
ARRA Entitlement Grants CDBG-R Recovery			
Act Funded (ARRA)	14.253	B09-MY-06-0005	<u>3,966</u>
Homelessness Prevention and Rapid Re-housing Program			
(HPRP) Recovery Act Funded (ARRA)	14.257	S-09-MY-06-0005	<u>760</u>
Total CFDA Nos. 14.253 and 14.257			<u>4,726</u>

See Notes to Schedule of Expenditures of Federal Awards.

CITY OF SALINAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
For the year ended June 30, 2009

<u>Federal Grantor, Pass Through Control, Program Title</u>	<u>CFDA Number</u>	<u>Grant or Pass- Through Number</u>	<u>Program Expenditures</u>
U.S. Department of Justice			
Office of Juvenile Justice and Delinquency Prevention			
Part E - Developing, Testing and Demonstrating			
Promising New Programs			
	16.541	2005-JV-FX-0001	\$ 34,535
Bureau of Justice Assistance, Office of Justice Programs			
Bulletproof Vest Partnership Program (2005)	16.607	15-0404-01-754	7,220
Bulletproof Vest Partnership Program (2006)	16.607	15-0404-01-754	5,282
Bulletproof Vest Partnership Program (2007)	16.607	15-0404-01-754	9,508
Bulletproof Vest Partnership Program (2008)	16.607	15-0404-01-754	<u>3,328</u>
Total CFDA No. 16.607			25,338
Edward Byrne Memorial Justice Assistance Grant Prog	16.738	2007-DJ-BX-0540	110,484
Edward Byrne Memorial Justice Assistance Grant Prog	16.738	2009-DJ-BX-0347	<u>994</u>
Total CFDA No. 16.738			111,478
Executive Office for Weed and Seed			
Community Capacity Development Office	16.595	2007-WS-Q7-0006	71,102
Community Capacity Development Office	16.595	2008-WS-QX-0024	<u>93,822</u>
Total CFDA No. 16.595			<u>164,924</u>
Office of Community Oriented Policing Services			
Public Safety Partnership and Community Policing	16.710	2007-CK-WX-0025	<u>3,170</u>
Bureau of Justice Assistance, Office of Justice Programs			
Recovery Act -VOCA Crime Victim Assistance			
Discretionary Grant Program (ARRA)	16.807	2009-SB-B9-2836	<u>4,519</u>

See Notes to Schedule of Expenditures of Federal Awards.

CITY OF SALINAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
For the year ended June 30, 2009

<u>Federal Grantor, Pass Through Control, Program Title</u>	<u>CFDA Number</u>	<u>Grant or Pass- Through Number</u>	<u>Program Expenditures</u>
U. S. Department of Transportation			
Federal Aviation Administration			
Airport Improvement Program	20.106	AIP 3-06-0206-14	\$ 51,347
Airport Improvement Program	20.106	AIP 3-06-0206-15	446,580
Airport Improvement Program	20.106	AIP 3-06-0206-16	150,000
Airport Improvement Program	20.106	AIP 3-06-0206-17	<u>395,149</u>
Total CFDA No. 20.106			<u>1,043,076</u>
Institute of Museum and Library Services			
National Leadership Grant Program	45.312	LG-30-08-0051-08	<u>142,878</u>
U. S. Department of Homeland Security			
Assistance to Firefighters Grant Program	97.044	EMW-2007-FO-10606	<u>38,596</u>
Total Direct Expenditures of Federal Awards			<u>6,295,172</u>
Pass Through Awards from the State of California			
U. S. Department of Justice			
Bureau of Justice Assistance			
Community Prosecution and Project Safe Neighborhoods	16.609	US03017902	<u>52,337</u>
U. S. Department of Transportation (NHTSA)			
State and Community Highway Safety	20.600	CT09358	33,093
State and Community Highway Safety	20.600	AL0748	76,650
State and Community Highway Safety	20.600	AL0985	<u>125,860</u>
Total CFDA No. 20.600			<u>235,603</u>
Total Pass Through from the State of California			<u>287,940</u>

See Notes to Schedule of Expenditures of Federal Awards.

