

Basic Financial Statements

Fiscal Year Ended June 30, 2008



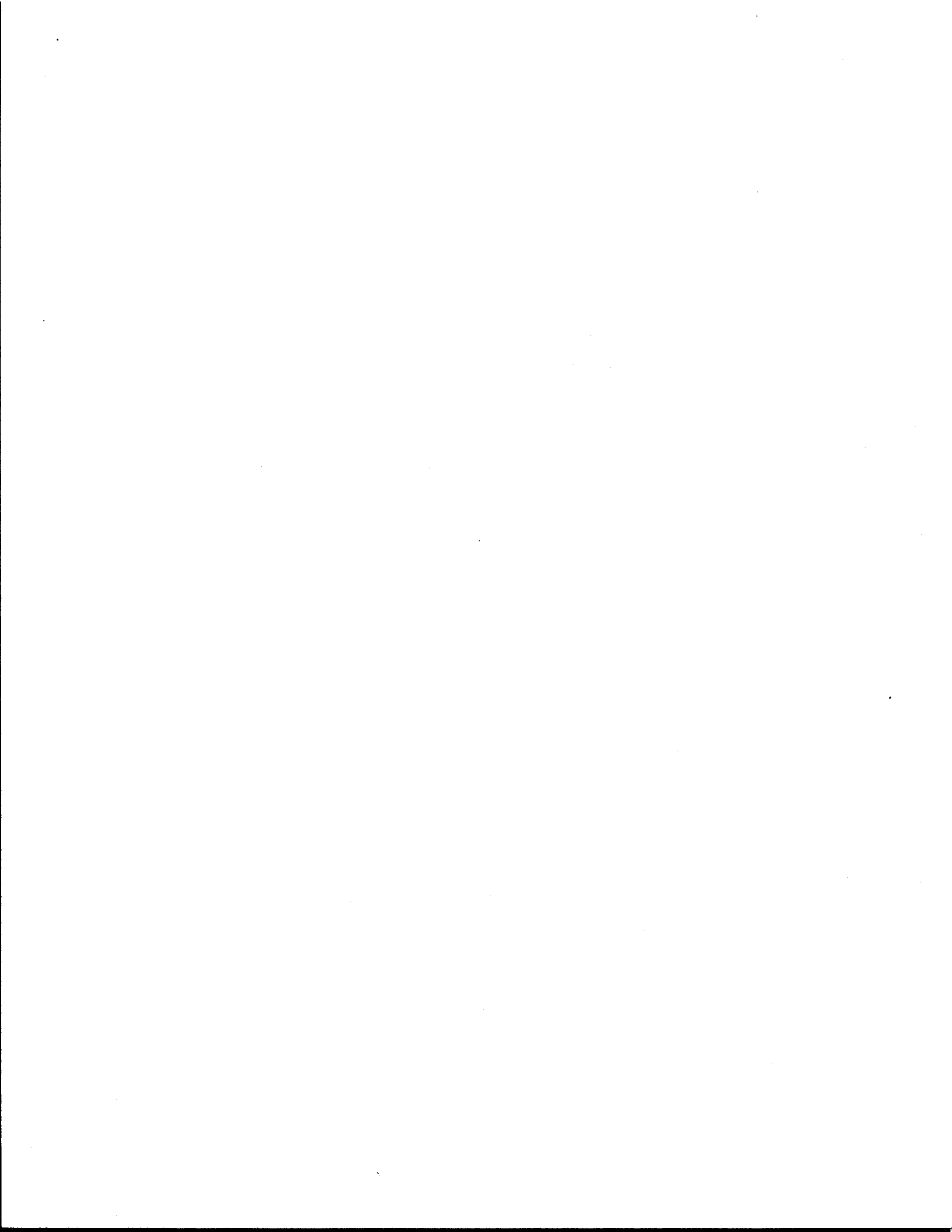
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City of Salinas

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

March 31, 2009

***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, 2008. 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, 2008, 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, 2008, 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 150,898, as of January 1, 2008. The City budget includes 659 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 200 practicing physicians.

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

The City's moderate climate encourages year-round use of its 550 plus acres of municipal parks, which include golf courses, tennis courts and swimming pools. The Salinas Community Center regularly hosts symphonies, ballets, concerts and conventions. Salinas is host to the annual Steinbeck Festival, the California Rodeo, and the California International Airshow. Salinas has a modern California Sports Complex and the National Steinbeck Center. Surrounding Salinas are

diverse recreational opportunities including beautiful beaches and the world famed golf courses of the Monterey Bay Peninsula.

As the retail hub of the Central Coast, Salinas enjoys a wide selection and diversity in its stores. Northridge Shopping Center contains over 120 specialty shops and 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. In October 2007, Home Depot moved their operations from Harden Ranch Plaza to the Auto Center area to join 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

Accounting System and Budgetary Control

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

The City Council approves operating appropriations at the department and fund level prior to July 1, each year and may amend the budget during the fiscal year. Please refer to Required Supplementary Information to the financial statements for a more detailed discussion of budget policy and control.

Annual Financial Report

The purpose of the City's Annual Financial Report is to summarize the administrative and operational performance of the City during the previous fiscal year. The report is intended to highlight significant accomplishments that were achieved during the fiscal year ended June 30, 2008 and to provide a financial analysis of City performance.

Capital Assets and Depreciation

As of June 30, 2008, capital assets, including infrastructure assets, of the City of Salinas totaled \$561.2 million; accumulated depreciation totaled \$253.7 million, with the difference providing net capital assets of \$307.5 million. Net capital assets of the City's governmental activities (general government) are \$163.0 million and net capital assets for the City's business-type activities (enterprise funds) are \$144.5 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 2007-08, depreciation expense on capital assets of the City's governmental activities (general government) was \$7.9 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, 2008, the City had \$100.1 million in long-term debt. Long-term debt includes liabilities for annual leave, long-term portion of Worker's Compensation claims payable, capital leases and notes and bonds payable. While the General Fund guarantees most of the City's long-term debt, other funds, agencies or property owners make the majority of principal and interest payments. Examples of other funds, agencies or property owners include, the Industrial Waste Fund, Golf Courses Fund, the Steinbeck Center, the Sanitary Sewer Fund, Salinas Redevelopment Agency property tax increments, payments from the Salinas Valley Solid Waste Authority for the installment sale of Crazy Horse landfill and payments from property owners who are included in the City's various assessment districts.

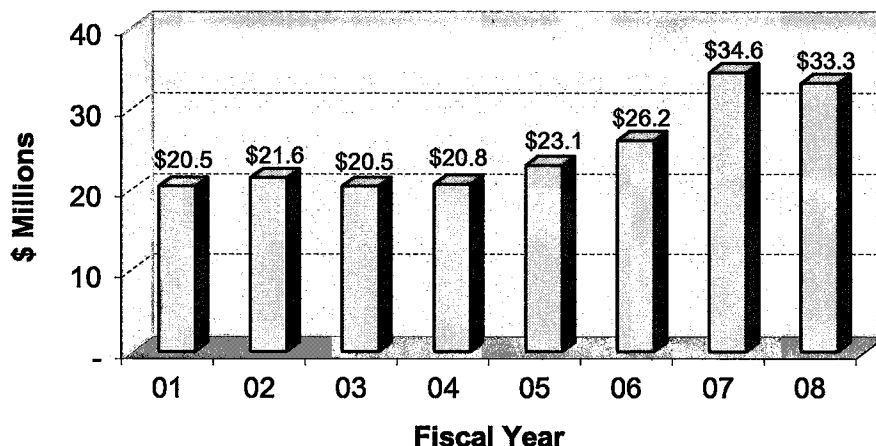
Please refer to the Note 18 for a complete discussion of the City's Long-term Debt.

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, 2008, total revenues for general governmental functions totaled \$119,288,560, a decrease of 6.50% over the previous fiscal year.

Sales Tax was the largest single category of revenue this fiscal year producing 27.95% of the combined governmental fund type revenues. Transactions and Use Tax (Measure V) represents 8.43% 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 \$33,346,584 or 38.07% of General and Measure V Fund revenues.

**CITY OF SALINAS
SALES TAX**

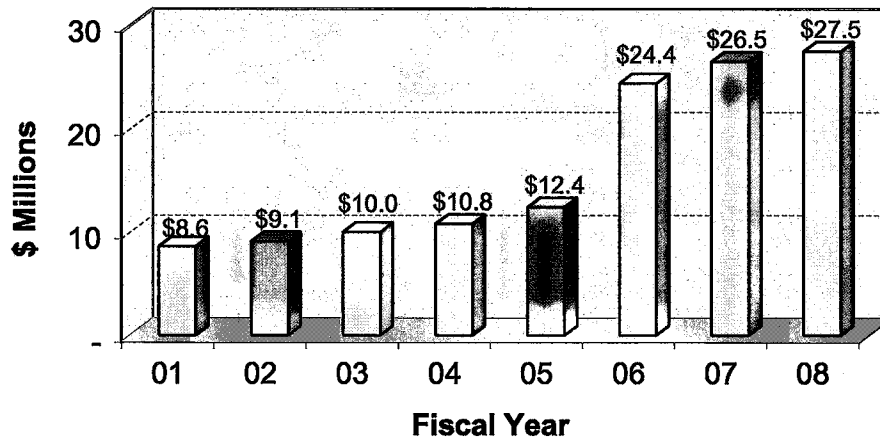


The sales tax due from the State of California for FY 2007-08 totaled \$1,071,581 and is recorded as revenue and in-lieu sales tax receivable for the year ended June 30, 2008.

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.

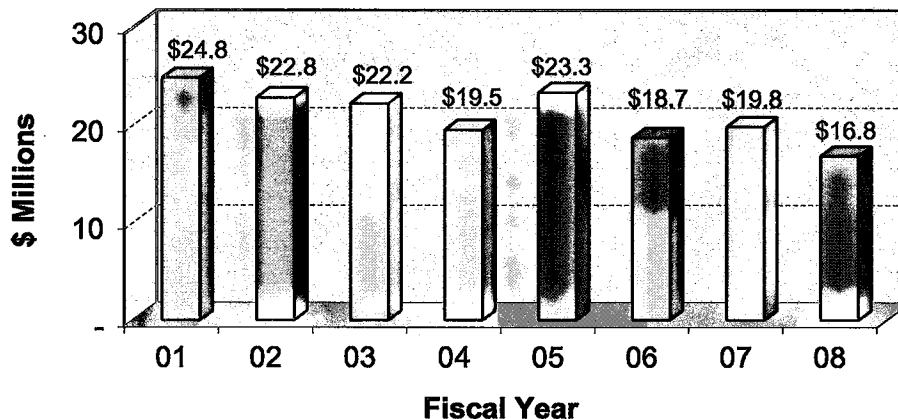
Property Tax revenue was the second largest source of revenue during this fiscal year, producing 23.09% of the combined governmental fund type revenues and 31.45% of General and Measure V Fund revenues. Property Tax revenue includes Property Tax-In-Lieu of VLF (2/3 of vehicle license fees) of \$12,100,832 that is now determined by the City's growth in assessed property values. In previous fiscal years, the vehicle license fee was determined by the City's population and reported in the Intergovernmental category.

CITY OF SALINAS PROPERTY TAX



Intergovernmental revenue was the third largest single category of revenue during the fiscal year producing 14.06% 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



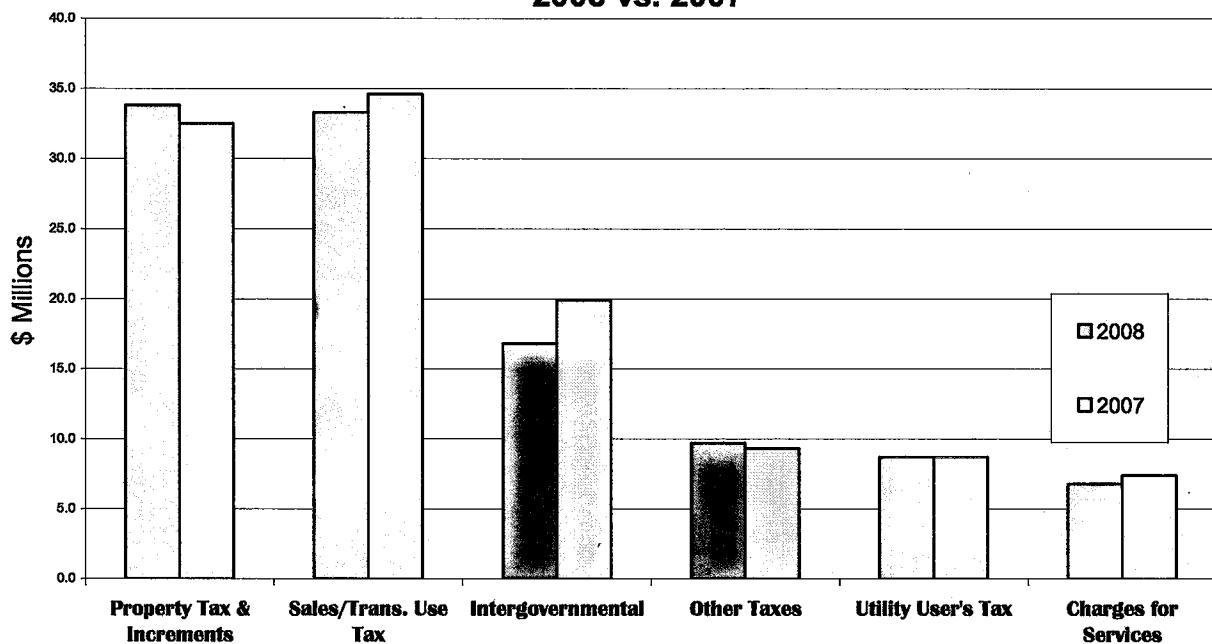
Other Taxes produced 8.14% of the combined governmental fund type revenues. Other Taxes include business license tax and franchise fees among others.

Taxes receivable total \$8,396,450 for the year ended June 30, 2008 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	2008 Amounts	Percent of Total	2007 Amounts	2007 vs. 2008 Increase/(Decrease)	
				Dollars	Percent
Assessment District:					
Taxes	\$ 3,107,675	2.61%	\$ 3,169,602	\$ (61,927)	-1.95%
Property Tax	27,544,177	23.09%	26,465,497	1,078,680	4.08%
Property Tax Increment	6,212,628	5.21%	5,993,830	218,798	3.65%
Sales/Transaction & Use Tax	33,346,584	27.95%	34,576,666	(1,230,082)	-3.56%
Intergovernmental	16,774,629	14.06%	19,854,380	(3,079,751)	-15.51%
Other Taxes	9,704,802	8.14%	9,297,142	407,660	4.38%
Utility User's Tax	8,696,070	7.29%	8,714,661	(18,591)	-0.21%
Charges for Service	6,839,062	5.73%	7,399,973	(560,911)	-7.58%
Interest	3,452,771	2.89%	3,784,643	(331,872)	-8.77%
Growth/Dev Fees	1,009,939	0.85%	4,914,155	(3,904,216)	-79.45%
Miscellaneous	838,194	0.70%	1,800,366	(962,172)	-53.44%
Fines/Forfeitures	940,301	0.79%	913,730	26,571	2.91%
Developer Contributions	796,218	0.67%	669,561	126,657	18.92%
License & Permits	25,510	0.02%	25,874	(364)	-1.41%
TOTAL	\$ 119,288,560	100.00%	\$ 127,580,080	\$ (8,291,520)	-6.50%

General Government Top Six Revenues 2008 vs. 2007



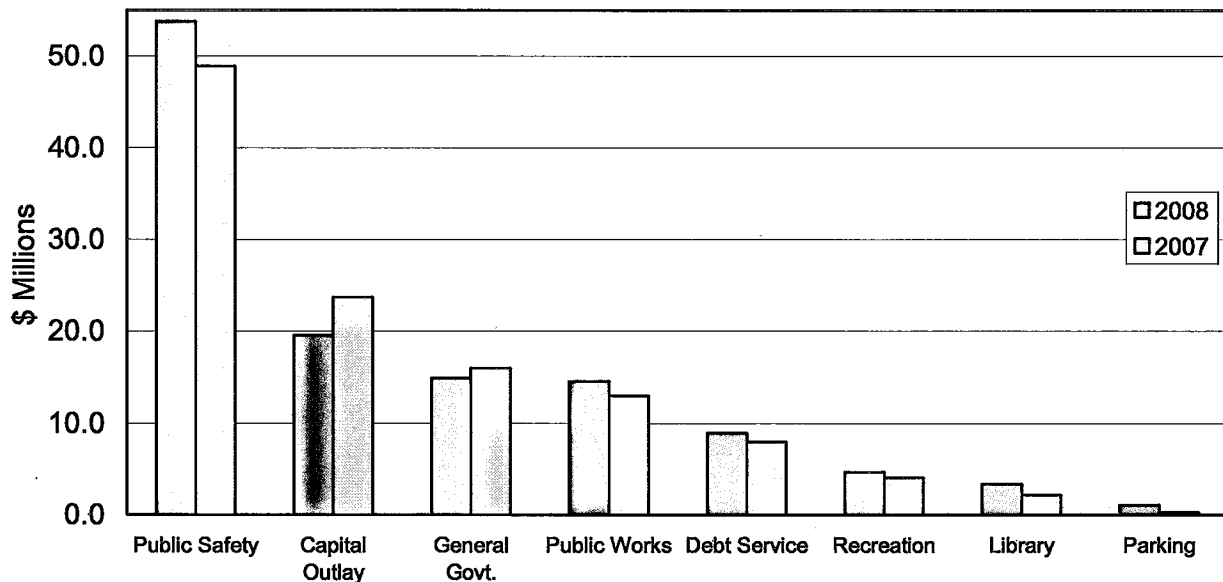
Fund Financial Statements-General Governmental Expenditures

Expenditures for governmental operations during the fiscal year ended June 30, 2008, were \$120,711,377, an increase of 9.4% in operations and a net increase of 4.1% in total expenditures over the previous year.

Changes in expenditures by major function are as follows:

Function	2008	Percent of Total	2007	2007 vs. 2008 Increase/(Decrease)	
				Dollars	Percent
General Government	\$ 14,868,066	12.3%	\$ 15,973,376	\$(1,105,310)	-6.9%
Public Safety	53,781,883	44.5%	48,887,790	4,894,093	10.0%
Public Works	14,536,489	12.0%	12,945,483	1,591,006	12.3%
Recreation	4,656,452	3.9%	4,056,353	600,099	14.8%
Library	3,346,075	2.8%	2,167,342	1,178,733	54.4%
Parking Structure Debt	1,050,000	0.9%	275,000	775,000	281.8%
Subtotal Operations	92,238,965	76.4%	84,305,344	7,933,621	9.4%
Capital Outlay	19,549,703	16.2%	23,660,906	(4,111,203)	-17.4%
Debt Service:					
Principal	5,182,616	4.3%	4,214,267	968,349	23.0%
Interest	2,776,676	2.3%	2,909,173	(132,497)	-4.6%
Pass thru Tax	963,417	0.8%	844,033	119,384	14.1%
Total	\$ 120,711,377	100.0%	\$ 115,933,723	\$ 4,777,654	4.1%

General Government Expenditures 2008 vs. 2007



Operating Expenditures increased by \$7,933,621 or 9.4% from \$84,305,344 in FY 2006-07 to \$92,238,965 in FY 2007-08.

General Government expenditures decreased \$1,105,310 or 6.91% from the prior year. Decrease reflects a reduction of investments in senior and low-income housing projects provided with Block Grant Funds of \$2,110,974.

Public Safety expenditures increased \$4,894,093 or 10.00% from the prior year. Increases are due primarily to the continued hiring of sworn police officers to fill vacant positions, and the negotiated Police salary increases of 5% effective October 1, 2007 and 5% on April 1, 2008.

Expenditures in Public Works, Recreation and Library functions increased \$ 3,369,838 or 17.58% from the prior year. Measure V provided full restoration of library services, coupled with negotiated employee salary increased on October 1, 2007 (5%).

Principal and interest payments increased \$835,852 due to the repayment from the Sunset Avenue Area Loan Advance for operations.

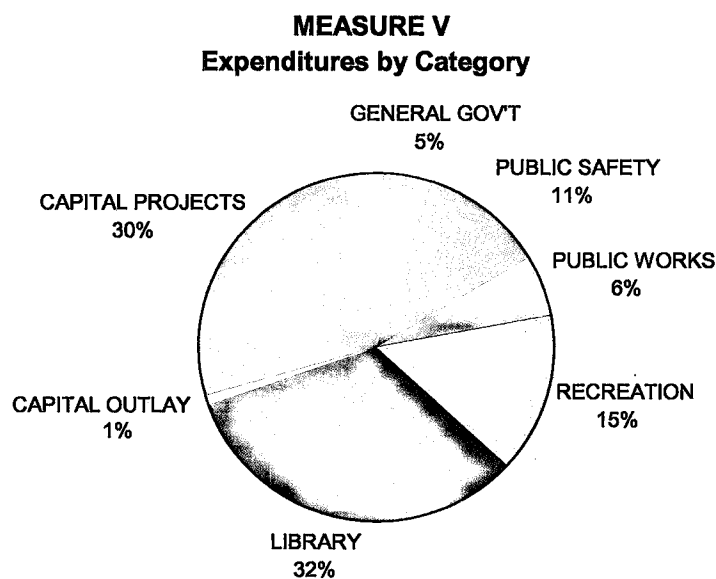
Capital Outlay (Project) expenditures decreased \$4,111,203 or 17.37% from \$23,660,906 in FY 2006-07 to \$19,549,703 in FY 2007-08. Capital projects expenditures during FY 2007-08 include: 1) General and Measure V Fund investments of about \$5.5 million in police and fire vehicle replacements, street and park maintenance equipment, sidewalk and street tree repairs, fire vehicle lease payments, fire stations repairs and computer replacements; 2) Block Grant investments of over \$2.1 million for projects such as the Alisal traffic signals and street lights and ADA modifications; 3) Development Impact Fee investments of about \$1.1 million for improvements to Sanborn Road, Main Street, West Laurel Drive, South Main and Blanco Intersection and sewer improvements and sewer main replacements; 4) Gas Tax investments of over \$2.6 million for street maintenance, traffic signals and NPDES storm drain projects; 5) Federal and State Grants and developer paid investments of over \$6.0 million for cost associated with annexation of future growth areas, new municipal pool, road improvements, street improvements, bicycle lanes and street light improvements.

Transactions and Use Tax (Measure V)

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

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

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



Business-type Activities-Enterprise Funds

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

The Enterprise Funds net assets totals \$115,692,662 at June 30, 2008.

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, 2008, the Internal Service Funds liabilities for estimated claims payable totaled \$9,195,052, with \$8,713,560 representing Worker's Compensation and \$481,492 representing General Liability.

Total Worker's Compensation insurance claims liabilities are \$9,789,127 at June 30, 2008. A portion of the liability is reported in the Internal Service Fund (\$8,713,560) and a portion is treated as long-term debt (\$1,075,567). 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 \$1,454,428 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 \$43,332,004 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 \$694,765.

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 (61.90% of investment at FMV) are invested in the State's Local Agency Investment Fund (LAIF). LAIF yielded average returns of 4.58% for fiscal year ended June 30, 2008.

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, 2008 is as follows:

Balance at cost – June 30, 2008	\$ 88,744,001
Unrealized Loss	<u>(4,418)</u>
Balance at fair value – June 30, 2008	<u>\$ 88,739,583</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 grew to \$10,102,973,741 and represents a decrease of 5.10% over FY 2007-08.

The following table summarizes the growth in assessed valuation.

	<u>Before Redevelopment Increment</u>	<u>After Redevelopment Increment</u>	<u>Percent Change</u>
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%
1999-00	5,029,395,502	4,774,694,999	7.08%

Source: Monterey County Tax Rate Book.

Significant Events and Accomplishments

Highlights of activities and accomplishments for the fiscal year ended June 30, 2008 include the following:

In September 2007, the Council reaffirmed its commitment to fund housing projects for low-income residents by committing up to one million dollars to fund the pre-development and construction of affordable housing at Sun Street (formally Casas Del Sol).

In October 2007, a multi-agency cooperation agreement was approved to regulate the implementation, management and marketing of the Salinas Valley Enterprise Zone. The authorization of a California Enterprise Zone will provide significant non-cash incentives for the retention and creation of jobs and new capital investments in areas wherein communities have identified a high need for new and continued business expansion. The five cities of the Salinas Valley (Salinas, Gonzales, Soledad, Greenfield and King City) as well as Monterey County joined together in this regional approach to create a new Enterprise Zone.

In November 2007, a three-year audit program to insure compliance with the Business License Tax Ordinance was implemented. The City contracted out with Municipal Auditing Services (MAS) to conduct this review of compliance.

In December 2007, the City Council approved the sphere of influence amendments and annexation for the Salinas Future Growth Area at the northeast side of the City. The Sphere of Influence area ultimately would result in over 14,000 dwelling units and over 9,000,000 square feet of nonresidential development. The Sphere of Influence area encompasses the annexation area, and

is approximately 2,400 acres that would accommodate 11,500 dwelling units and over 3,000,000 square feet of nonresidential development.

In January 2008 the City Council developed objectives to achieve during calendar year 2008. The Council affirmed the following main four goals: 1) Economic Vitality; 2) City of Peace; 3) Image and Community; 4) Consistent Community Outreach and Engagement.

In March 2008, The Community Safety Alliance was implemented. The CAPSTONE (City at Peace, Supporting and Transforming our Neighborhoods) program was created to implement a mid-term gang intervention program to bridge the gap between short-term suppression patrols and long-term prevention and intervention programs.

In April 2008, the City commenced the construction of a new modern swimming pool complex that will accommodate recreational and competitive aquatic sports replacing the existing pool complex that will be remodeled to increase the inventory of recreational facilities available to residents. During the same month, the City entered into an exclusive negotiating agreement with the Widdewater Group for the preparation of a downtown development and revitalization plan centered on the use of the City-and Agency-owned properties in the downtown area.

In May 2008, the City adopted a funding policy and established a trust with the California Public Employees Retirement System (CalPERS) to invest future contributions to meet other than retirement post employment benefits (OPEB) liability.

In June 2008, Council approved the project, planning and negotiating rights agreement for the Alisal Marketplace with Cooley Development and Bristol Group, Inc. The Alisal Marketplace development proposal identifies a 52-acre commercial and industrial area in the center of the City as having great potential for redevelopment as a master planned, mixed-use residential and commercial redevelopment, with high quality architecture and uniquely themed and designed retail that would be a regional destination. During the same month, as a critical part of the privatization of Fairways Golf Course operation, the City Council authorized the issuance of the Variable Rate Taxable Refunding Certificates of Participation Series 2008 in an amount not to exceed \$5,500,000. At that time the City also entered into a Lease Agreement with Sierra Golf Management to operate the Fairways Golf Course.

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 \$19,549,703.

Labor Relations

As of December 2007, all employee groups have approved Memorandum of Understandings (MOUs) with the City. Police Management Association (PMA) and Salinas Police Officers Association (SPOA) MOUs expire December 31, 2009. Fire Supervisors Association (FSA) and International Association of Firefighters (IAFF) MOUs expire June 30, 2009. All other non-safety groups' contracts will expire December 31, 2011.

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

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.

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. The current fiscal year (FY 2008-09) projected budget gap (expenditures exceed revenues) is \$10.9 million. The current fiscal year gap is being paid by using reserves. General Fund reserves will decline to \$1.8 million at June 30, 2009. The projected FY 2009-10 General Fund budget gap is \$12.6 million.

The City Council is addressing this shortfall with a three phase approach: 1) budget/service reductions not requiring employee layoffs, 2) negotiating employee pay reductions, and 3) additional budget/service reductions including employee layoffs, if required. The City Council's goals are to keep the City solvent and to keep people working in Salinas. A remaining budget shortfall of at least \$4.0 million (5.0%) is projected in FY 2010-09, the second year of the City's two-year budget cycle. Longer-term costs savings measures and additional budget/service reductions will be required to address this second year shortfall.

On February 24, 2009, the City Council approved Phase 1 budget reductions, inclusive of freezing 18.5 vacant positions, capital project reductions, and reducing operating budgets that do not require the layoffs of permanent City employees. Phase 2 budget reductions, employee pay reductions, are currently being negotiated.

Salinas average unemployment rate for calendar year 2008 increased slightly over the prior year average of 7.31 percent. The City's average unemployment rate for calendar year 2008 was 8.73 percent, which is higher than the statewide average of 7.21 percent.

Acknowledgements

The preparation of this Annual Financial Report could not have been accomplished without the professional, efficient, and dedicated service of the staff of the Finance Department. In particular I would like to express my appreciation to our professional accountants: Miguel Gutierrez, Elizabeth Mariano and Erika Rodriguez. The entire Finance staff deserves a special word of thanks for

another year of hard work and quality performance. We also wish to thank our auditors, McGilloway, Ray, Brown & Kaufman, Accountants & Consultants, for their cooperation and assistance.

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

Respectfully submitted,

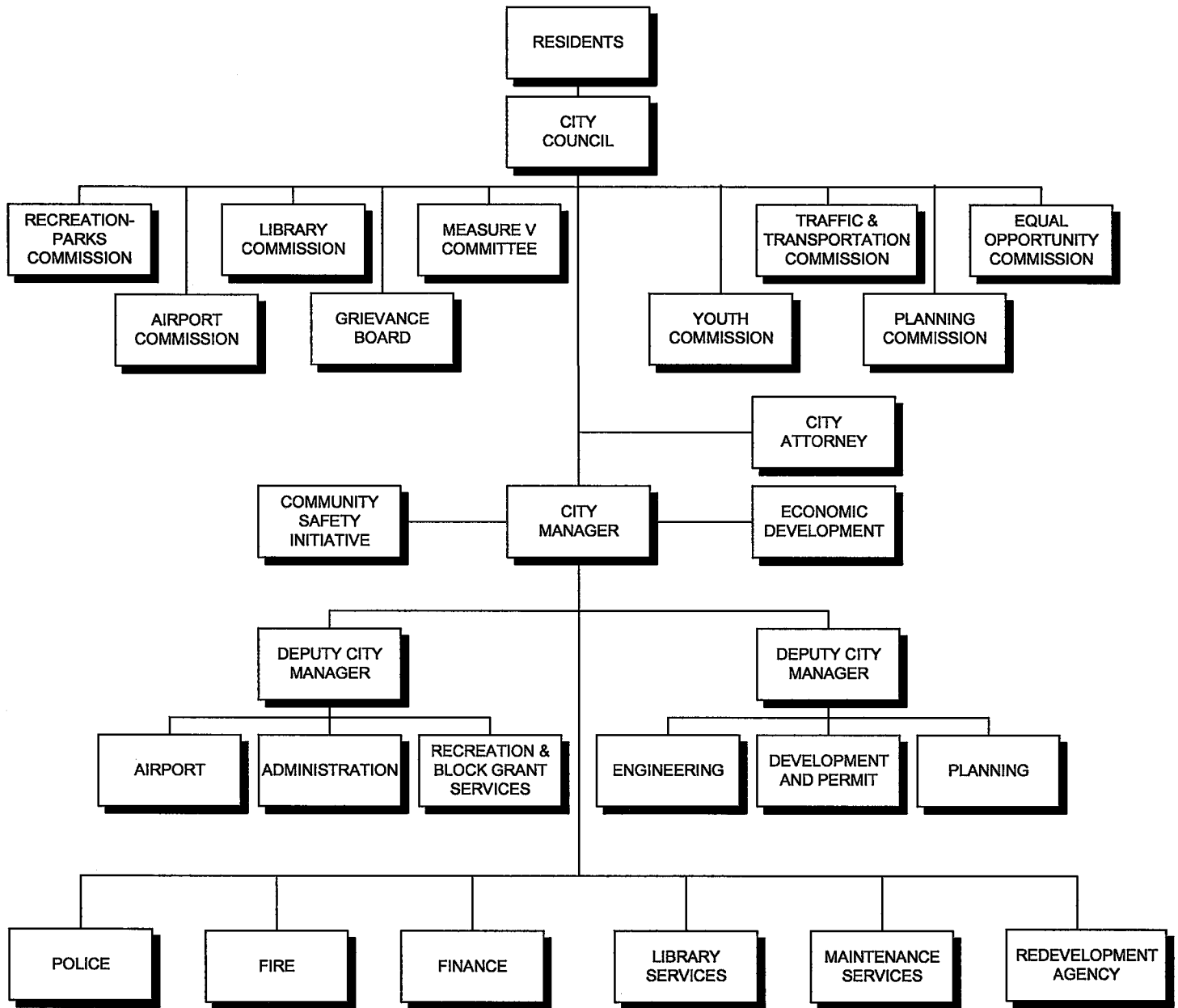
A handwritten signature in black ink, appearing to read "Tom L. Kever", with a long, sweeping horizontal line extending to the right.

Tom L. Kever
Director of Finance



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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

John Fair
Deputy City Manager

Rob Russell
Deputy City Manager

Daniel Ortega
Police Chief

Ed Montez
Fire Chief

Tom Kever
Director of Finance

Alan Stumpf
Director of Redevelopment

Denise Estrada
Director of Maintenance Service

Elizabeth Martinez
Library Director

McGILLOWAY, RAY, BROWN & KAUFMAN

Accountants & Consultants

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

150 Cayuga Street, Suite #1
Salinas, CA 93901
831-424-2737
Fax 831-424-7936

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Salinas, California (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2009, 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 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.

The accompanying required supplementary information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

McGilloway, Ray, Brown & Kaufman

March 25, 2009

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2008

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, 2008. 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, 2008, the City's net assets (excess of assets over liabilities) were \$321.1 million. Of this amount, \$32.9 million are unrestricted assets.
- During the fiscal year ended June 30, 2008, the City's total net assets increased by \$3.7 million. This change results from an increase of \$3.6 million in governmental activities net assets, and a slight increase of \$86,202 in business-type activities net assets.
- During the fiscal year governmental funds fund balances decreased \$3.1 million to \$90.8 million, of which \$66.2 million is reserved and thus unavailable.
- During the fiscal year the General Fund fund balance decreased \$5.9 million (7.7% of operating expenditures) to \$23.9 million of which \$13.7 million is reserved. Unreserved General Fund balance of \$10.2 million includes designated funds (\$8.3 million) and undesignated (carryover) funds (\$1.9 million).
- The City's total long-term liabilities decreased by \$2.2 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 \$1.8 million to \$307.5 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.

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.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2008

B. OVERVIEW OF FINANCIAL STATEMENTS: (Continued)

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. Individual fund data for other non-major governmental funds is provided in the form of supplementary information elsewhere in the report.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2008

B. OVERVIEW OF FINANCIAL STATEMENTS: (Continued)

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 \$321.1 million, which is an increase of \$3.7 million (1.2%) from the prior year.

At June 30, 2008, the largest portion of net assets (68.1%) consists of the City's investment in capital assets net of related debt. This component portrays the total amount of funds required to acquire those assets less any related outstanding debt used for such acquisition. The City uses these capital assets to provide services to residents. The capital assets of the City are not sources of income for repayment of debt as most assets are not revenue generating and generally are not liquidated to repay debt. Debt service payments are funded from other resources available to the City.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2008

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS:(Continued)

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2008 and 2007.

	Governmental Activities		Business-type Activities		Total		Percent of Total
	2008	2007	2008	2007	2008	2007	
Assets:							
Current Assets	\$ 106,616,384	\$ 104,058,908	\$ 13,008,806	\$ 13,858,115	\$ 119,625,190	\$ 117,917,023	25.6 %
Other Assets	36,851,336	42,753,594	1,318,485	(2,008,688)	38,169,821	40,744,906	8.2 %
Capital Assets, Net	165,664,420	157,477,528	144,470,493	148,284,398	310,134,913	305,761,926	66.2 %
Total Assets	309,132,140	304,290,030	158,797,784	160,133,825	467,929,924	464,423,855	100.0 %
Liabilities:							
Current Liabilities	9,097,298	9,467,423	932,010	1,242,539	10,029,308	10,709,962	6.8 %
Other Liabilities	36,361,935	33,597,240	-	-	36,361,935	33,597,240	24.8 %
LTD - Annual Leave	23,916	24,419	269,664	239,625	293,580	264,044	0.2 %
LTD - Due in one year	5,226,665	4,668,071	1,362,307	1,319,380	6,588,972	5,987,451	4.5 %
Long-term Liabilities	52,990,384	54,688,105	40,541,141	41,725,821	93,531,525	96,413,926	63.7 %
Total Liabilities	103,700,198	102,445,258	43,105,122	44,527,365	146,805,320	146,972,623	100.0 %
Net Assets:							
Invested in Capital Assets, Net of Related Debt	116,367,342	108,982,267	102,567,045	105,239,197	218,934,387	214,221,464	68.2 %
Restricted	66,135,312	60,901,473	3,200,449	3,283,389	69,335,761	64,184,862	21.6 %
Unrestricted	22,929,288	31,961,032	9,925,168	7,083,874	32,854,456	39,044,906	10.2 %
Total Net Assets	\$ 205,431,942	\$ 201,844,772	\$ 115,692,662	\$ 115,606,460	\$ 321,124,604	\$ 317,451,232	100.0 %

Statement of Activities

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2008 and 2007:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	\$ 6,817,445	\$ 7,364,841	\$ 6,745,452	\$ 6,152,859	\$ 13,562,897	\$ 13,517,700
Operating Grants & Contributions	12,290,965	14,921,433	639,046	502,953	12,930,011	15,424,386
Capital Grants & Contributions	12,103,863	16,495,488	941,654	1,752,805	13,045,517	18,248,293
General Revenues:						
Taxes	85,094,558	84,633,831	-	-	85,094,558	84,633,831
Licenses & Permits	25,510	25,874	-	-	25,510	25,874
Grants & Contributions not Restricted	667,571	1,040,841	-	-	667,571	1,040,841
Unrestricted Investment Earnings	1,732,334	1,894,897	711,538	869,826	2,443,872	2,764,723
Gain (Loss) on Disposal of Assets	93,204	63,753	-	-	93,204	63,753
Land Deeded and Sales Proceeds	122,176	-	-	-	122,176	-
Loans Receivable Forgiven	(38,000)	(18,000)	-	-	(36,000)	(18,000)
General Fund Advance Forgiven	(4,385,000)	-	4,385,000	-	-	-
Miscellaneous	351,171	342,186	-	-	351,171	342,186
Total Revenues	114,877,797	126,765,144	13,422,690	9,278,443	128,300,487	136,043,587
Expenses						
General Government	15,040,191	17,233,477	1,502,845	1,339,952	16,543,036	18,573,429
Public Safety	57,354,690	49,917,717	-	-	57,354,690	49,917,717
Public Works	26,606,330	19,307,628	9,799,502	10,205,207	36,405,832	29,512,835
Recreation	5,430,624	4,727,296	2,589,645	2,590,575	8,000,269	7,317,871
Library	3,559,387	2,252,923	-	-	3,559,387	2,252,923
Interest	2,763,901	2,883,579	-	-	2,763,901	2,883,579
Total Expenses	110,755,123	96,322,620	13,871,992	14,135,734	124,627,115	110,458,354
Increase in Net Assets before Transfers	4,122,674	30,442,524	(449,302)	(4,857,291)	3,673,372	25,585,233
Transfers	514,496	228,203	(514,496)	(228,203)	-	-
Increase in Net Assets	4,637,170	30,670,727	(963,798)	(5,085,494)	3,673,372	25,585,233
Net Assets - Beginning of Year	201,844,772	171,449,045	115,606,460	120,416,954	317,451,232	291,865,999
Transfer Parking Net Assets to Business-type Activities	(1,050,000)	(275,000)	1,050,000	275,000	-	-
Net Assets - Ending	\$ 205,431,942	\$ 201,844,772	\$ 115,692,662	\$ 115,606,460	\$ 321,124,604	\$ 317,451,232

CITY OF SALINAS
 Management's Discussion and Analysis
 Fiscal Year ended June 30, 2008

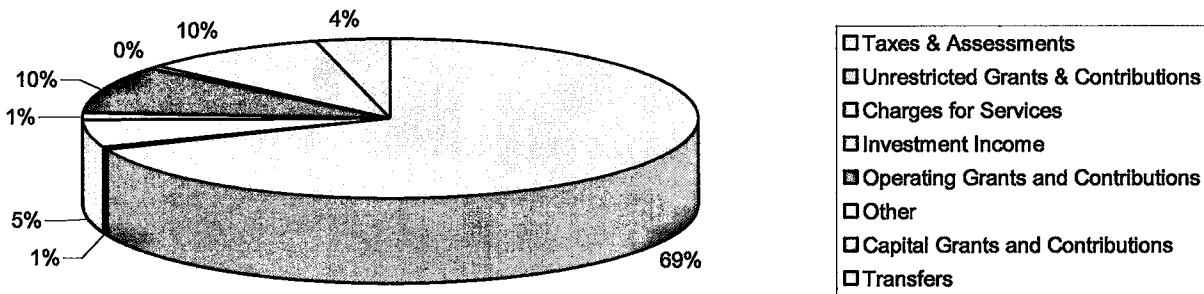
C. GOVERNMENT-WIDE FINANCIAL ANALYSIS: (Continued)

Total revenues decreased \$7.7 and total expenditures increased \$14.2 million. Further analysis is provided within the governmental and business-type activities sections.

Governmental Activities

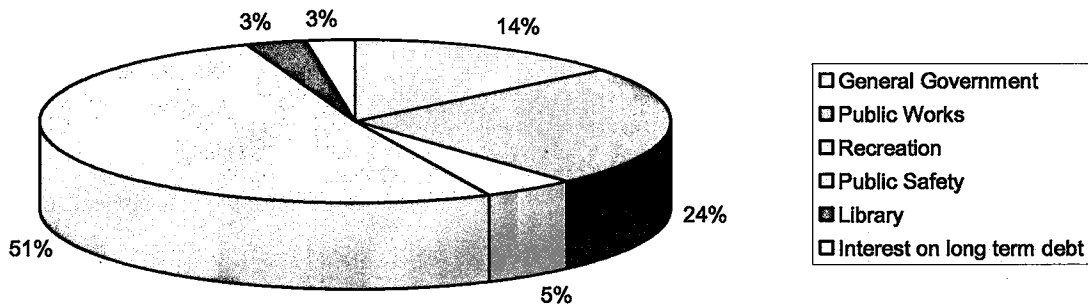
Governmental activities resources total \$114.3 million including revenues of \$114.9 million and transfers-out of \$0.6 million. The City's governmental activities increased net assets by \$3.6 million. The following charts highlight the sources of revenues and purpose of expenses:

**Governmental Activities
 Revenues by Source
 June 30, 2008**



Total expenses for governmental activities were \$110.8 million including interest on long-term debt of \$2.8 million. Total expenditures that were funded by tax revenues, investment income and other general revenues were \$79.5 million.

**Governmental Activities
 Expenses by Function/Program
 June 30, 2008**



CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2008

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS: (Continued)

Governmental Activities, Continued

Functional expenses for the year ended June 30, 2008 were as follows:

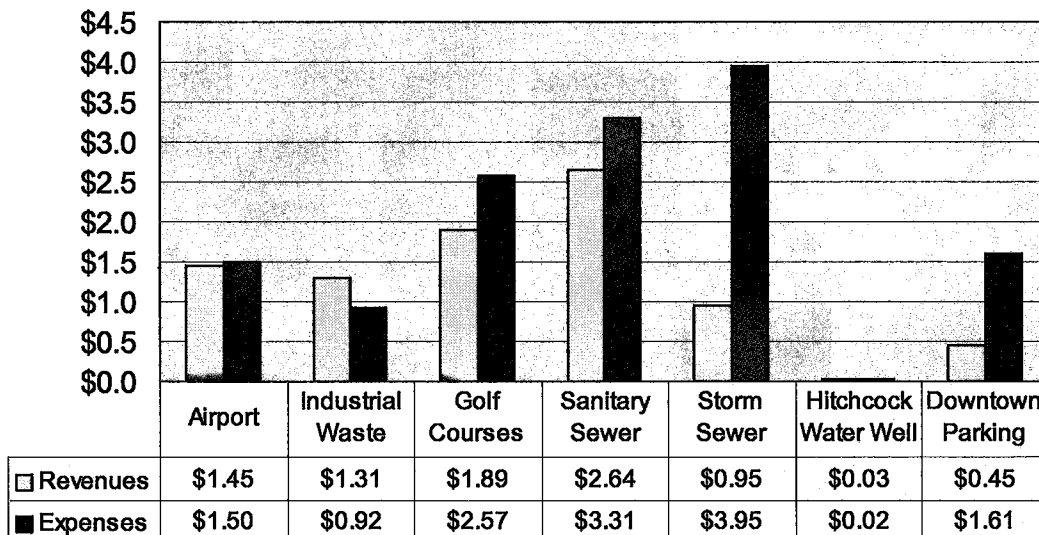
	<u>Total Cost of Services</u>	<u>Percent</u>	<u>Net Cost of Services</u>	<u>Percentage</u>
	<u>2008</u>	<u>2008</u>	<u>2008</u>	<u>2008</u>
Public Safety	\$ 57,354,690	51.8%	\$ 54,151,481	68.1 %
Public Works	26,606,330	24.0%	10,489,595	13.2 %
General Government	15,040,191	13.6%	4,306,380	5.4 %
Recreation	5,430,624	4.9%	4,545,915	5.7 %
Library	3,559,387	3.2%	3,285,578	4.1 %
Interest on long term debt	2,763,901	2.5%	2,763,901	3.5 %
Total	\$ 110,755,123	100 %	\$ 79,542,850	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 \$79.5 million.

Business Type Activities

The City's business-type activities net assets were \$115.7 million, a modest increase of \$86,202 from the prior fiscal year. Total program revenues for business-type activities were \$8.3 million. The largest program revenues were charges for services of \$6.7 million. Other program revenues included operating/capital grants and contributions of \$1.6 million. Total expenses for the business-type activities were \$13.9 million during FY 2007-08.

**Business Type Activities
Revenues, Expenses (in millions)
June 30, 2008**



CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2008

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 \$90.8 million. Of this amount, \$66.2 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 \$24.6 million, and are available for spending. Unreserved fund balances include General/Measure V Fund of \$12.0 million, Special Revenue Funds of \$4.0 million and Capital Projects Funds of \$8.6 million.

The General Fund is the chief operating fund of the City. The General Fund fund balance decreased by \$5.9 million in FY 2007-08 to \$23.9 million, of which \$13.7 million is reserved, \$1.9 million is undesignated and \$8.3 million is designated for subsequent years' expenditures. The designated fund balance of \$8.3 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 \$1.9 million is available for allocation and expenditure at June 30, 2008. During September 2008, City Council allocated the undesignated fund balance of \$1.9 million to the operating reserve. General Fund reserves available for expenditure at June 30, 2008 total \$9.4 million, including the operating reserve of \$6.3 million, and the capital projects reserve of \$3.1 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 \$1.0 million in FY 2007-08 to \$5.4 million, of which \$3.6 million is reserved and \$1.8 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 \$101.7 million.

Significant Appropriations Increases/Decreases:

- Salary adjustments to fund employee agreements of \$1.5 million.
- Decrease in Workers' Compensation premiums of \$0.5 million.

After the allocation of the June 30, 2008 budget carryover, General Fund reserves available for expenditure at June 30, 2008 are \$11,286,800, inclusive of a capital projects reserve for projects budgeted in both FY 2008-09 and FY 2009-10 of \$3,056,000, an operating reserve of \$8,230,800. City's three-year (FY 2007-08 thru FY 2009-10) budget projections assumes the \$6.3 million operating reserve will be exhausted as expenses will exceed revenues during this period. In addition, a \$2 million General Fund carryover (FY 2007-08 budget savings) is required and included in the three-year projection.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2008

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, 2008 and 2007.

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$ 22,079,133	\$ 22,006,573	\$ 3,629,739	\$ 3,629,739	\$ 25,708,872	\$ 25,636,312
Buildings	27,715,170	27,561,600	26,141,633	26,141,635	53,856,803	53,703,235
Improvements	10,208,470	9,413,856	15,202,866	15,084,319	25,411,336	24,498,175
Equipment	21,909,584	21,021,322	6,759,052	6,111,357	28,668,636	27,132,679
Infrastructure	205,658,057	201,181,816	213,284,032	212,685,598	418,942,089	413,867,414
Construction in Progress	7,911,076	1,572,091	733,817	-	8,644,893	1,572,091
	<u>295,481,490</u>	<u>282,757,258</u>	<u>265,751,139</u>	<u>263,652,648</u>	<u>561,232,629</u>	<u>546,409,906</u>
Accumulated Depreciation	<u>(132,408,778)</u>	<u>(125,279,730)</u>	<u>(121,280,646)</u>	<u>(115,368,252)</u>	<u>(253,689,424)</u>	<u>(240,647,982)</u>
	<u>\$ 163,072,712</u>	<u>\$ 157,477,528</u>	<u>\$ 144,470,493</u>	<u>\$ 148,284,396</u>	<u>\$ 307,543,205</u>	<u>\$ 305,761,924</u>

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, 2008, net capital assets of the governmental activities totaled \$163.1 million and the net capital assets of the business-type activities totaled \$144.5 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 \$12.7 million of capital assets during the year. The majority of which, \$6.3 million were construction in progress. Of the remaining balance \$6.4 million, \$4.5 million is infrastructure improvements, \$0.9 million is machinery and equipment and \$1.0 million is improvements, buildings and land.