CITY OF SALINAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
 For the year ended June 30, 2009

<u>Federal Grantor, Pass Through Control, Program Title</u>	<u>CFDA Number</u>	<u>Grant or Pass- Through Number</u>	<u>Program Expenditures</u>
Pass Through Awards from the Co. of Monterey, Calif.			
U. S. Department of Justice			
Office of Juvenile Justice and Delinquency Prevention			
Part E - Developing, Testing and Demonstrating			
Promising New Programs	16.541	2008-JL-FX-0024	\$ 123,439
Bureau of Justice Assistance, Office of Justice Program:			
Edward Byrne Memorial State and Local Law			
Enforcement Assistance Discretionary Grant	16.580	2008-DD-BX-0278	<u>375,432</u>
Total Pass Through from the County			
of Monterey, California			<u>498,871</u>
Total Pass Through of Federal Awards			<u>786,811</u>
Total Expenditures of Federal Awards			<u><u>\$7,081,983</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

CITY OF SALINAS
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
For the fiscal year ended June 30, 2009

1. General

The accompanying schedule of expenditures of federal awards presents activity of the federal financial assistance programs of City of Salinas. All federal financial awards received directly from federal agencies as well as federal awards assistance passed through other government agencies are included on the schedule.

2. Significant accounting policies

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting as described in Note 1 of the City's basic financial statements.

Federal programs are labeled either as Type A or Type B. Type A programs are defined as federal programs with federal awards expended during the audit period exceeding the larger of:

- a. \$300,000 or three percent (.03) of total federal awards expended if the City's total federal awards expended equal or exceed \$500,000 but are less than or equal to \$100 million.
- b. \$3 million or three-tenths of one percent (.003) of total federal awards expended if the City's total federal awards expended equal or exceed \$100 million but are less than or equal to \$10 billion.
- c. \$30 million or 15 hundredths of one percent (.0015) of total federal awards expended if the City's total federal awards expended equal or exceed \$10 billion.

Federal programs not labeled Type A as described above are labeled Type B programs.

3. Relationship to federal financial reports

Amounts reported in the accompanying schedule of expenditures of federal awards agree or can be reconciled with the amounts reported or to be reported in the federal financial reports.

4. Sub-recipients

The City of Salinas provided federal awards to sub-recipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
U.S. Department of Housing and Urban Development Planning and Community Development Community Development Entitlement Grants Public Services Grants	14.218	
Community Human Services		\$ 10,000
Action Council of Monterey County		10,000
Suicide Prevention and Crisis Center		10,000
Conflict Resolution and Mediation Center		10,000
Alliance on Aging		10,000
Meals on Wheels of Salinas		14,000
Door to Hope		5,000
Central Coast Center for Independent Living		10,000
Food Bank of Monterey County		14,000
Big Brothers, Big Sisters of Monterey County		10,000
Alisal Center for Fine Arts		10,000
Alliance on Aging: Ombudsman		5,000
Sunrise House		10,000
Second Chance Youth Program		11,250
Sun Street Centers		10,000
Salinas Police Activity League		20,000
Franciscan Workers of Junipero Serra		10,000
Partners for Peace		1,351
Visiting Nurses Association of Salinas Valley		10,000
Y.M.C.A. of Monterey County		<u>10,000</u>
Total Public Services		<u>200,601</u>
Salinas Redevelopment Agency (Jazz-Up Program)		47,500

4. <u>Sub-recipients (continued)</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
<u>Program Title</u>		
U.S. Department of Housing and Urban Development		
Planning and Community Development		
Community Development Entitlement Grants cont'd.		
Special Programs		
Sherwood Village, LP (CHISPA, Inc.)		200,000
CHISPA, Inc. (Wesley Oaks Subdivision)		170,353
Sunflower Gardens, LLC (Interim, Inc.)		<u>420,000</u>
	Total Special Programs	<u>790,353</u>
	Total CFDA No. 14.218	<u>1,038,454</u>
Emergency Shelter Grants Program		
	14.231	
Interim, Inc.		35,000
Housing Advocacy Council		16,150
Shelter Outreach Plus, I-HELP		31,595
John XXIII Aids Ministry		<u>26,600</u>
	Total for CFDA No. 14231	<u>109,345</u>
HOME Investment Partnership Program		
	14.239	
Sherwood Village, LP (CHISPA, Inc.)		150,000
La Gloria, LP (CHISPA, Inc.)		425,000
Children's Circle of Friends (Foster Care Housing)		75,000
Salinas Gateway, LLP (First Community Housing)		484,326
City Infill Project		<u>12,651</u>
	Total for CFDA No. 14.239	<u>1,146,977</u>
Homelessness Prevention and Rapid Re-housing		
Program (HRRP) Recovery Act Funded (ARRA)	14.257	
Housing Resource Center		760
Institute of Museum and Library Services		
Leadership Grant Program		
National Steinbeck Center	45.312	59,578