Business-type activities acquired \$2.1 million of capital assets during the year. The Federal Aviation contributed \$0.2 million to the Airport Fund while the Airport itself dedicated \$0.5 million for Airport construction in progress. The Sanitary Sewer had an additional \$0.7 million for replacements/improvement of the sewer lines. The Storm Sewer Fund received \$0.2 million in donated assets from developers. Other additions of capital assets were routine replacements of current capital assets.

Long-Term Obligations

As of June 30, 2008, the City had \$100,538,470 in long-term debt composed of \$100,414,077 from governmental and business-type activities, and \$124,393 from fiduciary annual leave.

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Annual Leave	\$ 8,425,527	\$ 7,242,067	\$ 289,664	\$ 239,625	\$ 8,695,191	\$ 7,481,692
Estimated Insurance Claims	1,075,567	1,492,779	-	-	1,075,567	1,492,779
Net Pension Obligation	51,663	57,936	-	-	51,663	57,936
Capital Leases	1,310,453	61,442	997,205	1,000,096	2,307,658	1,061,538
Loans and Notes	319,530	351,269	-	-	319,530	351,269
Revenue Bonds	-	-	13,205,000	13,565,000	13,205,000	13,565,000
Tax Allocation Bonds	9,159,468	9,905,207	-	-	9,159,468	9,905,207
Certificates of Participation	14,573,757	15,024,895	27,701,243	28,480,105	42,275,000	43,505,000
Assessment District Bonds	23,325,000	25,245,000	-	-	23,325,000	25,245,000
	<u>\$ 58,240,965</u>	<u>\$ 59,380,595</u>	<u>\$ 42,173,112</u>	<u>\$ 43,284,826</u>	<u>\$ 100,414,077</u>	<u>\$ 102,665,421</u>

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

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2008

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

On May 27, 2008, the City Council was presented and reviewed a recommended two-year operating budget (FY 2008-09 and FY 2009-10) 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 that day. An updated Six-Year Capital Improvement Budget for FY 2008-09 was also adopted on May 27, 2008. The Capital Improvement Budget is generally updated every two years. As is customary, the focus of the budget discussions was on the City's General Fund and reflected the beginning of a national recession, home foreclosures, increased gasoline prices, increased unemployment and flat / decreasing City revenues. The two-year budget was balanced at that time. The recommended budget included a seemingly adequate 7.7% General Fund Operating Reserve (\$6,345,700) at June 30, 2008. The recommended program of services in both FY 2008-09 and FY 2009-10 required the use of reserves to maintain a balanced budget. It was anticipated reserves would be exhausted at the conclusion of FY 2009-10. This was not new information as the use of reserves was anticipated in the three-year budget plan for FY 2007-08 through FY 2009-10, inclusive of investment by the City in its workforce compensation levels resulting from negotiated employee agreements made during April 2007. However, the approval of that multi-year strategy, in April 2007, was not made with a national recession as part of the financial analysis. The multi-year strategy assumed increased revenue based on economic development efforts, the annexation and development of the Future Growth Area and a relatively stable economy. These assumptions were halted by the nation recession and housing downturn. Since April 2007, sales tax and property tax have declined over 14% or \$13.4 million. The significant decline in these major revenue sources have contributed to a projected \$12.6 million General Fund budget shortfall in FY 2009-10. See Note 24, Subsequent Events, Economic Factors and FY 2009-10 and FY 2010-11 Budgets, for discussion of the City's current three-phase 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.



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BASIC FINANCIAL STATEMENTS



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**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**



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CITY OF SALINAS
STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and Investments	\$ 85,530,660	\$ 5,786,924	\$ 91,317,584
Cash and Investments Restricted	4,320,949	3,200,449	7,521,398
Taxes Receivable	8,396,450		8,396,450
Accounts Receivable	139,286	442,262	581,548
Interest Receivable	882,295	94,911	977,206
Due from Other Agencies	6,954,018	3,795,785	10,749,803
Due from Fiduciary Funds	79,567		79,567
Short-term Internal Balances	313,159	(311,525)	1,634
Long-term Internal Balances	900,000	(900,000)	-
Assessments Receivable	21,300,000		21,300,000
Loans Receivable	12,049,053		12,049,053
Inventory	19,576		19,576
Deferred Charges	2,582,707	2,218,485	4,801,192
Capital Assets:			
Land and Nondepreciable Assets	29,990,209	4,363,556	34,353,765
Depreciable Assets-Net	133,082,503	140,106,937	273,189,440
Land Held for Resale	2,591,708		2,591,708
Total Assets	309,132,140	158,797,784	467,929,924
Liabilities:			
Accounts Payable	8,165,991	296,462	8,462,453
Accrued Leave	23,916	269,664	293,580
Prepaid Deposits		13,891	13,891
Matured Bonds & Interest Payable	25,000		25,000
Accrued Interest Payable	906,307	621,657	1,527,964
Deferred Revenues	25,918,122		25,918,122
Insurance Claims Payable	9,195,052		9,195,052
Net OPEB Obligation	1,391,462		1,391,462
Unamortized Discount on Bonds	(142,701)		(142,701)
Long Term Debt-Due Within One Year	5,226,665	1,362,307	6,588,972
Long Term Debt-Due in More than One Year	52,990,384	40,541,141	93,531,525
Total Liabilities	103,700,198	43,105,122	146,805,320
Net Assets:			
Invested in Capital Assets, Net of Related Debt	116,367,342	102,567,045	218,934,387
Restricted for:			
Housing	18,371,311		18,371,311
Capital Projects	16,880,680		16,880,680
Highways and Streets	17,440,016		17,440,016
Debt Service	12,849,008	3,200,449	16,049,457
Special Programs	594,297		594,297
Total Restricted Assets	66,135,312	3,200,449	69,335,761
Unrestricted	22,929,288	9,925,168	32,854,456
Total Net Assets	\$ 205,431,942	\$ 115,692,662	\$ 321,124,604

The accompanying notes are an integral part of this statement.

**CITY OF SALINAS
STATEMENT OF ACTIVITIES
FOR FISCAL YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 15,040,191	\$ 4,961,586	\$ 5,759,138	\$ 13,087
Public Safety	57,354,690	1,174,527	2,016,452	12,230
Public Works	26,606,330	20,598	4,098,106	11,998,031
Recreation	5,430,624	628,178	256,531	
Library	3,559,387	32,556	160,738	80,515
Interest on long-term debt	2,763,901			
Total Governmental Activities	110,755,123	6,817,445	12,290,965	12,103,863
Business-Type Activities:				
Airport	1,502,845	1,147,416	16,129	243,876
Industrial Waste	916,419	1,244,136		
Golf Courses	2,569,645	1,218,343	622,917	
Sanitary Sewer	3,310,754	2,272,398		256,150
Storm Sewer	3,945,980	469,078		441,628
Water Utility	20,017	34,212		
Downtown Parking	1,606,332	359,869		
Total Business-Type Activities	13,871,992	6,745,452	639,046	941,654
Total Primary Government	\$ 124,627,115	\$ 13,562,897	\$ 12,930,011	\$ 13,045,517

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
Land Deeded and Sales Proceeds
General Fund Advance Forgiven
Transfer of Assets to Parking District
Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

The accompanying notes are an integral part of this statement.

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

Governmental Activities	Business-type Activities	Total
\$ (4,306,380)	\$	\$ (4,306,380)
(54,151,481)		(54,151,481)
(10,489,595)		(10,489,595)
(4,545,915)		(4,545,915)
(3,285,578)		(3,285,578)
(2,763,901)		(2,763,901)
<u>(79,542,850)</u>		<u>(79,542,850)</u>
	(95,424)	(95,424)
	327,717	327,717
	(728,385)	(728,385)
	(782,206)	(782,206)
	(3,035,274)	(3,035,274)
	14,195	14,195
	<u>(1,246,463)</u>	<u>(1,246,463)</u>
	<u>(5,545,840)</u>	<u>(5,545,840)</u>
<u>(79,542,850)</u>	<u>(5,545,840)</u>	<u>(85,088,690)</u>
85,094,558		85,094,558
25,510		25,510
667,571		667,571
1,732,334	711,538	2,443,872
351,171		351,171
93,204		93,204
(36,000)		(36,000)
122,176		122,176
(4,385,000)	4,385,000	-
(1,050,000)	1,050,000	-
514,496	(514,496)	-
<u>83,130,020</u>	<u>5,632,042</u>	<u>88,762,062</u>
3,587,170	86,202	3,673,372
<u>201,844,772</u>	<u>115,606,460</u>	<u>317,451,232</u>
<u>\$ 205,431,942</u>	<u>\$ 115,692,662</u>	<u>\$ 321,124,604</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 expenditures 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, 2008**

	General and Measure V	Housing & Urban Development	Development Fees
Assets:			
Cash and Investments	\$ 24,137,201	\$ 268,294	\$ 18,987,259
Cash and Investments- Restricted	97,601	-	-
Taxes Receivable	8,396,450	-	-
Accounts Receivable	100,293	-	-
Interest Receivable	255,442	466	127,854
Assessments Receivable	-	-	-
Due from Other Agencies	-	1,493,929	-
Due from Fiduciary Funds	79,567	-	-
Due from Other Funds	1,405,867	-	-
Advances to Other Funds	900,000	-	-
Loans Receivable	29,800	6,856,211	-
Inventory	19,576	-	-
Land Held for Resale	-	-	-
Total Assets	\$ 35,421,797	\$ 8,618,900	\$ 19,115,113
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$ 5,692,399	\$ 154,952	\$ -
Due to Other Funds	370,110	1,366,632	81,373
Advance from Other Funds	-	-	-
Deferred Revenues	-	6,856,211	-
Matured Bonds & Interest Payable	-	-	-
Total Liabilities	6,062,509	8,377,795	81,373
Fund Balances:			
Reserved for:			
Operations	6,345,700	-	-
Capital Projects	3,056,000	-	-
Capital Projects-Measure V	1,875,000	-	-
Encumbrances	766,893	241,105	393,244
Loans Receivable	29,800	-	-
Advances	900,000	-	-
Inventory	19,576	-	-
Condemnation Deposits	55,100	-	-
Carryover Appropriations	4,303,213	-	10,333,067
Future Budgets	-	-	8,307,429
Land Held for Resale	-	-	-
Parking Structure	-	-	-
Plaza Grande Operations	-	-	-
Debt Service	-	-	-
Unreserved, reported in:			
General Fund			
Designated	10,122,906	-	-
Undesignated	1,885,100	-	-
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Total Fund Balances	29,359,288	241,105	19,033,740
Total Liabilities and Fund Balances	\$ 35,421,797	\$ 8,618,900	\$ 19,115,113

Construction Assistance	Assessment District Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 3,653,403	\$ 2,794,467	\$ 24,452,249	\$ 74,292,873
1,070,081	25,000	2,723,850	3,916,532
-	-	-	8,396,450
-	-	38,463	138,756
21,058	-	403,398	808,218
-	21,300,000	-	21,300,000
3,856,944	-	1,603,145	6,954,018
-	-	-	79,567
-	-	1,183,074	2,588,941
-	-	108,072	1,008,072
-	-	5,163,042	12,049,053
-	-	-	19,576
-	-	2,591,708	2,591,708
<u>\$ 8,601,486</u>	<u>\$ 24,119,467</u>	<u>\$ 38,267,001</u>	<u>\$ 134,143,764</u>

\$ 781,257	\$ 100	\$ 1,493,773	\$ 8,122,481
-	-	457,667	2,275,782
-	-	108,072	108,072
4,347,545	21,300,000	258,926	32,762,682
-	25,000	-	25,000
<u>5,128,802</u>	<u>21,325,100</u>	<u>2,318,438</u>	<u>43,294,017</u>

-	-	-	6,345,700
-	-	-	3,056,000
-	-	-	1,875,000
126,735	-	360,689	1,888,666
-	-	5,163,042	5,192,842
-	-	108,072	1,008,072
-	-	-	19,576
-	-	-	55,100
-	-	2,144,826	16,781,106
-	-	5,975,360	14,282,789
-	-	2,089,577	2,089,577
-	-	1,135,000	1,135,000
-	-	800,431	800,431
-	2,794,367	8,919,641	11,714,008
-	-	-	10,122,906
-	-	-	1,885,100
-	-	4,000,453	4,000,453
3,345,949	-	5,251,472	8,597,421
<u>3,472,684</u>	<u>2,794,367</u>	<u>35,948,563</u>	<u>90,849,747</u>
<u>\$ 8,601,486</u>	<u>\$ 24,119,467</u>	<u>\$ 38,267,001</u>	<u>\$ 134,143,764</u>

CITY OF SALINAS
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2008

Total Fund Balances - Total Governmental Funds	\$ 90,849,747
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	163,072,712
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	(906,307)
Deferred revenues are adjusted as follows:	
Deferred revenues resulting from revenues that are not available to liquidate liabilities of the current period in governmental fund financial statements are reclassified as revenues in government-wide financial statements	6,844,560
Internal Service Funds are used by management to charge the costs of insurance programs to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Government-Wide Statement of Net Assets	2,454,333
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet	(58,074,348)
Net Other Post Employment Benefit Obligation (OPEB)	(1,391,462)
Deferred charges for bond issuance costs are not reported in the Governmental Funds Balance Sheet	<u>2,582,707</u>
Net Assets of Governmental Activities	<u>\$ 205,431,942</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, 2008

	<u>General and Measure V</u>	<u>Housing & Urban Development</u>	<u>Development Fees</u>
Revenues:			
Taxes	\$ 78,881,931	\$ -	\$ -
Taxes - Special Assessment	-	-	-
Licenses and Permits	25,510	-	-
Intergovernmental	1,468,949	4,867,220	-
Charges for Services	5,369,796	-	1,009,939
Interest	1,428,475	3,054	806,336
Fines and Forfeits	-	-	-
Developer Contributions	-	-	-
Miscellaneous	409,335	191,976	-
Total Revenues	<u>87,583,996</u>	<u>5,062,250</u>	<u>1,816,275</u>
Expenditures:			
Current:			
General Government	11,269,121	3,142,058	-
Public Safety	51,822,972	-	-
Public Works	14,536,489	-	-
Recreation	3,618,819	-	-
Library	3,246,172	-	-
Parking Structure Debt	-	-	-
Capital Outlay	275,552	-	-
Debt Service:			
Principal Retirement	-	-	-
Interest and Fiscal Charges	-	-	-
Pass Through Tax	-	-	-
Total Expenditures	<u>84,769,125</u>	<u>3,142,058</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,814,871</u>	<u>1,920,192</u>	<u>1,816,275</u>
Other Financing Sources (Uses):			
Loan Proceeds	-	-	-
Land Deeded to Agency	-	-	-
Gain on Sale of Land	-	-	-
Loans Receivable Forgiven	-	-	-
General Fund Advance Forgiven	(4,385,000)	-	-
Operating Transfers In	1,325,000	-	-
Operating Transfers Out	(6,589,252)	(2,055,559)	(583,718)
Total Other Financing Sources (Uses)	<u>(9,649,252)</u>	<u>(2,055,559)</u>	<u>(583,718)</u>
Net Change in Fund Balances	(6,834,381)	(135,367)	1,232,557
Fund Balances at Beginning of Year	<u>36,193,669</u>	<u>376,472</u>	<u>17,801,183</u>
Fund Balances at End of Year	<u>\$ 29,359,288</u>	<u>\$ 241,105</u>	<u>\$ 19,033,740</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>
\$ -	\$ -	\$ 6,622,330	\$ 85,504,261
-	3,107,675	-	3,107,675
-	-	-	25,510
5,833,627	-	4,643,649	16,813,445
-	-	1,469,266	7,849,001
116,770	-	1,059,320	3,413,955
-	-	940,301	940,301
796,218	-	-	796,218
-	-	236,883	838,194
<u>6,746,615</u>	<u>3,107,675</u>	<u>14,971,749</u>	<u>119,288,560</u>
-	-	456,887	14,868,066
-	-	1,958,911	53,781,883
-	-	-	14,536,489
-	-	1,037,633	4,656,452
-	-	99,903	3,346,075
-	-	1,050,000	1,050,000
6,172,992	-	13,101,159	19,549,703
-	1,920,000	3,262,616	5,182,616
-	1,332,168	1,444,508	2,776,676
-	-	963,417	963,417
<u>6,172,992</u>	<u>3,252,168</u>	<u>23,375,034</u>	<u>120,711,377</u>
<u>573,623</u>	<u>(144,493)</u>	<u>(8,403,285)</u>	<u>(1,422,817)</u>
-	-	2,034,000	2,034,000
-	-	52,400	52,400
-	-	69,776	69,776
-	-	(36,000)	(36,000)
-	-	-	(4,385,000)
-	-	14,043,954	15,368,954
(229,925)	-	(5,357,879)	(14,816,333)
<u>(229,925)</u>	<u>0</u>	<u>10,806,251</u>	<u>(1,712,203)</u>
343,698	(144,493)	2,402,966	(3,135,020)
<u>3,128,986</u>	<u>2,938,860</u>	<u>33,545,597</u>	<u>93,984,767</u>
<u>\$ 3,472,684</u>	<u>\$ 2,794,367</u>	<u>\$ 35,948,563</u>	<u>\$ 90,849,747</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, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ (3,135,020)
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.	13,483,627
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	(7,888,443)
Deferred Revenues of new housing loans are reported in the Government-Wide Statement of Net Assets	1,549,535
Deferred Revenues of principal payments are reported in the Government-Wide Statement of Net Assets	(150,064)
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	(760,478)
Interfund Loan Proceeds	(2,034,000)
Principal Repayments on Long-Term Debt	5,182,616
Capital leases Increases and repayments	(1,249,011)
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.	21,694
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.	(1,391,462)
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.	109,908
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	\$ 3,587,170

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, 2008

Business-type Activities - Enterprise Funds

	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer
Assets:				
Current Assets:				
Cash and Investments	\$ 926,728	\$ 1,850,728	\$ 177,111	\$ 1,564,103
Cash and Investments Restricted	-	-	978,309	1,060,495
Accounts Receivable	21,400	100,004	95,833	132,596
Interest Receivable	7,321	12,712	13,168	34,064
Deferred Charges	-	17,334	1,011,756	207,385
Due from General Fund	-	-	-	-
Total Current Assets	955,449	1,980,778	2,276,177	2,998,643
Noncurrent Assets:				
Due from Other Agencies	-	-	-	-
Capital Assets:				
Nondepreciable	2,659,585	740,536	-	956,735
Depreciable buildings, property, and infrastructure, net	8,388,829	4,832,581	6,773,407	41,095,101
Total Capital Assets	11,048,414	5,573,117	6,773,407	42,051,836
Total Noncurrent Assets	11,048,414	5,573,117	6,773,407	42,051,836
Total Assets	12,003,863	7,553,895	9,049,584	45,050,479
Liabilities:				
Current Liabilities:				
Accounts Payable	44,043	72,313	25,257	52,258
Deposits	13,891	-	-	-
Due to Other Funds	196,312	34,911	-	49,489
Insurance claims Payable	-	-	-	-
Interest Payable	-	9,959	97,550	270,128
Long Term Debt - Due Within One Year	26,716	60,000	448,712	375,000
Total Current Liabilities	280,962	177,183	571,519	746,875
Noncurrent Liabilities:				
Accrued Leave	11,761	31,085	34,318	88,258
Advance from General Fund	-	-	-	-
Long Term Debt - Due in More than One year	195,915	480,000	11,004,446	12,830,000
Total Noncurrent Liabilities	207,676	511,085	11,038,764	12,918,258
Total Liabilities	488,638	688,268	11,610,283	13,665,133
Net Assets:				
Invested in Capital Assets, Net of Related Debt	10,825,783	5,033,117	(4,679,751)	28,846,836
Restricted	-	-	978,309	1,060,495
Unrestricted	689,442	1,832,510	1,140,743	1,478,015
Total Net Assets	\$ 11,515,225	\$ 6,865,627	\$ (2,560,699)	\$ 31,385,346

The accompanying notes are an integral part of this statement.

Business-type Activities - Enterprise Funds					Governmental
Storm	Landfill	Water	Downtown	Totals	Activities -
Sewer	Garbage	Utility	Parking		Internal
	Surcharge		District		Service Funds
\$ 779,511	\$ -	\$ 12,646	\$ 476,097	\$ 5,786,924	\$ 11,237,787
-	-	-	1,161,645	3,200,449	404,417
67,800	-	23,189	1,440	442,262	530
5,191	-	-	22,455	94,911	74,077
-	-	-	982,010	2,218,485	-
-	-	-	-	-	-
852,502	-	35,835	2,643,647	11,743,031	11,716,811
-	3,795,785	-	-	3,795,785	-
-	-	-	6,700	4,363,556	-
63,801,408	-	159,148	15,056,463	140,106,937	-
63,801,408	-	159,148	15,063,163	144,470,493	-
63,801,408	3,795,785	159,148	15,063,163	148,266,278	-
64,653,910	3,795,785	194,983	17,706,810	160,009,309	11,716,811
57,979	-	910	43,702	296,462	43,510
-	-	-	-	13,891	-
3,039	-	-	27,774	311,525	-
-	-	-	-	-	9,195,052
8,814	-	-	235,206	621,657	-
76,879	-	-	375,000	1,362,307	-
146,711	-	910	681,682	2,605,842	9,238,562
87,445	-	-	16,797	269,664	23,916
-	-	-	900,000	900,000	-
140,780	-	-	15,890,000	40,541,141	-
228,225	-	-	16,806,797	41,710,805	23,916
374,936	-	910	17,488,479	44,316,647	9,262,478
63,583,749	-	159,148	(1,201,837)	102,567,045	-
-	-	-	1,161,645	3,200,449	15,850
695,225	3,795,785	34,925	258,523	9,925,168	2,438,483
\$ 64,278,974	\$ 3,795,785	\$ 194,073	\$ 218,331	\$ 115,692,662	\$ 2,454,333

CITY OF SALINAS
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For Fiscal Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds			
	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer
Operating Revenues:				
Charges for Services	\$ 1,147,416	\$ 1,244,136	\$ 1,218,343	\$ 2,272,398
Total Operating Revenues	<u>1,147,416</u>	<u>1,244,136</u>	<u>1,218,343</u>	<u>2,272,398</u>
Operating Expenses:				
Personnel Services	380,275	214,647	293,979	791,577
Administration	82,604	75,204	145,652	113,190
Contractual Services	196,436	154,470	720,931	32,615
Supplies	56,908	33,705	4,666	82,373
Insurance	26,054	17,200	-	36,805
Insurance Claims	-	-	-	-
Fees and Permits (Taxes)	39,247	9,849	-	-
Utilities	101,731	187,024	36,162	137,039
Depreciation	600,895	171,250	561,005	1,443,068
Amortization	-	2,476	59,105	9,875
Land Rent	-	-	86,130	-
Other	18,695	8,951	69,566	7,015
Total Operating Expenses	<u>1,502,845</u>	<u>874,776</u>	<u>1,977,196</u>	<u>2,653,557</u>
Operating Income (Loss)	<u>(355,429)</u>	<u>369,360</u>	<u>(758,853)</u>	<u>(381,159)</u>
Nonoperating Revenues (Expenses):				
Interest Revenue	47,333	67,728	47,482	114,668
Interest Expense	-	(41,643)	(592,449)	(657,197)
Other Nonoperating Revenues (Expenses)	16,129	-	622,917	-
Total Nonoperating Revenues(Expenses)	<u>63,462</u>	<u>26,085</u>	<u>77,950</u>	<u>(542,529)</u>
Income (Loss) Before				
Contributions and Transfers	(291,967)	395,445	(680,903)	(923,688)
Contributed Assets	243,876	-	-	256,150
Contribution to Parking from SRA	-	-	-	-
General Fund Advance Forgiven	-	-	4,385,000	-
Transfers In	-	-	-	-
Transfers Out	(14,511)	(72,086)	(24,138)	(289,847)
Change in Net Assets	<u>(62,602)</u>	<u>323,359</u>	<u>3,679,959</u>	<u>(957,385)</u>
Total Net Assets - Beginning of Year	<u>11,577,827</u>	<u>6,542,268</u>	<u>(6,240,658)</u>	<u>32,342,731</u>
Total Net Assets - End of Year	<u>\$ 11,515,225</u>	<u>\$ 6,865,627</u>	<u>\$ (2,560,699)</u>	<u>\$ 31,385,346</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
\$ 469,078	\$ -	\$ 34,212	\$ 359,869	\$ 6,745,452	\$ 4,307,962
469,078	-	34,212	359,869	6,745,452	4,307,962
868,314	-	-	109,584	2,658,376	261,830
115,946	-	966	69,024	602,586	-
66,234	-	8,783	266,913	1,446,382	474,167
138,326	-	-	19,105	335,083	2,785
17,700	-	-	-	97,759	1,009,336
-	-	-	-	-	2,610,403
-	-	-	-	49,096	-
3,300	-	-	40,467	505,723	-
2,723,678	-	10,268	576,198	6,086,362	-
-	-	-	36,371	107,827	-
-	-	-	-	86,130	-
12,482	-	-	9,689	126,398	300,449
3,945,980	-	20,017	1,127,351	12,101,722	4,658,970
(3,476,902)	-	14,195	(767,482)	(5,356,270)	(351,008)
41,549	305,045	-	87,733	711,538	460,916
-	-	-	(478,981)	(1,770,270)	-
-	-	-	-	639,046	-
41,549	305,045	-	(391,248)	(419,686)	460,916
(3,435,353)	305,045	14,195	(1,158,730)	(5,775,956)	109,908
441,628	-	-	-	941,654	-
-	-	-	1,050,000	1,050,000	-
-	-	-	-	4,385,000	-
600,000	-	-	-	600,000	-
(172,314)	(385,097)	-	(156,503)	(1,114,496)	-
(2,566,039)	(80,052)	14,195	(265,233)	86,202	109,908
66,845,013	3,875,837	179,878	483,564	115,606,460	2,344,425
\$ 64,278,974	\$ 3,795,785	\$ 194,073	\$ 218,331	\$ 115,692,662	\$ 2,454,333