4. Sub-recipients (continued)

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
U. S. Department of Justice		
Bureau of Justice, Office of Justice Programs		
Community Capacity and Development	16.595	
Girl Scouts of the Monterey Bay		6,383
Monterey County Probation Department		15,321
L.U.P.E.		4,048
Safe Haven		2,900
C.S.U.M.B.		1,168
S.U.B.A.		8,996
CHISPA, Inc.		9,000
Salinas Police Activities League		7,096
P.A.R.T.S.		<u>7,142</u>
Total for CFDA No. 16.595		<u>62,054</u>
Passed through the Stated of California		
U.S. Department of Transportation (NHTSA)	20.600	
California State University, Monterey Bay		7,844
City of King City		4,761
City of Carmel by the Sea		7,218
City of Marina		8,098
City of Monterey		9,716
County of Monterey Sheriff Department		<u>1,451</u>
Total for CFDA No. 20.600		<u>39,088</u>
Total sub-recipient awards		<u><u>\$2,455,496</u></u>

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

The Honorable City Council
of The City of Salinas
Salinas, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Salinas as of and for the fiscal year ended June 30, 2009, which collectively comprise the City of Salinas' basic financial statements and have issued our report thereon dated March 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Salinas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of City of Salinas' financial statements that is more than inconsequential will not be prevented or detected by City of Salinas' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by City of Salinas' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether City of Salinas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of City of Salinas in a separate letter dated March 30, 2010.

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

McGilloway, Ray, Brown & Kaufman

March 30, 2010

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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS

The Honorable City Council
of The City of Salinas
Salinas, California

Compliance

We have audited the compliance of City of Salinas with the types of compliance requirements described in the U.S. Office of Management (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. City of Salinas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Salinas' management. Our responsibility is to express an opinion on its compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the United States Comptroller General; and OMB Circular A-133, *Audit of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Salinas' compliance with those

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

requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Salinas' compliance with those requirements.

In our opinion, City of Salinas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009.

Internal control over compliance

The management of City of Salinas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Salinas' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Salinas' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Salinas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Salinas response and, accordingly, we express no opinion on it.

Schedule of expenditures of federal awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Salinas, as of and for the year ended June 30, 2009, and have issued our report thereon dated March 30, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Salinas' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

McGilloway, Ray, Brown & Kaufman

March 30, 2010

CITY OF SALINAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the fiscal year ended June 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes No

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

Identification of major programs.

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	U.S. Department of Housing and Urban Development Community Planning and Development CDBG Entitlement Grant Program
14.253	U.S. Department of Housing and Urban Development Community Planning and Development Entitlement Grants CDBG-R – Recovery Act Funded (ARRA)
16.738	U.S. Department of Justice Bureau of Justice Edward Byrne Memorial Justice Assistance Grant
16.807	U.S. Department of Justice Bureau of Justice Recovery Act – VOCA Crime Victim Assistance Discretionary Grant Program (ARRA)
20.106	U.S. Department of Transportation Federal Aviation Administration Airport Improvement Program
45.312	Institute of Museum and Library Services National Leadership Grant Program

Section II – Financial Statement Findings

There are no findings on the financial statements audit.

Section III – Federal Award Findings and Questioned Costs

There are no federal award findings or questioned costs on the financial statements audit.

Findings and Questioned Costs – Prior Year Audit

Finding Number 2008-1, reported for year ending June 30, 2008.

U.S. Department of Housing and Urban Development
Economic Development Initiative Special Project Grant Program
Federal Program CFDA Number 14.251
Federal Award Number B04 SP-CA 0111

Criteria. The following criteria were used to determine compliance.

Consolidated Appropriations Act of 2004 (PL 108-199) provided the Department of Housing and Urban Development with Economic Development Initiative (EDI) funds for specified projects in the Conference Report (H.R.108-401), which granted the City of Salinas \$323,083 for the construction of a swimming pool. The Act contained language that limited the amount of administrative and operational costs to 20%.