CITY OF SALINAS
Statement of Cash Flows
Proprietary Funds
For Fiscal Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds			
	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer
Cash Flows from Operating Activities:				
Receipts from Customer and Users	\$ 1,144,540	\$ 1,269,813	\$ 1,218,343	\$ 2,258,729
Receipts from interfund services provided	-	-	-	-
Payments to Suppliers	(520,849)	(495,213)	(1,117,218)	(420,153)
Payments to Employees	(372,250)	(205,315)	(283,553)	(784,294)
Payments to Claimants	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>251,441</u>	<u>569,285</u>	<u>(182,428)</u>	<u>1,054,282</u>
Cash Flows from Non-Capital				
Financing Activities:				
Other Non-Operating Revenue	16,129	-	622,917	-
Deposits	(30,636)	-	-	-
Advance Received from General Fund	-	-	650,000	-
Payment on Advance from General Fund	-	-	-	-
Contribution from SRA	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	(14,511)	(72,086)	(24,138)	(289,847)
Net Cash Provided by (Used for)				
Non-Capital Financing Activities	<u>(29,018)</u>	<u>(72,086)</u>	<u>1,248,779</u>	<u>(289,847)</u>
Cash Flows from Capital and				
Related Financing Activities:				
Acquisition of Capital Assets	(625,095)	(5,634)	(128,072)	(650,655)
Proceeds from Capital Debt	-	-	-	-
Deferred Bond Issuance Costs	-	2,476	59,105	9,875
Capital Contributions (from developers/other funds)	-	-	-	256,150
Capital Grants Received	243,876	-	-	-
Capital Lease Payment, including interest	-	-	-	-
Principal paid on Capital Debt	-	(60,000)	(430,010)	(360,000)
Interest paid on Capital Debt	-	(42,750)	(657,504)	(663,250)
Net Cash Provided (Used) by Capital and				
Related Financing Activities	<u>(381,219)</u>	<u>(105,908)</u>	<u>(1,156,481)</u>	<u>(1,407,880)</u>
Cash Flows from Investing Activities:				
Interest Received	52,159	74,244	48,988	125,817
Increase (Decrease) in Fair Value of Investments	(349)	583	-	687
Transfer (to) from Restricted Cash	-	-	12,701	1,556
Net Cash Provided by Investing Activities	<u>51,810</u>	<u>74,827</u>	<u>61,689</u>	<u>128,060</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(106,986)	466,118	(28,441)	(515,385)
Cash and Cash Equivalents at Beginning of Year	1,033,714	1,384,610	205,552	2,079,488
Cash and Cash Equivalents at End of Year	<u>\$ 926,728</u>	<u>\$ 1,850,728</u>	<u>\$ 177,111</u>	<u>\$ 1,564,103</u>

The accompanying notes are an integral part of this statement.

Business-type Activities - Enterprise Funds					Governmental
Storm	Landfill	Water	Downtown	Totals	Activities -
Sewer	Garbage	Utility	Parking		Internal
	Surcharge		District		Service Funds
\$ 432,152	\$ -	\$ 16,500	\$ 424,407	\$ 6,764,484	\$ 218,961
-	-	-	-	-	4,239,042
(353,660)	-	(9,746)	(439,490)	(3,356,329)	(1,499,557)
(843,011)	-	-	(107,613)	(2,596,036)	(263,977)
-	-	-	-	-	(2,868,866)
<u>(764,519)</u>	<u>-</u>	<u>6,754</u>	<u>(122,696)</u>	<u>812,119</u>	<u>(174,397)</u>
-	-	-	-	639,046	-
-	-	-	-	(30,636)	-
-	-	-	300,000	950,000	-
-	-	-	-	-	-
-	-	-	1,050,000	1,050,000	-
600,000	-	-	-	600,000	-
<u>(172,314)</u>	<u>(385,097)</u>	<u>-</u>	<u>(156,503)</u>	<u>(1,114,496)</u>	<u>-</u>
<u>427,686</u>	<u>(385,097)</u>	<u>-</u>	<u>1,193,497</u>	<u>2,093,914</u>	<u>-</u>
(594,372)	-	-	(53,030)	(2,056,858)	-
222,627	74,076	-	-	296,703	-
-	-	-	36,371	107,827	-
441,628	-	-	-	697,778	-
-	-	-	-	243,876	-
-	-	-	-	-	-
(122,654)	-	-	(365,000)	(1,337,664)	-
1,333	-	-	(718,989)	(2,081,160)	-
<u>(51,438)</u>	<u>74,076</u>	<u>-</u>	<u>(1,100,648)</u>	<u>(4,129,498)</u>	<u>-</u>
48,438	305,045	-	68,404	723,095	493,160
385	-	-	102	1,408	3,197
-	-	-	68,683	82,940	98,740
<u>48,823</u>	<u>305,045</u>	<u>-</u>	<u>137,189</u>	<u>807,443</u>	<u>595,097</u>
(339,448)	(5,976)	6,754	107,342	(416,022)	420,700
1,118,959	-	5,892	368,755	6,196,970	10,817,087
<u>\$ 779,511</u>	<u>\$ (5,976)</u>	<u>\$ 12,646</u>	<u>\$ 476,097</u>	<u>\$ 5,780,948</u>	<u>\$ 11,237,787</u>

CITY OF SALINAS
Statement of Cash Flows
Proprietary Funds
For Fiscal Year Ended June 30, 2008

	<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)	\$ (355,429)	\$ 369,360	\$ (758,853)	\$ (381,159)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Depreciation	600,895	171,250	561,005	1,443,068
(Increase) Decrease in Accounts Receivable	(2,876)	25,677	-	(13,669)
(Increase) Decrease in Prepaid Insurance	-	-	-	-
(Increase) Decrease in Due from General Fund	-	-	-	-
Increase (Decrease) in Accounts Payable	7,790	(3,175)	8,164	(1,939)
Increase (Decrease) in Insurance Claims	-	-	-	-
Increase (Decrease) in Accrued Leave	1,061	6,173	5,297	7,981
Loss-Disposed Assets	-	-	1,959	-
Increase (Decrease) in Restricted Cash	-	-	-	-
Transfer to Restricted Cash	-	-	-	-
Total Adjustments to Net Income	<u>606,870</u>	<u>199,925</u>	<u>576,425</u>	<u>1,435,441</u>
Net Cash Provided by Operating Activities	<u>\$ 251,441</u>	<u>\$ 569,285</u>	<u>\$ (182,428)</u>	<u>\$ 1,054,282</u>

Business-type Activities - Enterprise Funds					Governmental
Storm Sewer	Landfill Garbage Surcharge	Water Utility	Downtown Parking District	Totals	Activities - Internal Service Funds
\$ (3,476,902)	\$ -	\$ 14,195	\$ (767,482)	\$ (5,356,270)	\$ (351,008)
2,723,678	-	10,268	576,198	6,086,362	-
(36,926)	-	(17,712)	64,538	19,032	-
-	-	-	-	-	-
-	-	-	-	-	(530)
17,449	-	3	2,705	30,997	(8,351)
-	-	-	-	-	185,996
8,182	-	-	1,345	30,039	(504)
-	-	-	-	1,959	-
-	-	-	-	-	(98,740)
-	-	-	-	-	98,740
2,712,383	-	(7,441)	644,786	6,168,389	176,611
\$ (764,519)	\$ -	\$ 6,754	\$ (122,696)	\$ 812,119	\$ (174,397)



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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, 2008

	Private Purpose Trust Funds	Pension Trust Funds	Agency Funds
Assets:			
Cash and Investments	\$ 1,694,809	\$ 43,312,476	\$ 290,833
Cash and Investments Restricted	-	-	
Deposits	-		
Accounts Receivable	14,242	-	114,154
Interest Receivable	67	21,231	1,131
Due from Other Agencies	979,159	-	288,647
Bond Issuance Costs	-	-	
Capital Assets, Net	-	-	-
Total Assets	2,688,277	43,333,707	694,765
Liabilities:			
Accounts Payable	1,232,391	1,703	194,096
Accrued Leave	-	-	12,310
Due to Outside Agencies	-	-	79,744
Due to Other Funds	1,458	-	-
Deferred Revenues	-	-	408,615
Interest Payable	-	-	
Long term debt	-	-	
Due to SVSWA (Fiduciary Liability)	-	-	-
Total Liabilities	1,233,849	1,703	694,765
Net Assets:			
Held in trust for pension benefits and other purposes	<u>\$ 1,454,428</u>	<u>\$ 43,332,004</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, 2008

	Private Purpose Trust Funds	Pension Trust Funds
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Plan members	\$ -	\$ 4,132,566
Private Donations	2,848,129	-
	<u>2,848,129</u>	<u> </u>
Total contributions	<u>2,848,129</u>	<u>4,132,566</u>
Investment earnings:		
Interest	-	2,511,020
	<u> </u>	<u>2,511,020</u>
Net investment earnings	<u> </u>	<u>2,511,020</u>
	<u>2,848,129</u>	<u>6,643,586</u>
Deductions:		
Benefit payments	-	5,247,552
Payments on behalf of trustees	3,030,969	-
	<u>3,030,969</u>	<u>5,247,552</u>
Total Deductions	<u>3,030,969</u>	<u>5,247,552</u>
Change in Net Assets	(182,840)	1,396,034
Net Assets - Beginning	<u>1,637,268</u>	<u>41,935,970</u>
Net Assets - Ending	<u>\$ 1,454,428</u>	<u>\$ 43,332,004</u>

The accompanying notes are an integral part of this statement.



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CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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, 2008, by multiplying its account balance with LAIF times a fair value factor determined by LAIF (.999950219). 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>July 1</i>
	<i>50% on February 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, 2008

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, 2008

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, 2008

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, 2008

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 June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which addresses how state and local government should account for and report their cost and obligations related to post-employment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as other post-employment benefits or OPEB. The statement generally requires the employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. The City established its OPEB liability at zero as of July 1, 2007; however, the unfunded actuarial liability of \$13,954,000 is required to be amortized over future periods. In May 20, 2008 the City formally adopted its OPEB funding policy that met its financial capabilities at the time of adoption. The City Contributed \$100,000 in the first contribution year. That amount will be increased by \$25,000 every year until it reaches \$250,000 annually. The City also established at that time a Trust Account with the California Public Employees' Retirement System (CalPERS). Application of this statement is done one year earlier than required by GASB pronouncement. The additional disclosure concerning the implementation of GASB 45 is available in Note 15.

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 15.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

2. Cash and Investments:

The City's cash and investment at June 30, 2008 are included in the accompanying basic financial statements as follows:

	<u>Government-Wide Statement of Net Assets</u>			<u>Funds Financials</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Fiduciary Funds Statement of Net Assets</u>	<u>Total</u>
Cash and Investments	\$ 85,530,660	\$ 5,786,924	\$ 91,317,584	\$ 45,298,118	\$ 136,615,702
Restricted Cash and Investments	4,320,949	3,200,449	7,521,398	-	7,521,398
Total Cash and Investments	<u>\$ 89,851,609</u>	<u>\$ 8,987,373</u>	<u>\$ 98,838,982</u>	<u>\$ 45,298,118</u>	<u>\$ 144,137,100</u>

Cash and Investments at June 30, 2008 consisted of the following:

CASH:

Demand Accounts at Banks	\$ 660,800
Petty Cash and Revolving Fund	15,000
Micro Loans-Sunset Avenue	57,027
State Condemnation Deposits Fund	55,100
	<u>787,927</u>

INVESTMENTS:

State Local Agency Investment Fund	82,141,617
American Beacon	4,525,000
Certificates of Deposits	2,610,134
Investments held in trust by Fiscal Agent	10,759,946
	<u>100,036,697</u>

DEFERRED COMPENSATION:

Cash in State Local Agency Investment Fund	3,866,144
Hartford	2,159,037
Central Coast Federal Credit Union	2,172,332
Trust Deeds	35,114,963
	<u>43,312,476</u>

Total Cash Investments	<u>\$ 144,137,100</u>
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CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

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, 2008 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. Management believes the market value of the trust deed portfolio at June 30, 2008 is sufficient to offset the estimated 4% cost to liquidate the portfolio.

Deposits

At June 30, 2008, the carrying amount of the City's deposits was \$787,927. The bank balance was \$2,501,820. 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, 2008

2. Cash and Investments: (Continued)

Investments

As of June 30, 2008 the City had the following investment and maturities:

	<u>Cost</u>	<u>Fair Value</u>	<u>0-12 months</u>	<u>1-5 years</u>	<u>over 5 years</u>
Local Agency Investment Fund	\$ 88,744,001	\$ 88,739,585	\$ 88,739,585	\$	\$
Money Market	4,525,000	4,525,000	4,525,000		
Certificates of Deposits	2,610,134	2,610,134	2,610,134		
Investment Agreements	5,076,317	5,076,317			5,076,317
Mutual Funds	2,449,787	2,449,787	2,449,787		
Insurance Reserves	404,417	404,417	404,417		
OPEB	97,601	97,601	97,601		
Trust Deeds-Def Comp	35,114,963	35,114,963		35,114,963	
Hartford/CCFCU-Def Comp	4,331,369	4,331,369		4,331,369	
	<u>\$ 143,353,589</u>	<u>\$ 143,349,173</u>	<u>\$ 98,826,524</u>	<u>\$ 39,446,332</u>	<u>\$ 5,076,317</u>

Credit Risk:

The Local Agency Investment Fund managed by the California State Treasurer, representing 61.90% of the portfolio is not rated. Investments in money market funds are limited by Government Code Section 53601 to those that have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations. At June 30, 2008, mutual funds were rated AA & AAA by S & P and Aa1 & Aa3 by Moody's. The investment agreement providers were rated from AA to A by S & P and A2 to Baa 1 by Moody's.

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

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

Concentration of Credit Risk

The Local Agency Investment Fund, representing 61.90% of the portfolio and the Trust Deed, representing 24.51% of the portfolio are not considered a concentrated risk.

Interest Rate Risk

As a means of limiting exposure to fair value losses arising from rising interest rates, the City's investment policy limits the maturity of investments in accordance with Government Code Sections 53601(a)-(n) and 53636(a)-(m). It is the City's policy to ladder investments so that there are always investments coming due to meet cash flow requirements. Because the Local Agency Investment Fund as of June 30, 2008 had an average life of 212 days, it was presented as an investment with a maturity of 0-6

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

2. Cash and Investments: (Continued)

months. However, LAIF allows the City to make withdrawals of any amount within 24 hours.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy limits safekeeping of investments to third-party custody. Various fiscal agents hold the amount of \$10,759,946 in a trustee capacity. These funds represent bond proceeds held by trustees per the indentures of trust and funds held by third-party administrators for the City's workers compensation and liability insurance programs.

3. Restricted Assets:

Cash and investments of \$7,521,398 are recorded as restricted assets at June 30, 2008 as follows:

General Fund - restricted for OPEB	\$	97,601
Construction Assistance - restricted for the construction of the Monterey Street Parking and for COP 2005B Projects		1,070,081
Assessment District Debt Service - restricted for unrepresented matured bonds of the North East Salinas Assessment District		25,000
Gas Tax - restricted for construction retentions		
Debt Service Fund - restricted to cover expenses of debt service		2,666,823
Capital Projects Fund - restricted for small business loans		57,027
Enterprise Fund - restricted to cover expenses of debt service		
Golf Courses Fund	\$	978,309
Sanitary Sewer		1,060,495
Downtown Parking District		<u>1,161,645</u>
Internal Service Fund - restricted for liability expenses and workers compensation claims		404,417
Total Restricted Assets		<u><u>\$ 7,521,398</u></u>

4. Taxes Receivable:

Taxes receivable recorded in the General Funds of \$8,396,450 represent amounts due for the quarter ending June 30, 2008 for the following taxpayer – assessed taxes:

Property Tax	\$ 582,916
Sales Tax	3,176,183
Transaction and Use Tax	1,841,515
In-lieu Sales Tax	1,071,581
Utility Users Tax	811,400
Franchise Tax	437,647
Transient Occupancy Tax	381,372
Other Taxes	61,905
Property Transfer Tax	<u>31,931</u>
	<u><u>\$8,396,450</u></u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

5. Assessment Receivable:

Debt Service Fund – Assessments receivable recorded in the Assessment District Debt Service Fund of \$21,300,000 at June 30, 2008, will be collected from property owners to retire outstanding bond principal issued for improvements in special assessment districts. Cash and investments at June 30, 2008 of \$2,794,467 are available to make bond and interest payments of \$2,651,739 that are due on September 1, 2008.

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	\$ 545,692	\$	\$	\$ 545,692
HOME Investment Program	900,212			900,212
Emergency Shelter Grant	48,025			48,025
US Department of Justice	132,272			132,272
California Dept of Motor Vehicles		65,775		65,775
California Highway Users Tax		835,713		835,713
US Department of Homeland Security	6,642			6,642
California Office of Traffic Safety(US DOT)	33,563			33,563
Weed and Seed Program	44,838			44,838
County of Monterey			240,466	240,466
	1,711,244	901,488	240,466	2,853,198
Capital Projects Funds:				
Federal Aviation Administration	243,876			243,876
Federal Train Grant	6,692			6,692
HUD EDI	306,077			306,077
State Bond Acts		82,966		82,966
State HCD		82,359		82,359
CA Dept.of Transportation		1,979,231		1,979,231
Developers			1,399,619	1,399,619
	556,645	2,144,556	1,399,619	4,100,820
Total Government Activities	2,267,889	3,046,044	1,640,085	6,954,018
Business-Type Activities:				
Enterprise Funds:				
Salinas Valley Solid Waste Authority	-	-	3,795,785	3,795,785
Trust and Agency Funds:				
Payroll Deposit Fund			978,888	978,888
KDF Los Padres			271	271
Sunrise House:				
Monterey County			3,467	3,467
Second Chance Youth Program:				
SCYP Fees			13,000	13,000
AB825 Categorical Education			1,886	1,886
United Way			294	294
California Wellness Foundation			270,000	270,000
	-	-	1,267,806	1,267,806
Primary Government Totals	\$ 2,267,889	\$ 3,046,044	\$ 6,703,676	\$ 12,017,609

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

7. Interfund Transactions:

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

	Due To			Total
	Governmental Activities			
<u>Due From:</u>	General	Capital Projects	Internal Service	
Primary Government				
Governmental Activities:				
Major Funds:				
General Fund	\$	\$ 207,975	\$	\$ 207,975
Measure V		162,135		162,135
Comm Dev Act of 1974 Fund	1,171,842	194,790		1,366,632
Development Fee Fund	1,700	79,673		81,373
Non-Major Funds:				
Lighting, Landscape & Maintenance	24,970			24,970
Local Public Safety Fund	120,389	46,718		167,107
Gas Tax Fund		126,291		126,291
SRA Housing Fund		3,315		3,315
SRA Project Fund		50,653		50,653
Debt Service	25,653			25,653
Grants Fund	59,678			59,678
Total Governmental Activities	<u>1,404,232</u>	<u>871,550</u>	<u>-</u>	<u>2,275,782</u>
Business Type Activities:				
Airport Fund		196,312		196,312
Industrial Waste		34,911		34,911
Sanitary Sewer Fund		49,489		49,489
Storm Sewer Fund		3,039		3,039
Downtown Parking		27,774		27,774
	<u>-</u>	<u>311,525</u>		<u>311,525</u>
Total Primary Government	<u>1,404,232</u>	<u>1,183,075</u>	<u>-</u>	<u>2,587,307</u>
Expendable Trust Funds:				
Trust Deposit Funds	1,458			1,458
Business Imp District	177			177
Second Chance	79,567	-		79,567
Total Expendable Trust Funds	<u>81,202</u>	<u>-</u>	<u>-</u>	<u>81,202</u>
	<u>\$ 1,485,434</u>	<u>\$ 1,183,075</u>	<u>\$ -</u>	<u>\$ 2,668,509</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

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, 2008:

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 1,325,000	\$ 6,589,252
Special Revenue Funds:		
EMS	472,500	18,000
Local Public Safety Fund		108,205
Community Development Act of 1974 Fund		2,055,559
Vehicle Abatement Program	90,000	
Health/Wellness	31,102	
Emp Comm Van	9,536	
Families Learning	1,088	
Development Fee Fund		583,718
Gas Tax Fund		2,808,785
Traffic Safety Fund		900,000
Grants Fund		40,150
Central City Housing Fund	644,989	240,213
Sunset Avenue Merged Housing Fund	597,537	-
	<u>1,846,752</u>	<u>6,754,630</u>
Debt Service Funds:		
COPS 2005B	755,097	
COPS 1999	84,000	
Central City Debt Service Fund	240,213	644,989
Sunset Avenue Merged Debt Service Fund		597,537
	<u>1,079,310</u>	<u>1,242,526</u>
Capital Projects Funds:		
Capital Project Fund	11,117,892	229,925
	<u>11,117,892</u>	<u>229,925</u>
Total Governmental Activities	<u>15,368,954</u>	<u>14,816,333</u>
Enterprise Funds:		
Airport Fund		14,511
Municipal Golf Courses Fund		24,138
Industrial Waste Fund		72,086
Sanitary Sewer Fund		289,847
Storm Sewer Fund	600,000	172,314
Solid Waste Fund		385,097
Downtown Parking District Fund		156,503
Total Business Type Activities	<u>600,000</u>	<u>1,114,496</u>
Total Governmental & Business Activities	<u>15,968,954</u>	<u>15,930,829</u>
Expendable Trust Fund:		
Trust Deposits Fund	151,840	189,965
Total Expendable Trust Fund	<u>151,840</u>	<u>189,965</u>
	<u>\$ 16,120,794</u>	<u>\$ 16,120,794</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

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 \$108,072 at June 30, 2008. 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 \$108,072 will be paid over the next two years. The set-aside requirement was made for the fiscal year ended June 30, 2008 and future requirements cannot be deferred.

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

Fiscal Year Ending June 30,	
2009	\$ 64,499
2010	43,573
	<u>\$ 108,072</u>

Enterprise Advance

With the issuance of Variable Rate Taxable Refunding Certificates of Participation Series 2008 and the signing of a lease to operate and manage the Fairways Golf Course, the cash flow advances from the General Fund made to the Fairways Golf Course since fiscal year 2001-02 through fiscal year 2007-08 in the amount of \$4,385,000 were forgiven. The lease approved on June 3, 2008 with Sierra Golf Management to operate and manage the Fairways Golf Course is expected to reduce future General Fund subsidy to the golf course operations from \$700,000 to about \$150,000 annually.

An advance of \$300,000 from the General Fund to the Downtown Parking District fund was made during fiscal year 2007-08. The total advances made from the General Fund to the Downtown Parking District fund totaled \$900,000. 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, 2008.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

8. Loans Receivable: (Continued)

At June 30, 2008, the Government-Wide and Fund Financial Statements show the City had \$12,049,053 in long-term loans receivable, summarized as follows:

Beginning Balance	\$	11,272,095
New Loans		1,983,983
Maya Cinema Accrued Interest		-
Principal Repayments/Adjustments		<u>(1,207,025)</u>
Ending Balance	\$	<u>12,049,053</u>

General Fund

First time homebuyers loans with three percent interest forgiven if owner occupied for thirty years, which are due upon transfer of property title. \$ 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. 2,069,466

Direct housing rehabilitation loans at five to eight percent interest amortized over fifteen years, and due upon transfer of property title. 250,387

First time homebuyers loans with three percent simple interest forgiven if owner occupied for thirty years, are due upon transfer of property title. 1,615,000

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. 2,500,000

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. 220,021

Small business loans with various terms. 43,837

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

8. Loans Receivable: (Continued)

Loan to the Salinas Redevelopment Agency for the purchase of the Green Gold Inn Homeless Shelter at no interest, due transfer of property title or cessation of homeless center and one half to be forgiven in ten years (2005).	<u>157,500</u>
Total Housing Urban Development Loans Receivable.	<u>6,856,211</u>

Central City Housing Fund

Eight First Time Homebuyer Loans at 3% interest for 30 years due and payable upon transfer or sale of property. If owner occupies property for 30 years, the 3% interest is forgiven.	95,000
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Six First Time Homebuyer Loans at 6% interest for 10 years due and payable upon transfer or sale of property. No payments due if owner occupies property for 10 years. Beginning the sixth year, the Agency will forgive 20% of the full amount of principal and interest until the entire note is forgiven at the end of 10 years.	126,000
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Housing Construction Loan at 6% for 30 years due and payable upon transfer or sale of property.	31,707
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Housing Construction Loan at 5% for 20 years due and payable upon transfer or sale of property.	146,080
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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
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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
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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. The Loan is secured by a deed of Trans and Bears Interest at 3%. The terms of the loan call for annual repayments equal to 50% of the residual receipts (Rents Less Operating Expenses) commencing on May 1 st following the issuance of a certificate of occupancy.	<u>1,290,000</u>
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Total Central City Housing Fund Loans Receivable	<u>2,714,287</u>
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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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

8. Loans Receivable: (Continued)

Years 15 through 30 require annual payment of \$50,000. Beginning in 2034 the remaining balance and any accrued interest is fully amortized in annual payments through the end of the loan. The loan is secured by a deed of trust in second lien position. 1,500,000

Eight First Time Homebuyer Loans at 3% interest for 30 years due and payable upon transfer or sale of property. If owner occupies property for 30 years the 3% interest is forgiven. 110,000

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

Loan to Community Housing Improvement Systems and Planning Association (CHISPA) to provide down payment assistance loans to farm worker families. Loans bear 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 2,134,500

Capital Projects Fund

26 Unreinforced Masonry Loans for engineering and retrofitting of downtown buildings to meet City code earthquake requirements. Loans are interest free for 25 years due and payable upon transfer or sale of property. 16 loans have no payments until due at end of term. 10 loans have monthly payments amortized over 25 years. 314,255

Total Loans Receivable \$12,049,503

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 523,272

Total land available for sale in Central City Capital Project Fund 941,277

Central City Low and Moderate Income Housing Fund

17 & 19 Soledad Street 370,693

9 & 11 Soledad Street 129,738

500,431

Sunset Avenue Merged Project Fund

137, 145 & 151 Division Street 850,000

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

9. Land Held for Resale: (Continued)

Sunset Avenue Merged Low and Moderate Income Housing Fund

123 Division Street 300,000

Total Land Held for Resale \$2,591,708

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 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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

10. Capital Assets: (Continued)

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.

	Balance June 30, 2007	Additions	Adjustments/ Retirements	Balance June 30, 2008
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 22,006,573	\$ 74,821	\$ (2,261)	\$ 22,079,133
Construction in progress	1,572,091	6,836,270	(497,285)	7,911,076
Total assets not being depreciated	<u>23,578,664</u>	<u>6,911,091</u>	<u>(499,546)</u>	<u>29,990,209</u>
Capital assets, being depreciated:				
Buildings and improvements	27,561,600	94,406	59,164	27,715,170
Improvements other than buildings	9,413,856	794,614		10,208,470
Machinery and equipment	21,021,322	1,451,221	(562,959)	21,909,584
Infrastructure	201,181,816	4,258,206	218,035	205,658,057
Total assets being depreciated	<u>259,178,594</u>	<u>6,598,447</u>	<u>(285,760)</u>	<u>265,491,281</u>
Less accumulated depreciation:	<u>(125,279,730)</u>	<u>(7,888,443)</u>	<u>759,395</u>	<u>(132,408,778)</u>
Total capital assets being depreciated, net	<u>133,898,864</u>	<u>(1,289,996)</u>	<u>473,635</u>	<u>133,082,503</u>
Governmental Activities capital assets, net	<u>\$ 157,477,528</u>	<u>\$ 5,621,095</u>	<u>\$ (25,911)</u>	<u>\$ 163,072,712</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 3,629,739	\$ -	\$ -	\$ 3,629,739
Construction in progress	-	733,817	-	733,817
Total assets not being depreciated	<u>3,629,739</u>	<u>733,817</u>	<u>-</u>	<u>4,363,556</u>
Capital assets, being depreciated:				
Buildings and improvements	26,141,635	-	(2)	26,141,633
Improvements other than buildings	15,084,319	118,547	-	15,202,866
Machinery and equipment	6,111,357	823,618	(175,923)	6,759,052
Infrastructure	212,685,598	598,434	-	213,284,032
Total assets being depreciated	<u>260,022,909</u>	<u>1,540,599</u>	<u>(175,925)</u>	<u>261,387,583</u>
Less accumulated depreciation:	<u>(115,368,252)</u>	<u>(6,086,362)</u>	<u>173,968</u>	<u>(121,280,646)</u>
Total capital assets being depreciated, net	<u>144,654,657</u>	<u>(4,545,763)</u>	<u>(1,957)</u>	<u>140,106,937</u>
Business-type Activities capital assets, net	<u>\$ 148,284,396</u>	<u>\$ (3,811,946)</u>	<u>\$ (1,957)</u>	<u>\$ 144,470,493</u>

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

Governmental Activities:	
General Government	\$ 279,144
Police	728,039
Fire	446,044
Public Works, including infrastructure assets	5,639,286
Recreation and Parks	696,130
Library	99,800
Total depreciation expense - Governmental Activities	<u>\$ 7,888,443</u>
Business-type Activities:	
Airport	\$ 600,895
Industrial Waste	171,250
Golf Courses	561,005
Sanitary Sewer	1,443,068
Storm Sewer	2,723,678
Water Utility	10,268
Downtown Parking	576,198
Total depreciation expense - Business-type Activities	<u>\$ 6,086,362</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

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 \$25,918,122 in the Government-Wide Statements and \$32,762,682 in the Fund Statements. The difference of \$6,844,560 represents long-term loans in the Special Revenue Funds recorded as deferred revenue. These are not available resources. Deferred revenues of \$32,762,682 at June 30, 2008 consists of the following:

Governmental Activities:	
Major Funds:	
Community Development Act of 1974 Fund	
Housing Rehab Loans	\$ 2,319,853
First Time Homebuyers Loans	1,615,000
Salinas Redevelopment Agency Loan	157,500
Small Business Loans	43,837
CDBG/Home Program Deferred Revenue	2,720,021
	6,856,211
Construction Assistance	4,347,545
Assessment District Debt Service Fund	
Assessments Receivable	21,300,000
Non-major Funds:	
Special Revenue and Capital Projects grants, advances	258,926
Total Governmental Activities	\$ 32,762,682

13. Deferred Compensation Plan:

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

The City established in November of 1997 an Employer Trust through the Plan Document adopted with the ICMA Retirement Corporation. On December 15, 1998 the City Council adopted a Resolution amending the City administered deferred compensation plan to also conform to the new law. Under the Trust arrangement, individual accounts maintained by the record-keeper used for receiving contributions and 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, 2008

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 \$15,742,618 at June 30, 2008. 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, 2008 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 \$43,332,004 in net assets at June 30, 2008. 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, 2008.

14. Retirement Programs:

As of June 30, 2008, the city was contributing to three employee retirement programs. Total pension expenses for the fiscal year were \$15,179,482, 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, 2008

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

Funding Policy – Active plan members are required to contribute 9% (7% for miscellaneous employees) of their annual covered salary. The City of Salinas is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007/08 was 34.579% for firefighters, 26.7% for police officers and 10.834% 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 2007/08, the City of Salinas' annual pension cost of \$13,149,123 was equal to the City's required and actual contributions. The City of Salinas actually contributed \$9,585,599 while the employees contributed \$3,563,524. The required contribution for fiscal year 2007/08 was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumption included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service ranging from 3.25% to 13.15% for safety members (3.25% to 14.45% for miscellaneous members), and (c) 3.25% payroll growth. Both (a) and (b) include an inflation component of 3%. In April 2005, the CalPERS Board approved an employer rate stabilization policy, with the following features: a) In the calculation of the actuarial value of assets, market value asset gains and losses are spread over 15 years as compared to 3 years; and b) Changed the corridor limits for the actuarial value of assets from 90%-110% of market value to 80%-120% of market value; and c) Gains and losses are amortized over a rolling 30-year period. In the past, the amortization payment on gains and losses was 10% of the base, and d) A minimum employer contribution rate was established equal to the employer formal cost minus a 30-year amortization of surplus (but never less than 0%). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of assumed future payroll on a closed basis.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

14. Retirement Programs: (Continued)

THREE YEAR TREND INFORMATION			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007/08	\$ 13,149,123	100%	\$ 0
2006/07	10,994,272	100%	0
2005/06	9,874,831	100%	0

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

New York Life

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

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

The City of Salinas has an agreement with New York Life Insurance Company to hold and invest plan assets of the Retirement Plan, which covers employees other than Police and Fire. The total covered payroll for employees participating in the Plan for fiscal year ended June 30, 2008 was \$4,173,341.

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, 2008

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, 2008 was \$1,364,779. During fiscal year 2007/08, the City contributed \$1,364,779 to the New York Life retirement plan, while the employees contributed \$159,020. The City also contributed \$55,313 on behalf of employees represented by SEIU.

The Net Pension Obligation as determined by the Actuarial valuation of September 1, 2007 is \$51,663 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 assumptions include post-retirement benefit increases, which are adjusted by the lesser of the average Consumer Price Index or 2.0%. Assets are value at cash value on September 1, 2007 as reported by New York Life Insurance Company, using an estimation of interest and expense which is equal to two-thirds of the prior contract year's interest and expense. The actuarial liability represents the actuarial present value of all benefits accrued as of the valuation date, based on service and salary at that date.

THREE YEAR TREND INFORMATION

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/07	\$ 1,303,107	100.48%	\$ 51,663
06/30/06	1,207,428	100.50%	57,936
06/30/05	1,112,863	100.56%	(169,465)

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

14. Retirement Programs: (Continued)

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, 2007 through April 24, 2008 was 29.2% of the participant's covered payroll, and 32.7% for April 25, 2008 through June 30, 2008. During the fiscal year 2007-08, the City's contribution to this plan was \$249,928, while the employees had a mandatory contribution of 4.5% of their salary or \$38,489. At June 30, 2008, there were eight employees participating in this program. Since June 29, 1998, participants are required to contribute 4.5% of their compensation to the plan.

Significant Accounting Policies

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

Method Used to Value Investments – Participants direct their investments, without restriction, among various investments options available under the ICMA 401(a) Plan. Plan investments are reported at fair market value. At June 30, 2008, the total Plan Assets totaling \$3,036,813 consisted of \$2,512,585 of earnings and employer contributions, \$488,916 of employee mandatory contributions, \$28,372 of employee after-tax voluntary contributions and, \$6,940 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, 2008, there were 10 participants in this program and the City's annual contribution was \$81,415 while the employees had an equal mandatory matching contribution of \$81,415.

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 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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

15. Post Employment Benefits: (Continued)

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 (38.80 per month in 2008). 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).

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:

	<u>June 30, 2008</u>
Annual Required Contribution	\$ 1,591,000
Interest on Net OPEB Obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>1,591,000</u>
Contributions made to CERBT Trust	(100,000)
Contributions under "pay-as-you-go"	
Payment to Retirees	(73,501)
Payment to CalPERS	<u>(26,037)</u>
Increase in net OPEB obligation	1,391,462
Net OPEB obligation - beginning of the year	-
Net OPEB obligation - end of the year	<u><u>\$ 1,391,462</u></u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

15. Post Employment Benefits: (Continued)

The City's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for 2008 and two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2006	N/A	N/A	N/A
6/30/2007	N/A	N/A	N/A
6/30/2008	\$ 1,591,000	12.5%	\$ 1,391,462

Funded Status and Progress – As of June 30, 2006, the first and most recent valuation date, the plan was 100% unfunded. The 2007-08 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 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

15. Post Employment Benefits: (Continued)

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. Market 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, 2008 is dependent on future developments, City management has determined the desired reserve level for each self-insurance program as follows and believes the estimates are adequate to cover such losses.

1. Worker's Compensation insurance liability of \$9,789,127 includes \$7,831,302 for claims incurred but not paid and \$1,957,825 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, 2008, Worker's Compensation Insurance liability of \$9,789,127 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, 2008 is \$8,713,560 and is reported in the Internal Service Fund; \$1,075,567 of this is treated as long-term debt.
2. General liability insurance liability at June 30, 2008 of \$481,492 includes \$104,264 for claims incurred but not paid and \$377,228 for claims incurred but not reported which is based on expected claims and past claims history. Unreserved retained earnings is \$1,747,175 at June 30, 2008 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

16. Self Insurance: (Continued)

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	\$ 10,016,836	\$ 484,998
Less beginning provisiin for incurred but not reported claims	<u>(2,003,367)</u>	<u>(413,236)</u>
Beginning provisions for incurred but not paid claims	8,013,469	71,762
Increase (decrease) in claims incurred and reported	2,165,320	425,873
Claim expenses paid	<u>(2,347,487)</u>	<u>(393,371)</u>
Ending balance provision for incurred but not paid claims	7,831,302	104,264
Provision for incurred but not reported claims	<u>1,957,825</u>	<u>377,228</u>
Ending balance of claims liability	<u>\$ 9,789,127</u>	<u>\$ 481,492</u>

17. Lease Obligations:

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

<u>Fiscal Year Ending June 30,</u>	
2009	\$ 80,047
2010	76,403
2011	74,913
	<u>\$ 231,363</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 \$9,699 for the year ended June 30, 2008.

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 \$46,070.88 for the year ended June 30, 2008.

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, 2008 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, 2008.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

18. Long Term Debt:

The following is a summary of Long Term Debt transactions for the fiscal year ended June 30, 2008.

	June 30, 2007	Increases	Decreases	June 30, 2008	Due Within One Year
Governmental Activities:					
Annual Leave	\$ 7,242,067	\$ 1,208,286	\$ 24,826	\$ 8,425,527	\$ 1,685,104
Estimated Insurance claims	1,492,779	-	417,212	1,075,567	
Net Pension Obligation	57,936	-	6,273	51,663	12,916
Capital Leases	61,442	1,496,955	247,944	1,310,453	254,314
Loans and Notes Payable:					
City Loan - Homeless Shelter	157,500	-	-	157,500	
Breadbox Gym Note Payable	193,769	-	31,739	162,030	34,913
Total Loans & Notes Payable	351,269	-	31,739	319,530	34,913
Certificates of Participation					
Series B-2005	11,375,000	-	355,000	11,020,000	365,000
Series A-1999	1,064,895	-	36,138	1,028,757	38,203
Series A-2002	2,585,000	-	60,000	2,525,000	60,000
Total Certificates	15,024,895	-	451,138	14,573,757	463,203
Tax Allocation Refunding Bonds:					
Series A-1996	6,900,000	-	555,000	6,345,000	580,000
Series A-1992	3,005,207	-	190,739	2,814,468	175,998
Total Bonds Payable	9,905,207	-	745,739	9,159,468	755,998
Assessment District 1915 Act Bonds	25,245,000	-	1,920,000	23,325,000	2,025,000
Government Activities	\$ 59,380,595	\$ 2,705,241	\$ 3,844,871	\$ 58,240,965	\$ 5,231,448
Business-type Activities					
Annual Leave	\$ 239,625	\$ 30,039	\$ -	\$ 269,664	\$ 53,933
Capital Leases:					
Street Sweeper	\$ 117,686	\$ 222,627	\$ 122,654	\$ 217,659	\$ 76,879
Golf Course Equipment	33,063	-	16,148	16,915	16,915
Industrial Waste Lease	600,000	-	60,000	540,000	60,000
Airport Fuel Facility Lease	249,347	-	26,716	222,631	26,716
Total Leases	1,000,096	222,627	225,518	997,205	180,510
Bonds Payable:					
Sanitary Sewer Revenue Bonds	13,565,000	-	360,000	13,205,000	375,000
Certificates of Participation A-1999	4,090,105	-	138,862	3,951,243	146,797
Certificates of Participation A-2005	7,760,000	-	275,000	7,485,000	285,000
Certificates of Participation A-2004	16,630,000	-	365,000	16,265,000	375,000
Total Bonds Payable	42,045,105	-	1,138,862	40,906,243	1,181,797
Business-type Activities	\$ 43,284,826	\$ 252,666	\$ 1,364,380	\$ 42,173,112	\$ 1,416,240
Fiduciary Activities					
Annual Leave	\$ 112,533	\$ 14,853	\$ 2,993	\$ 124,393	\$ 24,879
Total Long-Term Liability	\$ 102,777,954	\$ 2,972,760	\$ 5,212,244	\$ 100,538,470	\$ 6,672,567

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

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, 2008 by activity are as follows:

Fiscal Year Ending June 30,	Governmental-Wide Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 3,474,065	\$ 2,533,800	\$ 1,362,307	\$ 1,877,098
2010	3,583,217	2,388,840	1,443,261	1,833,982
2011	3,607,745	2,226,790	1,355,416	1,768,549
2012	3,763,737	2,226,790	1,413,351	1,714,327
2013	4,094,105	2,053,261	1,467,318	1,655,614
2014-2018	13,806,331	9,219,488	7,966,957	7,278,218
2019-2023	8,642,617	7,894,667	9,563,729	5,332,526
2024-2028	6,163,891	879,780	11,756,109	2,868,354
2029-2033	1,395,000	99,157	4,535,000	807,219
2034-2037	157,500	-	1,040,000	24,700
	<u>\$ 48,688,208</u>	<u>\$ 29,522,573</u>	<u>\$ 41,903,448</u>	<u>\$ 25,160,587</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, 2008 the liability for all compensated absences totaled \$8,819,584. It includes \$8,797,890 in annual leave and \$21,694 in sick leave. These amounts are reported on the financial statements in the following funds:

	June 30, 2007	Increases	Decreases	June 30, 2008	Due Within One Year
Governmental Activities:					
General Fund	\$ 6,649,004	\$ 1,048,893	\$ 18,362	\$ 7,679,535	\$ 1,535,905
Measure V	425,876	113,985	5,851	534,010	106,802
Special Revenue Funds	132,937	43,746	110	176,573	35,315
Debt Service Funds	9,831	1,662	-	11,493	2,299
Internal Service Funds	24,419	-	503	23,916	4,783
	<u>\$ 7,242,067</u>	<u>\$ 1,208,286</u>	<u>\$ 24,826</u>	<u>\$ 8,425,527</u>	<u>\$ 1,685,104</u>
Business-type Activities:					
Enterprise Funds	239,625	\$ 30,039	\$ -	\$ 269,664	\$ 53,933
	<u>\$ 239,625</u>	<u>\$ 30,039</u>	<u>\$ -</u>	<u>\$ 269,664</u>	<u>\$ 53,933</u>
Fiduciary Activities:					
Agency Funds	\$ 112,533	\$ 14,853	\$ 2,993	\$ 124,393	\$ 24,879

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

18. Long Term Debt: (Continued)

Estimated Insurance Claims

At June 30, 2008, the estimated insurance claims liability recorded in the Internal Service Funds is as follows:

Worker's Compensation	\$8,713,560
General Liability	<u>481,492</u>
Total	<u>\$9,195,052</u>

An additional \$1,075,567 of Worker's Compensation claims liability is reported in the Long-Term Debt under estimated insurance claims.

Net Pension Obligation

At June 30, 2008, a negative Net Pension Obligation of \$51,663 is reported as determined by the September 1, 2007 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	\$1,310,453	\$ 215,434	\$1,525,887

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	<u>\$157,500</u>
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CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

18. Long Term Debt: (Continued)

Breadbox Gym Note Payable

On August 9, 1991, the Salinas Redevelopment Agency entered into an installment purchase agreement with Franklin C. & Dorothy G. Walt Trust for the purchase of property at 745 No. Sanborn Rd. The property is used for the Breadbox recreation facility. The property was purchased for \$487,200 with \$52,024 down and a promissory note of \$435,176 secured by a first deed of trust with annual payments of \$51,116, at an annual rate of 10.0% for 20 years, expiring August 9, 2011. Debt service payments are made from the Sunset Avenue Merged Project tax increments.

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 34,913	\$ 16,203	\$ 51,116
2010	38,404	12,712	51,116
2011	42,244	8,871	51,115
2012	46,469	4,646	51,115
	<u>\$ 162,030</u>	<u>\$ 42,432</u>	<u>\$ 204,462</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 and Steinbeck Library. Refunding Certificates 2005B are rated AAA (insured by Ambac) with an underlying A 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+.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

18. Long Term Debt: (Continued)

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 365,000	\$ 424,880	\$ 789,880
2010	375,000	413,780	788,780
2011	390,000	401,330	791,330
2012	395,000	387,593	782,593
2013	415,000	373,418	788,418
2014-2018	2,290,000	1,634,672	3,924,672
2019-2023	2,730,000	1,160,353	3,890,353
2024-2028	3,310,000	534,944	3,844,944
2029-2032	750,000	16,406	766,406
	<u>\$ 11,020,000</u>	<u>\$ 5,347,376</u>	<u>\$ 16,367,376</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 (\$1,100,000) and Fairways Golf Course (\$4,225,000) were not refunded. The remaining portion of Series A 1999 Certificates total \$5,325,000 and are secured by a lien on City Hall with an appraised value of \$5,300,000. The outstanding portion of Series A 1999 Certificates allocated to the Animal Shelter (\$1,100,000) is reported as Governmental activities and the outstanding portion allocated to Fairways Golf Course (\$4,225,000) is reported as Business-type activities.

Debt service requirements to maturity are as follow:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 38,203	\$ 48,886	\$ 87,089
2010	39,235	47,279	86,514
2011	41,300	45,567	86,867
2012	43,365	43,747	87,112
2013	44,398	41,838	86,236
2014-2018	257,094	174,505	431,599
2019-2023	326,271	102,064	428,335
2024-2027	238,891	18,300	257,191
	<u>\$ 1,028,757</u>	<u>\$ 522,186</u>	<u>\$ 1,550,943</u>

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

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 \$2,525,000 are secured by the City taking possession of the Steinbeck Center building pursuant to a ground lease, if the Steinbeck Center defaults on it's lease payments. In case of default by the Steinbeck Center, the City would be come responsible for the payments on the Certificates.

Debt service requirements to maturity are as follow:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 60,000	\$ 120,601	\$ 180,601
2010	65,000	118,426	183,426
2011	65,000	115,989	180,989
2012	70,000	113,389	183,389
2013	70,000	110,589	180,589
2014-2018	405,000	504,287	909,287
2019-2023	500,000	399,820	899,820
2024-2028	645,000	261,000	906,000
2029-2032	645,000	82,751	727,751
	\$ 2,525,000	\$ 1,826,852	\$ 4,351,852

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, 2008 are as follows:

Fiscal Year Ending June 30,	TAB Series A-1996		TAB Series A-1992	
	Principal	Interest	Principal	Interest
2009	\$ 580,000	\$ 331,836	\$ 175,998	\$ 329,002
2010	610,000	299,996	161,796	346,451
2011	645,000	265,788	151,187	356,822
2012	680,000	229,350	141,240	366,413
2013	715,000	190,988	131,957	375,374
2014-2018	1,140,000	628,378	1,125,944	4,246,941
2019-2023	615,000	462,141	926,346	5,150,446
2024-2024	1,360,000	37,400	-	-
	\$ 6,345,000	\$ 2,445,877	\$ 2,814,468	\$ 11,171,449

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

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, 2008, outstanding Assessment District Bonds totaled \$23,325,000. 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 is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 2,025,000	\$ 1,203,028	\$ 3,228,028
2010	2,090,000	1,099,664	3,189,664
2011	2,060,000	991,122	3,051,122
2012	2,165,000	876,472	3,041,472
2013	2,485,000	751,223	3,236,223
2014-2018	8,345,000	2,019,684	10,364,684
2019-2023	3,545,000	619,843	4,164,843
2024-2027	610,000	28,136	638,136
	<u>\$ 23,325,000</u>	<u>\$ 7,589,172</u>	<u>\$ 30,914,172</u>

Business-Type Activities

Capital Leases

Street Sweepers

On July 16, 2003, the City of Salinas purchased street sweeper using lease purchase financing. Annual payments are \$40,833, including interest at 3.9% for five years. Last payment was made on December 1, 2007.