Grant agreement and letter from HUD dated April 4, 2004 alerting the City of Salinas of key provisions of the Act relative to limitations on administrative and operational costs and the intent of Congress that the funds be used for “hard costs”, rather than program or delivery costs.

Condition. The City of Salinas did not comply with the terms and conditions of the HUD Economic Development Initiative (EDI) grant agreement relative to reimbursement of administrative and operation expenses.

Questioned costs. \$45,085.16 related to unallowable administrative and delivery costs.

Context. During compliance testing we requested clarification of costs included in contractor’s invoice as “General Conditions”. Contractor provided a detail listing that was compared with the administrative and delivery costs identified in the HUD letter stated above. We calculated total costs subject to 20% limitation to identify the amount of questioned costs.

Effect. The City received reimbursement from HUD for administrative and operation costs in excess of 20% limitation.

Cause. Construction management and grant administration are performed by two separate departments in the City of Salinas. Construction management was unaware of grant conditions. Grant condition language was vague and condition unique, in that it only applied to one of four HUD EDI grants funding construction project. Grant administration did not monitor grant condition and incorrectly submitted reimbursement request for unallowable administrative and delivery costs. Grant administration closed and received certification of completion from HUD on the grant.

Finding Number 2008-1 (continued)

Recommendation. We recommend that the City of Salinas review and update procedures for grant administration responsibilities with all departments to improve communication and monitoring controls and ensure that the appropriate staff have a clear understanding of grant administration and compliance responsibilities.

Prior year views of responsible officials and planned corrective actions. City staff agree with working with HUD to reopen EDI grant to reallocate administrative costs. City staff will establish procedures to improve monitoring and oversight of expenses, including line-item review of contractor invoices for grant compliance.

Current year views of responsible officials on corrective actions taken or planned. On July 6, 2009, City staff contacted the HUD-EDI program contact with the Congressional Grants Division of the US Department of HUD to request to reopen the subject grant and to revise the final claim (Form SF 424) against the grant. The revised claim would change the report period coverage from 12/10/2004 - 6/30/08 to 12/10/2004 - 9/30/08, thereby, including additional eligible soft costs for the period 7/1/08-9/30/08. The program contact referred staff to the Director, Mr. Frank McNally, as the grant files were no longer accessible. On July 29, 2009, Mr. McNally instructed City staff to submit a revised claim along with the supporting invoices. Staff submitted all documentation to HUD on July 30, 2009. On August 21, 2009, City staff was informed that the grant files will be retrieved and the revised claim will be reviewed. On September 28, 2009, HUD approved the amended budget reflecting the revisions as of July 29, 2009 and incorporating the changes in their close out agreement and certificate of project completion.

Auditor's evaluation on status of corrective actions taken or planned. We have reviewed the documentation supporting City staff's action to re-open the grant and reallocate the questioned costs to eligible expenses. On September 28, 2009 HUD approved the City's revised claim as of July 29, 2009 and incorporated the revisions as part of the executed close out agreement and certificate of project completion. Additionally, we inquired on the grant compliance procedures for monitoring and evaluating allowable costs.

Based upon our review, procedures to improve monitoring, including improved communication and oversight of grant management are still under development. Further, no similar findings were noted in the current audit. HUD has not issued a management decision on the City's Corrective Action Plan as of March 24, 2010.

Finding Number 2008-2, reported for year ending June 30, 2008.

U.S. Department of Justice, Bureau of Justice
Office of Community Oriented Policing Services
Public Safety Partnership and Community Policing Grant
CFDA Number 16.710
Federal Award Number 2005 CK WX-0067

Criteria. The following criteria were used to determine compliance.

Grant Terms and Special Conditions item number 6 states that the grantee acknowledges that all grant modification requests must be approved in writing, by the COPS office prior to their implementation.

Grant Terms and Special Conditions item number 13 states that the grantee agrees to comply with appropriate federal procurement rules relative to non-competitive procurement in excess of \$100,000, in that the Grantee must provide a sole source justification to the COPS office for approval prior to obligation, expending, or drawing down funds.

Condition. The City of Salinas did not comply with the terms and conditions of the grant agreement to obtain prior written approval from the granting agency as follows:

Modified grant budget increasing contract service line item with corresponding decrease in equipment.