On August 17, 2004, the City of Salinas purchased a second street sweeper using lease purchase financing. Annual payments are \$41,750, including interest at 4.29% for five years.

The City, using lease purchase financing, purchased a third 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 \$217,659 for all sweepers is recorded in the Storm Sewer Enterprise Fund at June 30, 2008.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

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>
2009	\$ 76,879	\$ 9,871	\$ 86,750
2010	38,538	6,462	45,000
2011	40,307	4,693	45,000
2012	42,157	2,843	45,000
2013	19,778	908	20,686
	<u>\$ 217,659</u>	<u>\$ 24,777</u>	<u>\$ 242,436</u>

Golf Course Equipment

On November 2, 2004, the City of Salinas purchased a lawn mower and spray rig for the Fairways Golf Course using lease purchase financing. Annual payments are \$17,718, including interest at 4.75% for 5 years. Debt payable of \$16,915 is recorded in the Municipal Golf Course Enterprise Funds at June 30, 2008.

Debt Service Requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 16,915	\$ 803	\$ 17,718

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 \$540,000 is recorded in the Industrial Waste Enterprise Fund at June 30, 2008.

Debt service requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 60,000	\$ 38,250	\$ 98,250
2010	65,000	33,563	98,563
2011	70,000	28,500	98,500
2012	75,000	23,062	98,062
2013	85,000	17,063	102,063
2014-2015	185,000	14,062	199,062
	<u>\$ 540,000</u>	<u>\$ 154,500</u>	<u>\$ 694,500</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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

18. Long Term Debt: (Continued)

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 has been applied to the total cost leaving an outstanding balance of \$222,631 for fiscal year ending June 30, 2008. CPI will adjust lease payments every two years from commencement date of December 12, 2006.

Debt Service Requirements to maturity is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 26,716	\$ -	\$ 26,716
2010	26,716	-	26,716
2011	26,716	-	26,716
2012	26,716	-	26,716
2013	26,716	-	26,716
2014-2017	89,051	-	89,051
	<u>\$ 222,631</u>	<u>\$ -</u>	<u>\$ 222,631</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 \$13,205,000 is recorded in the Sanitary Sewer Enterprise Fund at June 30, 2008.

Debt service requirements and maturity are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 375,000	\$ 646,135	\$ 1,021,135
2010	390,000	627,010	1,017,010
2011	410,000	607,933	1,017,933
2012	430,000	588,607	1,018,607
2013	450,000	567,585	1,017,585
2014-2018	2,605,000	2,474,405	5,079,405
2019-2023	3,320,000	1,737,500	5,057,500
2024-2029	5,225,000	820,875	6,045,875
	<u>\$ 13,205,000</u>	<u>\$ 8,070,050</u>	<u>\$ 21,275,050</u>

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

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

18. Long Term Debt: (Continued)

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

On August 24, 2004, the City entered into a sublease agreement with the Monterey Peninsula Foundation and it 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 Golf Courses (Twin Creeks Series 2005A and Fairways remaining portion Series 1999A) are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 431,797	\$ 470,685	\$ 902,482
2010	440,765	455,884	896,649
2011	458,700	439,706	898,406
2012	476,635	422,036	898,671
2013	490,602	403,675	894,277
2014-2018	2,772,906	1,703,762	4,476,668
2019-2023	3,398,729	1,055,051	4,453,780
2024-2027	2,966,109	252,167	3,218,276
	<u>\$ 11,436,243</u>	<u>\$ 5,202,966</u>	<u>\$ 16,639,209</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 A rating from Standard & Poor's. In conjunction with this refunding, Standard and Poor's affirmed the City's issuer's credit rating of A+.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

18. Long Term Debt: (Continued)

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

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.

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

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 375,000	\$ 711,354	\$ 1,086,354
2010	380,000	702,620	1,082,620
2011	390,000	692,410	1,082,410
2012	405,000	680,622	1,085,622
2013	415,000	667,291	1,082,291
2014-2018	2,315,000	3,085,989	5,400,989
2019-2023	2,845,000	2,539,975	5,384,975
2024-2028	3,565,000	1,795,313	5,360,313
2029-2033	4,535,000	807,219	5,342,219
2034-2037	1,040,000	24,700	1,064,700
	<u>\$ 16,265,000</u>	<u>\$ 11,707,491</u>	<u>\$ 27,972,491</u>

Conduit Debt

In June of 1999, the City of Salinas issued Multifamily Housing Revenue Bonds, Series 1999A (\$5,310,000 tax-exempt) and 1999A-T (\$390,000 taxable) for the construction of a 132-unit senior apartment project. Twenty percent (20%) of the project is designated to be affordable to seniors. As of June 30, 2008 the total conduit debt outstanding related to these bonds is \$5,235,000.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

18. Long Term Debt: (Continued)

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, 2008, total conduit debt outstanding related to the Economic Development Revenue Bonds is \$19,775,000.

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 \$23,325,000. The September 2, 2008 principal payment of \$2,025,000 has already been collected. The balance of \$21,300,000 is recorded as Assessments Receivable in the Assessment District Debt Service Fund. The assessment District Reserve Fund balance is \$2,794,367 at June 30, 2008.

20. Restricted Net Assets:

The government-wide statement of net assets reports \$69,335,761 of restricted net assets, of which enabling legislation restricts \$1,060,495 represented by the net assets held at the Sanitary Sewer Fund. The assets are the result of a surcharge fee imposed on sanitary sewer users for the payment of operating expenses and debt service payments.

21. Deficit Fund Equities:

The following are deficit fund equities at June 30, 2008:

Enterprise Funds – Municipal Golf Courses Fund \$2,560,699.

The deficit net assets in Municipal Golf Courses Fund of \$2,560,699 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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

21. Deficit Fund Equities: (Continued)

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.

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.

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.

CITY OF SALINAS
Notes to Financial Statements
June 30, 2008

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 \$781,611 for fiscal year ending June 30, 2008.

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>
2009	\$ 894,936	2015	\$ 1,061,067
2010	921,276	2016	1,090,740
2011	948,176	2017	1,121,005
2012	975,539	2018	1,151,868
2013	1,003,472	2019	1,183,322
2014	1,032,080		

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 \$181,806 for fiscal year ending June 30, 2008.

Commitment to Steinbeck Center Foundation – On May 2, 2002, the City of Salinas issued Certificates of Participation, Series A of 2002, in aggregate principal amount of \$2,855,000 to finance the acquisition by the Agency of a leasehold interest in the Steinbeck Center site. This financing provided funds to repay the \$2,300,000 in bank loans of the Steinbeck Center used to construct the Steinbeck Center building and release the collateral posted by the Agency. In addition, the funds repaid 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

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Notes to Financial Statements
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23. Commitments and Contingent Liabilities: (Continued)

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 2007-08 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, 2008 the Agency has reserved \$1,135,000 of fund balance for the purpose of making debt service payments.

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

Commitment to Tynan Village – On October 7, 2008, the Agency approved a \$2 million loan to the Housing Authority of the Monterey County on behalf of the Tynan Village development, a \$35 million multifamily, mixed used project consisting of 171 residential units and commercial retail space. Of the \$2 million original loan, \$1,275,000 was

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Notes to Financial Statements
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23. Commitments and Contingent Liabilities: (Continued)

funded from the Central City Housing Fund and the remaining \$725,000 was funded from the Sunset Avenue Housing Fund.

State Budget Implications – The State of California has a history of balancing its budget using local government resources and in fact, currently takes \$3.9 million of Salinas' property taxes annually. These 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. Proposition 1A requires these funds to be paid back in three years with interest.

The State adopted its FY 2009-10 budget on February 18, 2009. The budget includes a combination of spending cuts, tax increases and borrowing, intended to close a projected \$42 billion deficit and to stop a fast-arriving fiscal disaster for the State. Specifically, the budget:

- Assumes that the State will receive \$5.0 billion from the sale of bonds backed by lottery proceeds in 2009-10.
- Assumes that the State will raise \$5.9 billion from the sale of Revenue Anticipation Warrants.
- Increases the state sales tax rate by 1 percentage point.
- Increases the Vehicle License Fee (VLF) rate from 0.65 percent to 1.15 percent.
- Imposes surtax equal to 2.5 percent of personal income tax liability.
- Reduces the size of the dependent credit claimed by personal income taxpayers.
- Includes up to \$15.1 billion in spending cuts.

The approved State budget does not significantly impact the City's General Fund budget at this point. Additional spending cuts and tax increases will be required if the California's share of the Federal Economic Recovery funding does not meet a certain threshold.

In addition to an Education Revenue Augmentation Fund (ERAF) property tax shifts from the City, ERAF 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 2008-09 budget included an ERAF shift of property tax increments to schools. An estimated payment of \$458,794 is due in May 2009. The State FY 2009-10 budget adopted on February 18, 2009 does not include ERAF shifts from Redevelopment agencies.

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24. Subsequent Events:

City of Salinas Variable Rate Taxable Refunding Certificates of Participation (Fairways Golf Project), Series 2008 – During March 1999, the City issued tax-exempt Certificates of Participation (\$4.8 million) to renovate the Fairways Golf Course and to construct the City's Animal Shelter (\$1.2 million). On April 2007, Council approved a contract with Sierra Golf Management to provide maintenance at Fairways Golf Course. To enter into a long-term operation and management lease agreement with a private operator (Sierra Golf), the City refinanced the Fairways Golf portion of the 1999 Certificates through a taxable issue.

On August 21, 2008, The City issued the "2008 Variable Rate Taxable Refunding Certificates of Participation" for the Fairways Golf Course. The proceeds of the Series 2008 Bonds were used to refund the City's Series 1999 (Non-taxable) Bonds issued to finance improvements to the City's Fairways Golf Course. Debt service on the bonds will be paid from proceeds from the twenty-year lease with Sierra Golf Course and General Fund subsidy.

Bonds sold totaled \$4,660,000 at an initial interest rate of 2.67%. These bonds have a "variable rate" and the interest adjusts weekly (capped at 6.5%). City staff will monitor interest rate behavior and trends to recommend an issue with a fixed rate debt. It is projected that the financing and management contract will save the City's General Fund about \$1.2 million over the next two fiscal years.

Standard and Poor's (S&P), as part of the 2008 COP financing prepared in August 2008, completed a thorough review of the City's financial policies, practices and General Fund projections. S&P confirmed the City's A+ issuer credit rating stating that the general credit strengths of the City include:

- Established economic base, with concentration in the agriculture sector;
- Strong available general fund balance;
- Recent history of addressing budgetary challenges by making cuts to expenditure growth and requesting revenue enhancement from voters; and
- Low direct and overlapping debt burden.

Recent Changes in the Economic Environment and its Impact to the City – The recent turmoil in the financial market has been unprecedented. In September 2008, the U.S. Treasury placed government sponsored enterprises Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) into conservatorship and committed to provide as much as \$100 billion to each company to backstop any shortfalls in capital through 2009, which protected the principal and interest payments on their debt (bonds issued). In addition, the federal government assumed control of American International Group Inc. (AIG), the largest insurance company in the U. S.; Lehman Brothers Holdings Inc., the 4th largest investment bank in the U.S. filed for bankruptcy; and Washington Mutual Inc. was seized by government regulators and its branches and assets sold to JPMorgan Chase & Co. On October 3, 2008, the President of the United States signed into law the \$700 billion Emergency Economic Stabilization Act of 2008 in an effort to address the economic crisis.

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24. Subsequent Events: (Continued)

CalPERS achieved double digit gains in each of the four years leading up to the 2007/2008 fiscal year. Through CalPERS 15 year smoothing of investment returns, these previous positive returns will cushion the impact the 2007/2008 investment losses will have on employer contribution rates in 2010/2011. In fact as of June 30, 2007, the asset smoothing method set aside about 14 percent of the CalPERS fund as a "rainy day" fund. The negative 5.1 percent return for fiscal year 2007/2008, about 12.9 percent less than the 7.75 percent expected rate of return, uses up most of the 14 percent of the "rainy day" fund. The good news is that employer contribution rates in 2010/2011 are not expected to increase as a result of the 2007/2008 negative 5.1 percent return. In fact, with the rate smoothing policies at CalPERS, the estimated impact of the negative 5.1 percent investment return is a decrease up to 0.1 percent of payroll in expected 2010/2011 employer rates. This assumes that all other actuarial assumptions are realized in aggregate.

With respect to potential loss of principal on any of the City's investments, the City's investment policy limits the composition of the holdings within the City's equity in pooled cash and investments held in City Treasury. The City's review of these holdings as of September 30, 2008 confirms no investments with institutions in risk of default. Staff continues to focus investment decisions in accordance with the City Council Investment Policy's primary investment priorities of safety, liquidity and yield.

Economic Factors and FY 2009-10 and FY 2010-11 Budgets – Like all local agencies through out 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. Two-thirds of the City's discretionary revenue comes from sales tax and property tax. The significant decline in these major revenue sources have contributed to a projected \$12.6 million General Fund budget shortfall in FY 2009-10.

The City Council is addressing this shortfall with a three phase approach: 1) budget/service reductions not requiring employee layoffs, 2) negotiating employee pay reductions, and 3) additional budget/service reductions including employee layoffs, if required. The City Council's goals are to keep the City solvent and to keep people working in Salinas. A remaining budget shortfall of at least \$4.0 million (5.0%) is projected in FY 2010-09, the second year of the City's two-year budget cycle. Longer-term costs savings measures and additional budget/service reductions will be required to address this second year shortfall.

On February 24, 2009, the City Council approved Phase 1 budget reductions, inclusive of freezing 18.5 vacant positions, capital project reductions, and reducing operating budgets that do not require the layoffs of permanent City employees. Phase 2 budget reductions, employee pay reductions, are currently being negotiated.



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**REQUIRED
SUPPLEMENTARY
INFORMATION**



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BUDGETING

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

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

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

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

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

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

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

On November 8, 2005, the voters of Salinas approved Measure V, a 0.50% transactions and use tax. Measure V is a general tax and is reported as part of the General Fund. The tax was effective April 1, 2005 and the tax will sunset in ten (10) years. The Measure V Oversight Committee is a fundamental provision of the voter-approved tax. The Mayor and City Council each annually appoints one member of the public to serve

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

BUDGET ADOPTION

On May 22, 2007, 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 2007-08 Annual Operating Budgets on May 22, 2007. An updated Six-Year Capital Improvement Budget for FY 2007-08 was also adopted on May 22, 2007. The Capital Improvement Budget is generally updated every two years.

BUDGETARY HIGHLIGHTS

General Fund and Measure V - The General Fund carryover to begin FY 2007-08 was \$2,906,410. City Council's past practice is to allocate carryover funds pursuant to the City's adopted financial policies. The policy states "General Fund Year-end carryover balances shall be allocated to reserves in the following priority order: 1) Insurance Reserves, 2) Operating Budget Reserve and, 3) Capital Improvement Program Reserve."

As part of the FY 2007-08 mid-year budget review staff recommended the allocation of the June 30, 2007 General Fund budget carryover of \$2,906,410 as follows: 1) \$2,000,000 to the Operating Reserve and, 2) \$906,410 to the Capital Projects Reserve.

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

The City's three-year (FY 2007-08 through FY 2009-10) budget projections assumed the \$7.2 million operating reserve will be exhausted as expenses will exceed revenues during this period.

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

The approved FY 2007-08 budget included a limited number of new initiatives approved by Council during the FY 2006-07 mid-year budget review as well as other small investments geared specifically to implementing Council goals including: a Community Safety program, Economic Development program, Police and Fire Reserves programs,

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an increase in Paramedic service levels, a Storm Water (NPDES) Compliance Inspector position, and an increase in contract park and tree maintenance.

Even with only very modest additions, the approved FY 2007-08 General Fund budget drew on reserves in order to maintain current service levels and to recognize the required investment in sworn police officer, firefighter, and non-safety employee compensation levels. It was anticipated that reserves will be needed in each on the next three (3) fiscal years (FY 2007-08, FY 2008-09, and FY 2009-10) in order to maintain services. Consequently, there will be very little discretion in the next couple of years to increase service levels.

The use of reserves was a necessity in the short term and provided further emphasis to the critical importance of the economic development initiative included in the FY 2007-08 budget. The General Fund Operating Reserve was \$5,200,000 (6.6% of operating expenditures) at June 30, 2007. At mid-year FY 2007-08, staff recommended that \$2,000,000 of FY 2006-07 carryover funds be allocated to the operating reserve. The General Fund Operating Reserve will be required to fund recently approved adjusting employee compensation agreements.

The City's three-year (FY 2007-08 through FY 2009-10) budget projections assumes the General Fund \$6.3 million operating reserve will be exhausted as expenses will exceed revenues during this period. In addition to the use of the \$6.3 million operating reserve, a \$2.0 million General Fund carryover (FY 2007-08 budget savings) was required and included in the three-year projections. The actual carryover achieved from FY 2007-08 was \$1,885,100.

General Fund FY 2007-08 mid-year budget adjustments included; a reduction in the General Fund advance to Fairways golf course from \$750,000 to \$700,000; an increase of \$20,000 to the Fire Department training budget per the approved MOU with IAFF; an appropriation of \$31,102 to match the FEMA Fire Department wellness grant; an appropriation of \$35,000 to operate the Firehouse Recreation Center through the end of this fiscal year; an appropriation of \$1,523,600 to cover the cost of MOUs adjusting employee compensation approved after the adoption of the FY 2007-08 budget; and an appropriation of \$890,000 to match the \$2.9 million COPs public safety radio system grant.

As part of the City's budget monitoring process, the City Council and all departments receive a monthly financial report inclusive of revenues, expenditures and encumbrances to date. Council's Finance Committee meets on a bi-weekly to discuss City financial issues and reviews detailed revenue reports on a monthly basis.

During February 2008, with the mid-year budget review, an increase of \$194,127 of Measure V funds was required to cover the cost of MOUs adjusting employee compensation approved after the adoption of the FY 2007-08 budget.

All budget amendments were funded from current year resources.

Resources (inflows) of the General Fund were also amended by Council at mid-year and at year-end reflecting economic changes, State and County actions and other unanticipated factors effecting revenue estimates. Revenue estimates were reduced

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Information
Fiscal Year Ended June 30, 2008

\$23,200 during the fiscal year. Sales Tax and In-lieu Sales Tax revenue estimates were decreased \$400,000, with actual collections reflecting 0.8% reduction over the prior year. With a 7.3% growth in the City's property assessed values, revenue estimates however were reduced overall by \$75,000 for Property Taxes (\$375,000), Supplemental Property Tax was increased (\$200,000) and Property Tax In-lieu of Vehicle License Fees were increased (\$100,000). Intergovernmental revenue estimates were reduced reflecting a reduction in the Motor vehicle In-Lieu receipts. Charges for services were increased for Administrative Fees (\$75,000) and Police False Alarm Fees (\$75,000).

The General Fund fund balance decreased \$5,883,008 to \$23,940,631, of which \$13,728,575 is reserved and \$10,212,056 is unreserved.

The General Fund unreserved fund balance of \$10,212,056 includes designated funds of \$8,326,956 and undesignated funds of \$1,885,100. The designated fund balance of \$8,326,956 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 \$1,885,100 is available for allocation and expenditure at June 30, 2008. General Fund resources available for expenditure at June 30, 2008 total \$11,286,800, including the operating reserve of \$6,345,700, the capital projects reserve of \$3,056,000 and the undesignated fund balance of \$1,885,100. General Fund reserves have been set-aside by Council for specific purposes.

During the Final Budget Adjustments for FY 2007-08 in September 2008, City Council allocated the June 30, 2008 General Fund budget carryover of \$1,885,100 to the Operating Reserve.

After the allocation of the June 30, 2008 budget carryover, General Fund reserves available for expenditure at June 30, 2008 are \$11,286,800, inclusive of a capital projects reserve for projects budgeted in both FY 2008-09 and FY 2009-10 of \$3,056,000, an operating reserve of \$8,230,800.

Measure V is a general tax and is reported as part of the General Fund. The Measure V fund balance decreased \$951,373 to \$5,418,657, of which \$3,622,707 is reserved and \$1,795,950 is unreserved.

The Measure V unreserved fund balance of \$1,795,950 is designated. The designated fund balance includes taxes receivable and interest receivable. These funds are designated for future year budgets, when the funds are available for expenditure.

Measure V reserved fund balance at June 30, 2008 totals \$3,622,707, including reserves for encumbrances of \$184,875, capital projects of \$1,875,000 and carryover capital projects of \$1,562,832. Measure V reserves have been set-aside by Council for specific purposes.

All Measure V funds collected in FY 2007-08 have been spent, encumbered or budgeted for capital projects to be completed in FY 2008-09.

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Information
Fiscal Year Ended June 30, 2008

Housing and Urban Development Fund - The Housing and Urban Development Fund appropriations budget (outflows) was amended during the year to reflect carryover of unspent operating and capital projects appropriations, carryover of encumbrance appropriations and unanticipated expenditure requirements. The amended budget includes operating carryover appropriations of \$1,908,558, capital project carryover appropriations of \$1,607,743 and encumbrance carryover appropriations of \$215,350. The amended budget includes \$36,158 that was appropriated during the fiscal year for to fund negotiated agreements with employee groups. Two other projects were approved by Council during the year and funded from the contingency budget and reduction in other programs or projects including \$40,000 for restroom upgrades at Closter and Central parks and \$12,000 for improvement to all play area at El Gabilan and East Laurel Pocket Parks. These budget amendments were funded from current resources.

Resources (inflows) of the Housing and Urban Development Fund were also amended by Council during the mid-year budget review process. Revenue estimates were increased \$3,651,000 during the fiscal year. This increase resulted from recording carryover grants of \$3,250,200 and decreases in program income of \$400,000.

Development Fees Fund - The Development Fees Fund appropriations budget (outflows) was amended during the year to reflect carryover of unspent capital projects appropriations, carryover of encumbrance appropriations and unanticipated expenditure requirements. The amended budget includes capital project carryover appropriations of \$8,174,130 and encumbrance carryover appropriations of \$433,550. The amended budget includes a net decreased appropriation of \$9,099. The decrease includes projects appropriations cancelled or rebudgeted of \$200,000 coupled with increase appropriations for Lower Natividad Creek Park (\$175,900), Sanborn Road Improvements (\$15,000) coupled with a decrease in the Priority one Storm Sewer Lines (\$200,000). These amendments were funded from current year resources.

Resources (inflows) of the Development Fees Fund were also amended by Council during the mid-year budget review process. Revenue estimates were increased \$461,000 during the fiscal year. This increase resulted from revised estimates for development impact fees, an increase of \$116,000, coupled with an increase in investment earnings of \$345,000.

The Development Fees Fund Balance of \$19,033,740 at July 1, 2008 is budgeted in the City's six-year Capital Improvement Program budget for sewer, storm drain, park, and street improvement projects related to the impact of development.