Use of non-competitive procurement process for purchase of equipment exceeding \$100,000.

Questioned costs. \$35,999.56 of Contract services costs.

Context. During compliance testing we reviewed grant application budget detail, grant agreement and compared with invoices paid. Management identified the equipment purchased and we calculated the difference between the grantor approved and City proposed final budget with actual invoices resulting in a higher cost for training and installation services. We requested documentation to support that prior approval was acquired from the grantor for both the use of sole source vendor and budget changes.

Effect.

The City expended and received reimbursement from DOJ for training and installation costs exceeding the approved budget category of \$14,000 by \$36,000 without prior approval from granting agency.

The City procured sole source vendor without prior approval of granting agency.

Finding Number 2008-2 (continued)

Cause. Program management and grant administration are performed by two separate departments in the City of Salinas. Program management (Police Department) is responsible for monitoring the terms of grant conditions. Equipment acquired is highly technical and beyond control of grant administration (Finance Department) to determine if equipment acquired is consistent with grant agreement budget. Program management incorrectly implemented budget amendment authorization conditions in the agreement, based upon a misinterpretation of grant close out requirements for SF 269A that requires the grantee to submit a final financial status report within 90 days of grant completion.

Program management obtained sole source approval from the City's governing body in accordance with City codes on December 12, 2006 with Dataworks Plus to acquire a Digital Photo Manager with Live Scan and NIST Archive system for \$186,429.01, to be paid in 3 installment payments. The first payment was made February 6, 2007. Through an oversight, the Program management did not seek approval from the granting agency. On May 6, 2008 and August 13, 2008, the two remaining payments were made to vendor. On February 4, 2008, City submitted a letter to granting agency to request approval of sole source vendor. City did not have documentation that grantor approved request.

Recommendation. The Police Department does not have a dedicated grant administrator. This weakness is mitigated by strong internal controls in the Finance Department responsible for grant administration. We recommend that the City of Salinas review and update procedures for grant administration responsibilities with all departments to improve communication and monitoring controls and ensure that the appropriate staff have a clear understanding of grant administration and compliance responsibilities.

Prior year views of responsible officials and planned corrective actions. City staff agrees with findings and believes these are isolated instances of non-compliance. City staff has discussed the findings with Community Oriented Policing Services (COPS) office personnel and has filed appropriate documentation to the COPS' office. City staff anticipates favorable resolution of the findings. City staff will improve monitoring procedures, including improved communication and oversight between program management and grant administrator.

Current year views of responsible officials on corrective actions taken or planned. On February 24, 2008, the Chief of Police filed appropriate documentation to the COPS office modifying grant budget line item and has requested approval for retroactive authorization for a sole source procurement of the digital mug shot system for an integrated system under the Police Department's COPS 2005 Technology grant. On March 13, 2009 the City received an email from US DOJ authorizing the extension of the grant to April 30, 2009 to submit additional documentation on the budget modification request. On April 30, 2009, COPS office approved the budget modification request. The DOJ Office of Audit, Assessment, and Management requested additional information in January 2010, but has not issued a management decision on the City's Corrective Action as of March 24, 2010. We are reviewing and updating the City's Grant Monitoring Procedures to improve communication, monitoring and oversight of grant management.

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Auditor's evaluation on status of corrective actions taken or planned. We have reviewed the documentation supporting the City's action to retroactively gain approval from the grantor for the use of a sole source vendor for a purchase exceeding \$100,000 and a grant budget amendment. The Department of Justice (DOJ) Grant Administration Division approved the City's request in April 2009.

Based upon our review, procedures to improve monitoring, including improved communication and oversight of grant management are still under development. Further, no similar procurement findings were noted in the current audit. The DOJ Office of Audit, Assessment, and Management requested additional information in January 2010. By letter dated March 24, 2010, the DOJ Office of Audit, Assessment, and Management will be requesting closure of the questioned costs by the DOJ Office of Inspector General, but has requested a copy of the City's procedures ensuring that prior approval is obtained from the Federal awarding agency for all sole-source procurement actions.

Views of responsible officials on auditor's evaluation. City staff is reviewing and updating the City's Grant Monitoring Procedures to improve communication, monitoring and oversight of grant management. Finance staff meets regularly with program managers. Finance staff and program managers have attended training on grant monitoring and reporting process. City's purchasing division will review closely all Federal grants purchases.