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CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
General Fund and Measure V
Fiscal Year Ended June 30, 2008

	2008			
	Original Budget	Amended Budget	Actual	Variance with Final Budget
Fund Balance, July 1, 2007	\$ 36,193,669	\$ 36,193,669	\$ 36,193,669	\$ -
Resources (inflows):				
Taxes:				
Sales	18,750,000	17,730,000	17,412,417	(317,583)
In-lieu Sales	5,950,000	6,570,000	5,879,312	(690,688)
Transactions and Use	10,300,000	10,200,000	10,054,855	(145,145)
Property	14,765,000	14,690,000	15,443,345	753,345
Property-Vehicle License Fees	12,000,000	12,100,000	12,100,832	832
Utility	8,550,000	8,725,000	8,696,070	(28,930)
Business License	4,000,000	4,100,000	4,108,990	8,990
Franchise	3,305,000	3,290,000	3,616,537	326,537
Other	1,755,000	1,720,000	1,569,573	(150,427)
Licenses and Permits	35,000	35,000	25,510	(9,490)
Intergovernmental	1,820,500	1,573,200	1,468,949	(104,251)
Charges for Services	5,068,500	5,269,500	5,369,796	100,296
Interest	1,260,500	1,435,500	1,428,475	(7,025)
Miscellaneous	217,500	390,600	409,335	18,735
Operating Transfers In	1,325,000	1,325,000	1,325,000	0
Total Resources	89,102,000	89,153,800	88,908,996	(244,804)
Charges to Appropriations (outflows):				
General Government	11,725,554	12,015,768	11,269,121	746,647
Public Safety	51,237,779	52,537,034	51,822,972	714,062
Public Works	15,717,590	15,783,870	14,536,489	1,247,381
Recreation	3,704,487	3,777,285	3,618,819	158,466
Library	3,663,862	3,733,791	3,246,172	487,619
Capital Outlay	371,400	322,523	275,552	46,971
General Fund Advance Forgiven		4,385,000	4,385,000	
Transfers Out	9,495,907	9,164,841	6,589,252	2,575,589
Total Charges to Appropriations	95,916,579	101,720,112	95,743,377	5,976,735
Excess of Resources Over (Under)				
Charges to Appropriations	(6,814,579)	(12,566,312)	(6,834,381)	5,731,931
Fund Balance, June 30, 2008	\$ 29,379,090	\$ 23,627,357	\$ 29,359,288	\$ 5,731,931

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Measure V Fund
Fiscal Year Ended June 30, 2008

2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2007	\$ 6,370,030	\$ 6,370,030	\$ 6,370,030	\$ -
Resources (inflows):				
Taxes:				
Tranasaction and Use Tax	10,300,000	10,200,000	10,054,855	(145,145)
Interest	75,000	250,000	222,026	(27,974)
Miscellaneous			907	907
Total Resources	<u>10,375,000</u>	<u>10,450,000</u>	<u>10,277,788</u>	<u>(172,212)</u>
Charges to Appropriations (outflows):				
General Government	732,968	750,737	582,914	167,823
Public Safety	2,608,879	2,608,879	2,155,700	453,179
Public Works	1,210,480	1,246,276	999,700	246,576
Recreation	1,146,583	1,156,467	1,048,123	108,344
Library	3,663,862	3,733,791	3,246,172	487,619
Capital Outlay	31,000	58,400	44,717	13,683
Transfers Out	<u>3,801,007</u>	<u>4,876,007</u>	<u>3,151,835</u>	<u>1,724,172</u>
Total Charges to Appropriations	<u>13,194,779</u>	<u>14,430,557</u>	<u>11,229,161</u>	<u>3,201,396</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(2,819,779)</u>	<u>(3,980,557)</u>	<u>(951,373)</u>	<u>3,029,184</u>
Fund Balance, June 30, 2008	<u>\$ 3,550,251</u>	<u>\$ 2,389,473</u>	<u>\$ 5,418,657</u>	<u>\$ 3,029,184</u>

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Housing and Urban Development Fund
Fiscal Year Ended June 30, 2008

	2008			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2007	\$ 376,472	\$ 376,472	\$ 376,472	\$ -
Resources (inflows):				
Intergovernmental	4,507,900	8,542,300	4,867,683	(3,674,617)
Interest	3,000	3,800	2,591	(1,209)
Miscellaneous	650,000	265,800	191,976	(73,824)
Total Resources	<u>5,160,900</u>	<u>8,811,900</u>	<u>5,062,250</u>	<u>(3,749,650)</u>
Charges to Appropriations (outflows):				
General Government	4,451,500	6,876,912	3,142,058	3,734,854
Transfers Out	763,000	2,373,243	2,055,559	317,684
Total Charges to Appropriations	<u>5,214,500</u>	<u>9,250,155</u>	<u>5,197,617</u>	<u>4,052,538</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(53,600)</u>	<u>(438,255)</u>	<u>(135,367)</u>	<u>302,888</u>
Fund Balance, June 30, 2008	<u>\$ 322,872</u>	<u>\$ (61,783)</u>	<u>\$ 241,105</u>	<u>\$ 302,888</u>

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Development Fees Fund
Fiscal Year Ended June 30, 2008

	2008			Variance with Final Budget
	Original Budget	Amended Budget	Actual	
Fund Balance, July 1, 2007	\$ 17,801,183	\$ 17,801,183	\$ 17,801,183	\$ -
Resources (inflows):				
Charges for Services	1,405,500	1,521,500	1,009,939	(511,561)
Interest	430,500	775,500	806,336	30,836
Total Resources	1,836,000	2,297,000	1,816,275	(480,725)
Charges to Appropriations (outflows):				
Transfers Out	3,275,000	11,873,581	583,718	11,289,863
Total Charges to Appropriations	3,275,000	11,873,581	583,718	11,289,863
Excess of Resources Over (Under)				
Charges to Appropriations	(1,439,000)	(9,576,581)	1,232,557	10,809,138
Fund Balance, June 30, 2008	\$ 16,362,183	\$ 8,224,602	\$ 19,033,740	\$ 10,809,138

**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
06/30/06						
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%
06/30/04						
Safety Fire *	996,203,370	885,549,650	110,653,720	88.9%	149,407,703	74.1%
Safety Police	116,203,568	97,161,493	19,042,075	83.6%	11,761,714	161.9%
Miscellaneous	23,116,325	17,781,186	5,335,139	76.9%	10,817,300	49.3%

* As of July 1, 2006 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)
09/01/06	\$ 19,185,746	\$ 10,403,408	\$ 10,403,408	\$ 4,482,434	232.7%	232.1%
09/01/05	18,493,011	12,127,776	12,127,776	4,578,741	264.9%	264.9%
09/01/04	19,586,735	905,792	2,256,661	5,081,482	17.8%	44.4%

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 2006. Effective with September 1, 2006 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, 2006, the unfunded actuarial accrued liability was redetermined to be \$10,403,408 based on the market of plan assets and plan accrued liabilities as of September 1, 2006 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

<u>Actuarial Valuation Date</u>	<u>Present Value of Benefits</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Annual Required Contribution (ARC)</u>	<u>Covered Payroll</u>	<u>ARC as a Percentage Payroll</u>
06/30/06	\$ 23,904,000	\$ 13,954,000	\$ 1,591,000	\$ 37,850,000	4.2%
06/30/05	-	-	-	-	
06/30/04	-	-	-	-	

**CLAIMS DEVELOPMENT
SELF INSURANCE
PROGRAMS**

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net earned required contribution and investment revenues	\$ 4,418,440	\$ 1,410,921	\$	\$	\$	\$	\$	\$	\$	\$
Unallocated expenses	259,995	156,847	22,821	79,270						
Estimated incurred claims and expenses, end of policy year	2,761,397	745,074								
Paid Claims as of:										
End of policy year	2,428,713	726,674								
One year later	2,761,113	726,674								
Two years later	2,761,113	726,674								
Three years later	2,761,113	726,674								
Four years later	2,716,113	726,674								
Five years later	2,716,113	726,674								
Six years later	2,716,113	726,674								
Seven years later	2,716,113	726,674								
Eight years later	2,716,113	726,674								
Nine years later	2,716,113	726,674								
Ten years later	2,716,113									
Reestimated incurred claims and expenses:										
End of policy year	2,761,397	745,074								
One year later	2,761,113	726,674								
Two years later	2,761,113	726,674								
Three years later	2,761,113	726,674								
Four years later	2,761,113	726,674								
Five years later	2,761,113	726,674								
Six years later	2,761,113	726,674								
Seven years later	2,761,113	726,674								
Eight years later	2,761,113	726,674								
Nine years later	2,761,113	726,674								
Ten years later	2,761,113	726,674								

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net earned required contribution and investment revenues	\$ 1,487,027	\$ 1,046,115	\$ 4,761,826	\$ 1,147,873	\$ 4,475,047	\$ 4,149,058	\$ 3,505,072	\$ 2,778,669	\$ 3,164,817	\$ 3,057,272
Unallocated expenses	233,854	242,998	280,917	213,935	238,297	298,405	190,140	333,401	262,483	285,455
Estimated incurred claims and expenses, end of policy year	1,441,423	683,596	1,437,162	803,863	1,638,917	884,881	365,761	573,047	985,428	830,790
Paid Claims as of:										
End of policy year	464,201	226,184	531,327	337,595	523,536	381,349	86,965	172,929	368,902	286,530
One year later	857,419	603,248	967,462	955,731	1,445,346	646,877	598,110	442,713	770,525	
Two years later	1,051,286	841,216	1,525,619	1,285,960	1,315,046	1,258,171	930,440	564,497		
Three years later	1,261,073	1,165,160	2,182,978	1,639,282	2,234,558	1,364,326	1,179,374			
Four years later	1,325,649	1,456,185	2,199,416	1,908,898	2,447,722	1,492,652				
Five years later	1,472,509	2,579,035	2,657,619	2,092,574	2,520,320					
Six years later	995,206	1,904,618	2,745,688	2,208,878						
Seven years later	1,603,979	1,990,157	2,892,935							
Eight years later	1,635,325	2,042,745								
Nine years later	1,875,350									
Ten years later										
Reestimated incurred claims and expenses:										
End of policy year	1,441,423	683,596	1,437,162	803,863	1,638,917	884,881	365,761	573,047	985,428	830,790
One year later	1,608,702	1,422,221	1,701,099	1,733,044	2,795,346	1,417,837	1,474,307	808,841	1,251,434	
Two years later	2,274,635	1,570,347	2,525,806	1,982,692	2,376,572	2,001,544	1,648,658	928,207		
Three years later	1,978,761	1,785,987	3,313,828	2,336,243	2,955,286	2,030,432	1,686,940			
Four years later	1,741,121	2,023,759	3,142,608	2,664,479	3,069,088	1,929,366				
Five years later	1,895,617	3,471,007	3,466,913	2,848,147	3,099,424					
Six years later	1,343,622	2,193,165	3,521,841	2,997,310						
Seven years later	1,828,759	2,255,699	3,754,996							
Eight years later	1,828,603	2,261,500								
Nine years later	2,099,491									
Ten years later										

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net earned required contribution and investment revenues	\$ 154,252	\$ 467,389	\$ 632,196	\$ 849,782	\$ 522,712	\$ 497,091	\$ 792,050	1,070,533	\$ 1,182,409	\$ 892,752
Unallocated expenses	248,128	246,724	267,154	352,255	408,817	416,248	381,750	395,222	376,213	370,771
Estimated incurred claims and expenses, end of policy year	117,426	117,282	157,251	495,393	13,564	18,734	87,777	32,657	30,502	30,502
Paid Claims as of:										
End of policy year	12,408	8,692	2,211	13,724	9,381	12,823	27,599	7,560	17,711	24,230
One year later	70,836	54,067	77,900	55,162	34,073	86,364	174,067	185,850	138,651	
Two years later	181,671	184,800	48,917	75,637	384,408	103,591	627,037	186,424		
Three years later	254,000	520,517	48,917	200,433	438,986	143,679	831,228			
Four years later	224,136	520,517	3,762	576,931	439,507	197,741				
Five years later	224,136	391,866	3,762	587,953	439,507					
Six years later	224,136	391,866	3,762	587,953						
Seven years later	224,136	391,866	3,762							
Eight years later	224,136	391,866								
Nine years later	224,136									
Ten years later	224,136									
Reestimated incurred claims and expenses:										
End of policy year	117,426	117,282	157,251	495,393	13,564	18,734	87,777	32,657	30,502	56,732
One year later	233,623	184,880	96,693	600,238	315,468	90,628	332,764	189,355	297,814	
Two years later	331,228	185,900	60,293	625,823	428,290	125,215	666,564	186,424		
Three years later	256,600	570,517	48,917	722,874	459,677	150,214	852,482			
Four years later	224,136	520,517	3,762	576,931	439,507	203,005				
Five years later	224,136	391,866	3,762	597,355	439,507					
Six years later	224,136	391,866	3,762	587,953						
Seven years later	224,136	391,866	3,762							
Eight years later	224,136									
Nine years later	224,136									
Ten years later	224,136									

**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 revenues 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 and street Maintenance.

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

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

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

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

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

Non-Major Governmental Funds

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

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

Assessment District Reserve Fund - This fund accounts for the reserves on outstanding assessment districts bonds.

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

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

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

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

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

Non-Major Governmental Funds

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

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

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

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

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

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

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

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

CITY OF SALINAS, CALIFORNIA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2008

SPECIAL REVENUE FUNDS

	Emergency Medical Services	Asset Seizure	Lighting, Landscape and Maintenance District	Local Public Safety	Gas Tax
Assets:					
Cash and Investments	\$ 41,873	\$ 18,903	\$ 1,452,573	\$ 113,190	\$ 3,132,308
Cash and Investments Restricted	-	-	-	-	-
Accounts Receivable	-	-	9,008	-	-
Interest Receivable	-	200	9,319	865	24,293
Due from Other Agencies	75,000	-	-	314,814	835,713
Due from Fiduciary Funds	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Advance to Redevelopment	-	-	-	-	-
Loans Receivable	-	-	-	-	-
Land Held for Resale	-	-	-	-	-
Total Assets	\$ 116,873	\$ 19,103	\$ 1,470,900	\$ 428,869	\$ 3,992,314
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	\$ 25,355	\$ 851	\$ 25,447	\$ 33,264	\$ -
Due to Other Funds	-	-	24,970	167,107	126,291
Advance from Other Funds	-	-	-	-	-
Deferred Revenues	-	-	-	18,920	-
Total Liabilities	25,355	851	50,417	219,291	126,291
Fund Balances:					
Reserved for:					
Encumbrances	-	-	22,545	8,437	212,067
Future Budgets	-	-	-	-	-
Advances	-	-	-	-	-
Carryover Appropriations	-	-	-	-	2,144,826
Land	-	-	-	-	-
Debt Service	-	-	-	-	-
Parking Structure	-	-	-	-	-
Plaza Grande Operations	-	-	-	-	-
Loans Receivable	-	-	-	-	-
Unreserved:					
Reported in SR	91,518	18,252	1,397,938	201,141	1,509,130
Reported in CP	-	-	-	-	-
Reported in DS	-	-	-	-	-
Total Fund Balances	91,518	18,252	1,420,483	209,578	3,866,023
Total Liabilities and Fund Balances	\$ 116,873	\$ 19,103	\$ 1,470,900	\$ 428,869	\$ 3,992,314

SPECIAL REVENUE FUNDS

Vehicle Abatement	Traffic Safety	Recreation Parks	Housing Trust	Grants	Central City Housing	Sunset Avenue Merged Housing
\$ 12,495	\$ 263,556	\$ 223,205	\$ 199,734	\$ 50,735	\$ 3,049,530	\$ 2,452,809
-	-	-	-	-	-	-
-	-	-	-	720	-	-
-	-	-	-	-	19,834	255,551
-	65,775	-	-	67,967	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	108,072	-
-	-	-	-	-	2,714,287	2,134,500
-	-	-	-	-	500,431	300,000
\$ 12,495	\$ 329,331	\$ 223,205	\$ 199,734	\$ 119,422	\$ 6,392,154	\$ 5,142,860
\$ 6,237	\$ -	\$ -	\$ -	\$ 13,164	\$ 5,662	\$ 4,794
-	-	-	-	59,678	-	-
-	-	-	-	-	-	-
-	-	-	-	1,094	-	238,912
6,237	-	-	-	73,936	5,662	243,706
-	-	-	-	21,540	1,000	2,000
-	-	-	-	-	2,764,402	2,462,654
-	-	-	-	-	108,072	-
-	-	-	-	-	-	-
-	-	-	-	-	298,300	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	500,431	300,000
-	-	-	-	-	2,714,287	2,134,500
6,258	329,331	223,205	199,734	23,946	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
6,258	329,331	223,205	199,734	45,486	6,386,492	4,899,154
\$ 12,495	\$ 329,331	\$ 223,205	\$ 199,734	\$ 119,422	\$ 6,392,154	\$ 5,142,860

Continued

**CITY OF SALINAS, CALIFORNIA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008**

DEBT SERVICE FUNDS

	Assessment District Reserve	Assessment District Administration	Certificates of Participation (2005 B)	Certificates of Participation (1999)
Assets:				
Cash and Investments	\$ 3,006,121	\$ 65,965	\$ 74,205	\$ 9,528
Cash and Investments Restricted	-	-	818,810	101,337
Accounts Receivable	-	-	-	-
Interest Receivable	14,641	-	10,962	1,375
Due from Other Agencies	-	-	-	-
Due from Fiduciary Funds	-	-	-	-
Due from Other Funds	-	-	-	-
Advance to Redevelopment	-	-	-	-
Loans Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Total Assets	\$ 3,020,762	\$ 65,965	\$ 903,977	\$ 112,240
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	\$ -	\$ 1,507	\$ 100	\$ 21
Due to Other Funds	-	-	-	-
Advance from Other Funds	-	-	-	-
Deferred Revenues	-	-	-	-
Total Liabilities	-	1,507	100	21
Fund Balances:				
Reserved for:				
Encumbrances	-	-	-	-
Future Budgets	-	-	-	-
Advances	-	-	-	-
Carryover Appropriations	-	-	-	-
Land	-	-	-	-
Debt Service	3,020,762	64,458	903,877	112,219
Parking Structure	-	-	-	-
Plaza Grande Operations	-	-	-	-
Loans Receivable	-	-	-	-
Unreserved:				
Reported in SR	-	-	-	-
Reported in CP	-	-	-	-
Reported in DS	-	-	-	-
Total Fund Balances	3,020,762	64,458	903,877	112,219
Total Liabilities and Fund Balances	\$ 3,020,762	\$ 65,965	\$ 903,977	\$ 112,240

DEBT SERVICE FUNDS

Certificates of Participation (2002)	Central City Debt Service	Sunset Avenue Merged Debt Service
\$ -	\$ 1,636,801	\$ 2,861,629
192,066	1,554,610	-
28,735	-	-
3,396	-	22,363
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>224,197</u>	<u>3,191,411</u>	<u>2,883,992</u>
\$ 100	\$ -	\$ 212,450
25,653	-	-
-	108,072	-
-	-	-
<u>25,753</u>	<u>108,072</u>	<u>212,450</u>
-	-	-
-	-	-
-	-	-
-	-	-
198,444	1,948,339	2,671,542
-	1,135,000	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>198,444</u>	<u>3,083,339</u>	<u>2,671,542</u>
<u>\$ 224,197</u>	<u>\$ 3,191,411</u>	<u>\$ 2,883,992</u>

Continued

CITY OF SALINAS, CALIFORNIA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2008

CAPITAL PROJECT FUNDS

	Special Aviation	Capital Projects	Assessment District Projects	Central City Project	Sunset Avenue Merged Project	Total Nonmajor Funds
Assets:						
Cash and Investments	\$ 1,816,832	\$ 1,935,923	\$ 1,172,100	\$ 709,138	\$ 153,096	\$ 24,452,249
Cash and Investments Restricted	-	-	-	-	57,027	2,723,850
Accounts Receivable	-	-	-	-	-	38,463
Interest Receivable	13,311	-	7,920	19,368	-	403,398
Due from Other Agencies	243,876	-	-	-	-	1,603,145
Due from Fiduciary Funds	-	-	-	-	-	-
Due from Other Funds	-	1,183,074	-	-	-	1,183,074
Advance to Redevelopment	-	-	-	-	-	108,072
Loans Receivable	-	-	-	314,255	-	5,163,042
Land Held for Resale	-	-	-	941,277	850,000	2,591,708
Total Assets	\$ 2,074,019	\$ 3,118,997	\$ 1,180,020	\$ 1,984,038	\$ 1,060,123	\$ 38,267,001
Liabilities and Fund Balances:						
Liabilities:						
Accounts Payable	\$ 2,540	\$ 1,119,024	\$ -	\$ 20,833	\$ 22,424	\$ 1,493,773
Due to Other Funds	-	-	-	3,315	50,653	457,667
Advance from Other Funds	-	-	-	-	-	108,072
Deferred Revenues	-	-	-	-	-	258,926
Total Liabilities	2,540	1,119,024	-	24,148	73,077	2,318,438
Fund Balances:						
Reserved for:						
Encumbrances	-	-	-	13,242	79,858	360,689
Future Budgets	-	-	-	691,116	57,188	5,975,360
Advances	-	-	-	-	-	108,072
Carryover Appropriations	-	-	-	-	-	2,144,826
Land	-	-	-	941,277	850,000	2,089,577
Debt Service	-	-	-	-	-	8,919,641
Parking Structure	-	-	-	-	-	1,135,000
Plaza Grande Operations	-	-	-	-	-	800,431
Loans Receivable	-	-	-	314,255	-	5,163,042
Unreserved:						
Reported in SR	-	-	-	-	-	4,000,453
Reported in CP	2,071,479	1,999,973	1,180,020	-	-	5,251,472
Reported in DS	-	-	-	-	-	-
Total Fund Balances	2,071,479	1,999,973	1,180,020	1,959,890	987,046	35,948,563
Total Liabilities and Fund Balances	\$ 2,074,019	\$ 3,118,997	\$ 1,180,020	\$ 1,984,038	\$ 1,060,123	\$ 38,267,001

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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, 2008**

	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	\$ -	\$ -	\$ -	\$ 409,702	\$ -
Special Assessments	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Intergovernmental	301,983	-	-	771,209	2,729,444
Charges for Services	-	-	1,411,287	-	-
Interest	-	1,552	36,361	3,748	177,392
Fines and Forfeits	-	31,381	-	-	-
Developer Contributions	-	-	-	-	-
Miscellaneous	-	-	-	-	2,028
Total Revenues	<u>301,983</u>	<u>32,933</u>	<u>1,447,648</u>	<u>1,184,659</u>	<u>2,908,864</u>
Expenditures:					
Current:					
General Government	-	-	-	-	-
Public Safety	779,724	44,959	-	947,528	-
Public Works	-	-	-	-	-
Recreation	-	-	852,461	-	-
Library	-	-	-	-	-
Parking Structure Debt	-	-	-	-	-
Capital Outlay	-	-	-	80,528	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Pass Through Tax	-	-	-	-	-
Total Expenditures	<u>779,724</u>	<u>44,959</u>	<u>852,461</u>	<u>1,028,056</u>	<u>-</u>
Excess(Deficiency) of Revenues Over(Under) Expenditures	<u>(477,741)</u>	<u>(12,026)</u>	<u>595,187</u>	<u>156,603</u>	<u>2,908,864</u>
Other Financing Sources (Uses):					
Loan Proceeds	-	-	-	-	-
Land Deeded to Agency	-	-	-	-	-
Gain on Sale of Land	-	-	-	-	-
Loans Receivable Forgiven	-	-	-	-	-
Operating Transfers In	472,500	-	-	-	-
Operating Transfers Out	(18,000)	-	-	(108,205)	(2,808,785)
Total Other Financing Sources(Uses)	<u>454,500</u>	<u>-</u>	<u>-</u>	<u>(108,205)</u>	<u>(2,808,785)</u>
Excess (Deficiency) of Revenues and Other Sources Over(Under) Expenditures and Other Uses	<u>(23,241)</u>	<u>(12,026)</u>	<u>595,187</u>	<u>48,398</u>	<u>100,079</u>
Fund Balances at Beginning of Year	<u>114,759</u>	<u>30,278</u>	<u>825,296</u>	<u>161,180</u>	<u>3,765,944</u>
Fund Balances at End of Year	<u>\$ 91,518</u>	<u>\$ 18,252</u>	<u>\$ 1,420,483</u>	<u>\$ 209,578</u>	<u>\$ 3,866,023</u>

Vehicle Abatement Fund	Traffic Safety Fund	Recreation Parks Fund	Housing Trust Fund	Grants Fund	Central City Housing Fund	Sunset Avenue Merged Housing Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
80,889	-	-	-	450,107	9,474	-
-	-	-	-	-	-	-
-	-	-	-	-	129,714	100,370
-	908,920	-	-	-	-	-
-	-	-	-	-	-	-
-	-	18,567	-	-	2,604	-
<u>80,889</u>	<u>908,920</u>	<u>18,567</u>	<u>-</u>	<u>450,107</u>	<u>141,792</u>	<u>100,370</u>
-	-	-	135,006	53,631	155,885	112,365
184,395	-	-	-	2,305	-	-
-	-	-	-	-	-	-
-	-	-	-	185,172	-	-
-	-	-	-	99,903	-	-
-	-	-	-	-	-	-
-	-	-	-	88,361	8,296	7,799
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>184,395</u>	<u>-</u>	<u>-</u>	<u>135,006</u>	<u>429,372</u>	<u>164,181</u>	<u>120,164</u>
<u>(103,506)</u>	<u>908,920</u>	<u>18,567</u>	<u>(135,006)</u>	<u>20,735</u>	<u>(22,389)</u>	<u>(19,794)</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	69,776	-
-	-	-	-	-	(36,000)	-
90,000	-	-	-	41,726	644,989	597,537
-	(900,000)	-	-	(40,150)	(240,213)	-
<u>90,000</u>	<u>(900,000)</u>	<u>-</u>	<u>-</u>	<u>1,576</u>	<u>438,552</u>	<u>597,537</u>
<u>(13,506)</u>	<u>8,920</u>	<u>18,567</u>	<u>(135,006)</u>	<u>22,311</u>	<u>416,163</u>	<u>577,743</u>
<u>19,764</u>	<u>320,411</u>	<u>204,638</u>	<u>334,740</u>	<u>23,175</u>	<u>5,970,329</u>	<u>4,321,411</u>
<u>\$ 6,258</u>	<u>\$ 329,331</u>	<u>\$ 223,205</u>	<u>\$ 199,734</u>	<u>\$ 45,486</u>	<u>\$ 6,386,492</u>	<u>\$ 4,899,154</u>

Continued

**CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
FOR FISCAL YEAR ENDED JUNE 30, 2008**

	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	-	57,979	-	-
Interest	122,724	-	35,219	5,271
Fines and Forfeits	-	-	-	-
Developer Contributions	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	<u>122,724</u>	<u>57,979</u>	<u>35,219</u>	<u>5,271</u>
Expenditures:				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	-
Public Works	-	-	-	-
Recreation	-	-	-	-
Library	-	-	-	-
Parking Structure Debt	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal Retirement	-	-	355,000	36,138
Interest and Fiscal Charges	-	58,557	442,510	51,446
Pass Through Tax	-	-	-	-
Total Expenditures	<u>-</u>	<u>58,557</u>	<u>797,510</u>	<u>87,584</u>
Excess(Deficiency) of Revenues				
Over(Under) Expenditures	<u>122,724</u>	<u>(578)</u>	<u>(762,291)</u>	<u>(82,313)</u>
Other Financing Sources (Uses):				
Loan Proceeds	-	-	-	-
Land Deeded to Agency	-	-	-	-
Gain on Sale of Land	-	-	-	-
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>122,724</u>	<u>(578)</u>	<u>(7,194)</u>	<u>1,687</u>
Fund Balances at Beginning of Year	<u>2,898,038</u>	<u>65,036</u>	<u>911,071</u>	<u>110,532</u>
Fund Balances at End of Year	<u>\$ 3,020,762</u>	<u>\$ 64,458</u>	<u>\$ 903,877</u>	<u>\$ 112,219</u>

DEBT SERVICE FUNDS

Certificates of Participation (2002) Fund	Central City Debt Service Fund	Sunset Avenue Merged Debt Service Fund
\$ -	\$ 3,224,943	\$ 2,987,685
-	-	-
-	-	-
-	-	-
10,355	85,558	123,791
-	-	-
-	-	-
178,644	-	-
<u>188,999</u>	<u>3,310,501</u>	<u>3,111,476</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	1,050,000	-
-	-	-
60,000	745,739	2,034,000
127,323	717,575	27,721
-	181,806	781,611
<u>187,323</u>	<u>2,695,120</u>	<u>2,843,332</u>
1,676	615,381	268,144
-	-	-
-	-	-
-	-	-
-	240,213	-
-	(644,989)	(597,537)
-	<u>(404,776)</u>	<u>(597,537)</u>
1,676	210,605	(329,393)
<u>196,768</u>	<u>2,872,734</u>	<u>3,000,935</u>
<u>\$ 198,444</u>	<u>\$ 3,083,339</u>	<u>\$ 2,671,542</u>

Continued

**CITY OF SALINAS, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
FOR FISCAL YEAR ENDED JUNE 30, 2008**

CAPITAL PROJECTS FUNDS

	Special Aviation Fund	Capital Projects	Assessment District Project Fund	Central City Project Fund	Sunset Avenue Merged Project Fund	Total
Revenues:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,822,330
Special Assessments	-	-	-	-	-	-
Licenses and Permits	-	-	-	-	-	-
Intergovernmental	300,543	-	-	-	-	4,643,649
Charges for Services	-	-	-	-	-	1,469,266
Interest	82,938	-	49,817	94,098	412	1,059,320
Fines and Forfeits	-	-	-	-	-	940,301
Developer Contributions	-	-	-	-	-	-
Miscellaneous	-	-	-	33,554	1,486	236,883
Total Revenues	<u>383,481</u>	<u>-</u>	<u>\$ 49,817</u>	<u>127,652</u>	<u>1,898</u>	<u>14,971,749</u>
Expenditures:						
Current:						
General Government	-	-	-	-	-	456,887
Public Safety	-	-	-	-	-	1,958,911
Public Works	-	-	-	-	-	-
Recreation	-	-	-	-	-	1,037,633
Library	-	-	-	-	-	99,903
Parking Structure Debt	-	-	-	-	-	1,050,000
Capital Outlay	244,506	11,117,892	-	494,075	1,059,702	13,101,159
Debt Service:						
Principal Retirement	-	-	-	-	31,739	3,262,616
Interest and Fiscal Charges	-	-	-	-	19,376	1,444,508
Pass Through Tax	-	-	-	-	-	963,417
Total Expenditures	<u>244,506</u>	<u>11,117,892</u>	<u>-</u>	<u>494,075</u>	<u>1,110,817</u>	<u>23,375,034</u>
Excess(Deficiency) of Revenues Over(Under) Expenditures	<u>138,975</u>	<u>(11,117,892)</u>	<u>49,817</u>	<u>(366,423)</u>	<u>(1,108,919)</u>	<u>(8,403,285)</u>
Other Financing Sources (Uses):						
Loan Proceeds	-	-	-	-	2,034,000	2,034,000
Land Deeded to Agency	-	-	-	52,400	-	52,400
Gain on Sale of Land	-	-	-	-	-	69,776
Loans Receivable Forgiven	-	-	-	-	-	(36,000)
Operating Transfers In	-	11,117,892	-	-	-	14,043,954
Operating Transfers Out	-	-	-	-	-	(5,357,879)
Total Other Financing Sources(Uses)	<u>-</u>	<u>11,117,892</u>	<u>-</u>	<u>52,400</u>	<u>2,034,000</u>	<u>10,806,251</u>
Excess (Deficiency) of Revenues and Other Sources Over(Under) Expenditures and Other Uses	<u>138,975</u>	<u>-</u>	<u>49,817</u>	<u>(314,023)</u>	<u>925,081</u>	<u>2,402,966</u>
Fund Balances at Beginning of Year	<u>1,932,504</u>	<u>1,999,973</u>	<u>1,130,203</u>	<u>2,273,913</u>	<u>61,965</u>	<u>33,545,597</u>
Fund Balances at End of Year	<u>\$ 2,071,479</u>	<u>\$ 1,999,973</u>	<u>\$ 1,180,020</u>	<u>\$ 1,959,890</u>	<u>\$ 987,046</u>	<u>\$ 35,948,563</u>

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 general liability insurance program.

CITY OF SALINAS
Combining Statement of Net Assets
Internal Service Funds
June 30, 2008

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Assets:					
Current Assets:					
Cash and Investments	\$ 106,831	\$ 438,082	\$ 8,371,809	\$ 2,321,065	\$ 11,237,787
Cash and Investments Restricted	-	-	305,689	98,728	404,417
Accounts Receivable		530			530
Interest Receivable	-	-	58,836	15,241	74,077
Due from General Fund	-	-	-	-	-
Total Assets	106,831	438,612	8,736,334	2,435,034	11,716,811
Liabilities:					
Current Liabilities:					
Accounts Payable	4,720	16,016	22,774	-	43,510
Insurance Claims Payable	-	-	8,713,560	481,492	9,195,052
Total Current Liabilities	4,720	16,016	8,736,334	481,492	9,238,562
Noncurrent Liabilities:					
Accrued Leave	23,916	-	-	-	23,916
Total Noncurrent Liabilities	23,916	-	-	-	23,916
Total Liabilities	28,636	16,016	8,736,334	481,492	9,262,478
Net Assets:					
Invested in Capital Assets	-	-	-	-	-
Restricted	-	15,850	-	-	15,850
Unrestricted	78,195	406,746	-	1,953,542	2,438,483
Total Net Assets	\$ 78,195	\$ 422,596	\$ -	\$ 1,953,542	\$ 2,454,333

CITY OF SALINAS
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds
For Fiscal Year Ended June 30, 2008

	<u>Risk Management Fund</u>	<u>General Insurance Fund</u>	<u>Workers Compensation Fund</u>	<u>General Liability Fund</u>	<u>Totals</u>
Operating Revenues:					
Charges for Services	\$ 300,000	\$ 518,855	\$ 2,689,042	\$ 800,065	\$ 4,307,962
Total Operating Revenues	<u>300,000</u>	<u>518,855</u>	<u>2,689,042</u>	<u>800,065</u>	<u>4,307,962</u>
Operating Expenses:					
Personnel Services	261,830	-	-	-	261,830
Contractual Services	20,629	118,033	285,455	50,050	474,167
Supplies	2,785	-	-	-	2,785
Insurance	-	306,983	381,632	320,721	1,009,336
Insurance Claims	-	127,407	2,093,131	389,865	2,610,403
Other	3,396	-	297,053	-	300,449
Total Operating Expenses	<u>288,640</u>	<u>552,423</u>	<u>3,057,271</u>	<u>760,636</u>	<u>4,658,970</u>
Operating Income (Loss)	<u>11,360</u>	<u>(33,568)</u>	<u>(368,229)</u>	<u>39,429</u>	<u>(351,008)</u>
Nonoperating Revenues:					
Interest	-	-	368,229	92,687	460,916
Total Nonoperating Revenues	<u>-</u>	<u>-</u>	<u>368,229</u>	<u>92,687</u>	<u>460,916</u>
Income (Loss) Before Transfers	11,360	(33,568)	-	132,116	109,908
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	11,360	(33,568)	-	132,116	109,908
Total Net Assets-Beginning	<u>66,835</u>	<u>456,164</u>	<u>-</u>	<u>1,821,426</u>	<u>2,344,425</u>
Total Net Assets-Ending	<u>\$ 78,195</u>	<u>\$ 422,596</u>	<u>\$ -</u>	<u>\$ 1,953,542</u>	<u>\$ 2,454,333</u>

CITY OF SALINAS
Combining Statement of Cash Flows
Internal Service Funds
For Fiscal Year Ended June 30, 2008

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Cash Flows from Operating Activities:					
Receipts from Customers and Users	\$ -	\$ 68,325	\$ 150,571	\$ 65	\$ 218,961
Receipts from interfund services provided	300,000	450,000	2,689,042	800,000	4,239,042
Payments to Suppliers	(33,607)	(428,092)	(667,087)	(370,771)	(1,499,557)
Payments to Employees	(263,977)	-	-	-	(263,977)
Payments to Claimants	-	(128,008)	(2,347,487)	(393,371)	(2,868,866)
Net Cash Provided (Used) by Operating Activities	<u>2,416</u>	<u>(37,775)</u>	<u>(174,961)</u>	<u>35,923</u>	<u>(174,397)</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	-	-	395,394	97,766	493,160
(Decrease) in Fair Value of Investments	-	-	2,593	604	3,197
Transfer (to) from Restricted Cash	-	-	98,665	75	98,740
Net Cash Provided by (Used for) Investing Activities	<u>-</u>	<u>-</u>	<u>496,652</u>	<u>98,445</u>	<u>595,097</u>
Net Increase(Decrease) in Cash and Cash Equivalents	2,416	(37,775)	321,691	134,368	420,700
Cash and Cash Equivalents - Beginning of Year	<u>104,415</u>	<u>475,857</u>	<u>8,050,118</u>	<u>2,186,697</u>	<u>10,817,087</u>
Cash and Cash Equivalents - End 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>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating Income (Loss)	\$ 11,360	\$ (33,568)	\$ (368,229)	\$ 39,429	\$ (351,008)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:					
(Increase) Decrease in Accounts Receivable	-	-	-	-	-
(Increase) Decrease in Due from General Func	-	(530)	-	-	(530)
Increase (Decrease) in Accounts Payable	(8,440)	(3,677)	3,766	-	(8,351)
Increase (Decrease) in Insurance Claims	-	-	189,502	(3,506)	185,996
Increase (Decrease) in Accrued Leave	(504)	-	-	-	(504)
Increase (Decrease) in Restricted Cash	-	-	(98,665)	(75)	(98,740)
Transfer (to) from Restricted Cash	-	-	98,665	75	98,740
Total Adjustments to Net Income	<u>(8,944)</u>	<u>(4,207)</u>	<u>193,268</u>	<u>(3,506)</u>	<u>176,611</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,416</u>	<u>\$ (37,775)</u>	<u>\$ (174,961)</u>	<u>\$ 35,923</u>	<u>\$ (174,397)</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, 2008

	Sherwood Hall Box Office	Sunrise House	Second Chance Youth Program	Cafeteria Plan	Retiree Health Insurance	Business Improvement District	Totals
Assets:							
Cash and Investments	\$ 22,519	\$ 182,197	\$ -	\$ 82,897	\$ 1	\$ 3,219	\$ 290,833
Accounts Receivable	-	-	-	114,154	-	-	114,154
Due from Other Agencies	-	3,467	285,180	-	-	-	288,647
Interes Receivable		1,131					1,131
Total Assets	<u>\$ 22,519</u>	<u>\$ 186,795</u>	<u>\$ 285,180</u>	<u>\$ 197,051</u>	<u>\$ 1</u>	<u>\$ 3,219</u>	<u>\$ 694,765</u>
Liabilities:							
Accounts Payable	\$ 17,873	\$ 18,273	\$ 15,705	\$ 142,245	\$ -	\$ -	\$ 194,096
Accrued Leave	-	4,617	7,693	-	-	-	12,310
Due to Outside Agencies	-	-	79,567	-	-	177	79,744
Accrued Liabilities	4,646	163,905	182,215	54,806	1	3,042	408,615
Total Liabilities	<u>\$ 22,519</u>	<u>\$ 186,795</u>	<u>\$ 285,180</u>	<u>\$ 197,051</u>	<u>\$ 1</u>	<u>\$ 3,219</u>	<u>\$ 694,765</u>

**GENERAL
and
MEASURE V FUNDS**

**CITY OF SALINAS, CALIFORNIA
GENERAL AND MEASURE V FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008**

	<u>General Fund</u>	<u>Measure V</u>	<u>Total</u>
Assets:			
Cash and Investments	\$ 19,836,999	\$ 4,397,803	\$ 24,234,802
Taxes Receivable	6,554,934	1,841,516	8,396,450
Accounts Receivable	100,293		100,293
Interest Receivable	223,562	31,880	255,442
Due from Fiduciary Funds	79,567		79,567
Due from Other Funds	1,405,867		1,405,867
Advances to Other Funds:			
Parking District Fund	900,000		900,000
Loans to Others	29,800		29,800
Inventory	19,576		19,576
	<u>29,150,598</u>	<u>6,271,199</u>	<u>35,421,797</u>
Total Assets	\$ 29,150,598	\$ 6,271,199	\$ 35,421,797
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable	\$ 5,001,992	\$ 690,407	\$ 5,692,399
Due to Capital Projects Fund	207,975	162,135	370,110
	<u>5,209,967</u>	<u>852,542</u>	<u>6,062,509</u>
Total Liabilities	5,209,967	852,542	6,062,509
Fund Balance:			
Reserved for:			
Operations	6,345,700		6,345,700
Capital Projects	3,056,000		3,056,000
Capital Projects-Measure V		1,875,000	1,875,000
Encumbrances	582,018	184,875	766,893
Loans Receivable	29,800		29,800
Advances	900,000		900,000
Inventory	19,576		19,576
Condemnation Deposits	55,100		55,100
Carry over Appropriations	2,740,381	1,562,832	4,303,213
Unreserved:			
Designated	8,326,956	1,795,950	10,122,906
Undesignated	1,885,100		1,885,100
	<u>23,940,631</u>	<u>5,418,657</u>	<u>29,359,288</u>
Total Fund Balance	23,940,631	5,418,657	29,359,288
Total Liabilities and Fund Balances	\$ 29,150,598	\$ 6,271,199	\$ 35,421,797

**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, 2008**

	<u>General Fund</u>	<u>Measure V</u>	<u>Total</u>
Revenues:			
Taxes:			
Sales	\$ 17,412,417	\$	\$ 17,412,417
In-lieu Sales	5,879,312		5,879,312
Transactions and Use Tax		10,054,855	10,054,855
Property	15,443,345		15,443,345
Property-Vehicle License Fees	12,100,832		12,100,832
Utility	8,696,070		8,696,070
Business License	4,108,990		4,108,990
Franchise	3,616,537		3,616,537
Other	1,569,573		1,569,573
Licenses and Permits	25,510		25,510
Intergovernmental	1,468,949		1,468,949
Charges for Services	5,369,796		5,369,796
Interest	1,206,449	222,026	1,428,475
Miscellaneous	408,428	907	409,335
Total Revenues	<u>77,306,208</u>	<u>10,277,788</u>	<u>87,583,996</u>
Expenditures:			
Current:			
General Government	10,686,207	582,914	11,269,121
Public Safety	49,667,272	2,155,700	51,822,972
Public Works	13,536,789	999,700	14,536,489
Recreation	2,570,696	1,048,123	3,618,819
Library		3,246,172	3,246,172
Capital Outlay	230,835	44,717	275,552
Total Expenditures	<u>76,691,799</u>	<u>8,077,326</u>	<u>84,769,125</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>614,409</u>	<u>2,200,462</u>	<u>2,814,871</u>
Other Financing Sources (Uses):			
Operating Transfers In	1,325,000		1,325,000
General Fund Advance Forgiven	(4,385,000)		(4,385,000)
Operating Transfers Out	(3,437,417)	(3,151,835)	(6,589,252)
Total Other Financing Sources (Uses)	<u>(6,497,417)</u>	<u>(3,151,835)</u>	<u>(9,649,252)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(5,883,008)</u>	<u>(951,373)</u>	<u>(6,834,381)</u>
Fund Balance at Beginning of Year	<u>29,823,639</u>	<u>6,370,030</u>	<u>36,193,669</u>
Fund Balance at End of Year	<u>\$ 23,940,631</u>	<u>\$ 5,418,657</u>	<u>\$ 29,359,288</u>



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Appendix A

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, 2008

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, 2008

<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 Entitlement Grants	14.218	B05MCO-6005	\$ 527,145
	14.218	B06MCO-6005	2,550,674
	14.218	B07MCO-6005	394,983
Program Income			<u>87,361</u>
Total CFDA No. 14.218			3,560,163
Emergency Shelter Grants Program	14.231	S07MCO-60005	110,004
Home Investment Partnerships Program	14.239	M04MCO-60212	246,200
	14.239	M05MCO-60212	238,678
	14.239	M07MCO-60212	799,999
Program Income			<u>104,153</u>
Total CFDA No. 14.239			1,389,030
Economic Development Initiative-Special Project	14.251	B01SP-CA0091	390,852
	14.251	B02SP-CA0096	300,000
	14.251	B03SP-CA0099	268,245
	14.251	B04SP-CA0111	<u>277,997</u>
Total CFDA No. 14.251			1,237,094
U.S. Department of Justice			
Office of Juvenile Justice and Delinquency Prevention			
Developing, Testing and Demonstrating			
Promising New Programs	16.541	2005JVFX-0001	17,426

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, 2008

<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, continued			
Office of Community Oriented Policing Services			
Public Safety Partnership and Community Policing Grant	16.710	2005CKWX-0067 2007CKWX-0025	\$ 92,993 <u>11,883</u>
Total CFDA No. 16.710			104,876
Bureau of Justice Assistance, Office of Justice Prgrms.			
Community Capacity Development Office			
	16.595	2006WSQ6-0152	61,593
	16.595	2007WSQ7-0006	<u>122,713</u>
Total CFDA No. 16.595			184,306
Gang Resistance Education & Training	16.737	2006JVFX-0038	4,754
Edward Byrne Memorial Justice Assistance Grant Program			
	16.738	2006DJBX-0492	81,378
	16.738	2007DJBX-0540	<u>13,493</u>
Total CFDA No. 16.738			94,871
U.S. Department of Transportation			
Federal Aviation Administration			
Airport Improvement Program	20.106	AIP306-0206-12/13 AIP306-0206-14 AIP306-0206-15	631 235,995 <u>7,881</u>
Total CFDA No. 20.106			244,507

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, 2008

Federal Grantor, Pass Through Control, Program Title	CFDA Number	Grant or Pass- Through Number	Program Expenditures
U.S. Department of Homeland Security Assistance to Firefighters Grant	97.044	EMW2007-FO10606	\$ 72,533
Total Direct Expenditures of Federal Awards			7,019,564
Pass Through Awards from the State of California			
U.S. Department of Justice Bureau of Justice Assistance, Office of Justice Prgrms. Community Prosecution and Project Safe Neighborhoods	16.609	US03017902	7,441
U.S. Department of Transportation State and Community Highway Safety	20.600	CT08358 AL0568 AL0748	10,544 19,965 56,831
Total CFDA No. 20.600			87,340
Total Pass Through Awards from the State of Calif.			94,781
Pass Through Awards from the Transportation Agency for Monterey County			
U.S. Department of Transportation Federal Transit Admin., Federal Transit Formula Grant	20.507	CA-03-0717	253
Pass Through Awards from Salinas Unified High School Dist.			
U.S. Department of Education Fund for Improvement of Education	84-215	Q215F041039	865
Total Pass Through Awards			95,899
Total Expenditures of Federal Awards			\$ 7,115,463

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, 2008

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	14.218	\$ 266,000
Emergency Shelter Grants Program	14.231	110,004
HOME Investment Partnership Program	14.239	<u>1,054,942</u>
Total sub-recipient awards		<u>\$1,430,946</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, 2008, which collectively comprise the City of Salinas' basic financial statements and have issued our report thereon dated March 25, 2009. 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.

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*.

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, Broom & Kaufman

March 25, 2009

McGILLOWAY, RAY, BROWN & KAUFMAN

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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, 2008. 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 and provisions 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 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item numbers 2008-1 and 2008-2.

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, 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.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the City of Salinas' internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item numbers 2008-1 and 2008-2 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The 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, 2008, and have issued our report thereon dated March 25, 2009. Our audit was conducted 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 25, 2009

CITY OF SALINAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the fiscal year ended June 30, 2008

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X 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? X Yes _____ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	U.S. Department of Housing and Urban Development Community Planning and Development Home Investment Partnership Program
14.251	U.S. Department of Housing and Urban Development Community Planning and Development Economic Development Initiative – Special Project
16.710	U.S. Department of Justice Office of Community Oriented Policing Services Public Safety Partnership and Community Policing Grant

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement Findings

There are no findings on the financial statements audit.

Section III – Federal Award Findings and Questioned Costs

1. U.S. Department of Housing and Urban Development, Home Partnership Investment Program Grant Program – There are no findings or questioned costs.
2. U.S. Department of Housing and Urban Development, Economic Development Initiative Special Project Grant Program, Federal Program CFDA Number 14.251, Federal Award Number B04SP-CA0111, **Finding Number 2008-1.**
 - 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 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.

- 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.
 - Views of responsible officials and planned corrective actions Staff agrees with finding and believes this is an isolated instance of non-compliance. Staff is working with HUD to reopen EDI grant to reallocate administrative costs. Staff will establish procedures to improve monitoring and oversight of expenses, including line-item review of contractor invoices for grant compliance.
3. 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 2005CKWX-0067, **Finding Number 2008-2.**
- 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 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.
- 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 requesting 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.
- 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.

Findings and Questioned Costs – Prior Year Audit

There were no findings or questioned costs on the prior year audit.

Appendix B

Name of Organization: City of Salinas
Audit Firm: McGilloway, Ray, Brown & Kaufman
Accountants and Consultants
Audit Period: June 30, 2008
Finding: 2008-1

Corrective Action Plan

Section I – Internal Control System Review

A. Comments on Findings and Recommendations

Staff agrees with findings and believes this is an isolated instances of non-compliance. Grant language was vague and condition unique, in that it only applied to one of four HUD EDI grants funding construction project.

B. Action Taken or Planned

Staff is working with Housing Urban Development (HUD) to re-open Economic Development Initiative (EDI) grant to re-allocate administrative costs. Staff will establish procedures to improve monitoring and oversight of expenses, including line-item review of contractor invoices for grant compliance.

Section II – Compliance Review

A. Comments on Findings and Recommendations

(See Section I.A above)

B. Actions Taken or Planned

(See Section I.B above)

Questioned Costs

\$45,085.16 related to un-allowed administrative and delivery costs

Staff is working with HUD requesting some clarifications as to what is covered under administrative and delivery costs.

Name of Organization: City of Salinas
Audit Firm: McGilloway, Ray, Brown & Kaufman
Accountants and Consultants
Audit Period: June 30, 2008
Finding: 2008-2

Corrective Action Plan

Section I – Internal Control System Review

A. Comments on Findings and Recommendations

Staff agrees with findings and believes this is an isolated instance of non-compliance. .

B. Action Taken or Planned

City staff has discussed findings with Community Oriented Policing Services (COPS) office personnel and has filed appropriate documentation to the COPS office modifying grant budget line item and has requested approval for the use of a sole source vendor. City staff anticipates favorable resolution of the findings. City staff will improve monitoring procedures, including improved communication and oversight between program management and grant administration.

Section II – Compliance Review

A. Comments on Findings and Recommendations

(See Section I.A above)

B. Actions Taken or Planned

(See Section I.B above)

Questioned Costs

\$35,999.56 contract services costs

This is allowable costs and grant budget modifications was requested by program manager. An email from US DOJ was received on March 13, 2009 regarding the extension of the grant to April 30, 2009 to submit additional documentations.