

City of Salinas
California



Basic Financial Statements
Fiscal Year Ended June 30, 2012

Basic Financial Statements

Fiscal Year Ended June 30, 2012



PREPARED BY
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City of Salinas

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

January 31, 2013

***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, 2012. 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, 2012, 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, 2012, 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. Under new state law, the Redevelopment Agency ceased to exist as of February 1, 2012, and therefore the assets and activities of the dissolved redevelopment agency, as of that date, are reported in a Fiduciary Fund (private purpose trust fund) in the financial statements of the City.

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 in 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 Parking District. The State Department of Finance reports the City's population at 152,401, as of January 1,

2012. The City FY 2012-13 budget includes 551 positions authorized on a full time equivalent basis.

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

Salinas has extensive health and medical services with two of Monterey County's four hospitals located within the City. Salinas also offers skilled nursing and convalescent homes and residential retirement facilities for seniors, as well as over 220 practicing physicians.

Fire protection and basic and advanced life support are provided by the City's full service Fire Department. Advanced life support services are provided by the Fire Department's paramedic program. 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 and other regional, state and federal agencies as required.

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

As the retail hub of the Central Coast, Salinas enjoys a wide selection and diversity in its stores. Northridge Shopping Center contains over 120 specialty shops and four major department stores – Macy's, Sears, Best Buy and J.C. Penney. Harden Ranch Plaza includes Wal-Mart, Target, Safeway, specialty stores, restaurants, and banking institutions. The Westridge Shopping Center is home to Costco, Wal-Mart, Office Max, Dick's Sporting Goods and a variety of national chain restaurants. The Salinas Auto Center houses nine local dealers and its retail area hosts Home Depot, Beverages and More, Kohl's, Babies-R-U's and other specialty stores. Additionally, Salinas' location allows quick access to the Monterey Peninsula, as well as the San Jose area.

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

- Equal Opportunity Commission

- Airport Commission

- Library and Community Services Commission

- Traffic and Transportation Commission

- Planning Commission Youth Commission Measure V Committee

Boards and Committees established by Resolution of the City Council are: Police Community

Advisory Committee
Animal Shelter Committee
Design Review Board Board of Appeals Grievance Advisory Board

FINANCIAL INFORMATION

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

Single Audit

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

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

Accounting System and Budgetary Control

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

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

The City Council approves operating appropriations at the department and fund level prior to July 1, each year and may amend the budget during the fiscal year. Please refer to Required Supplementary Information to the financial statements for a more detailed discussion of budget policy and control. The City continues to meet its responsibility for sound financial management as demonstrated by the statements and schedules included in the financial section of this report.

Annual Financial Report

The purpose of the City's Annual Financial Report is to summarize the administrative and operational performance of the City during the previous fiscal year. The report is intended to highlight significant accomplishments that were achieved during the fiscal year ended June 30, 2012 and to provide a financial analysis of City performance.

Capital Assets and Depreciation

As of June 30, 2012, capital assets, including infrastructure assets, of the City of Salinas totaled \$607.3 million; accumulated depreciation totaled \$309.4 million, with the difference providing net capital assets of \$298.0 million. Net capital assets of the City's governmental activities (general government) are \$168.6 million and net capital assets for the City's business-type activities (enterprise funds) are \$129.3 million.

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

During FY 2011-12, depreciation expense on capital assets of the City's governmental activities (general government) was \$8.2 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, 2012, the City had \$92.4 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, Successor Agency to the former 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.

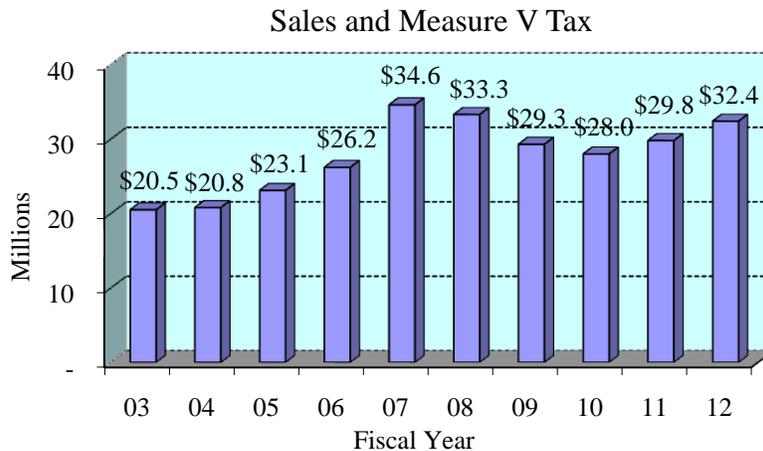
Please refer to the Note 20 for a complete discussion of the City's Long-term Debt.

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, 2012, total revenues for general governmental functions totaled \$107,975,756, a decrease of 2.7% over the previous fiscal year.

Sales Tax

The City has a well-diversified economy and sales tax base. Sales tax receipts increased for for the second year after the three consecutive years of declines. The Sales tax increased \$2.6 million, or 8.9% from FY 2010-11. This growth rate is not expected to continue into FY 2012-13 since the spike is primarily due to the increase in gasoline and auto sales, which will not be sustained at the current levels. Sales Tax was still the largest single category of revenue this fiscal year producing 20.9% of the combined governmental fund type revenues. Transactions and Use Tax (Measure V) represents 9.2% 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 \$32,432,334 or 30.1% of General and Measure V Fund revenues.

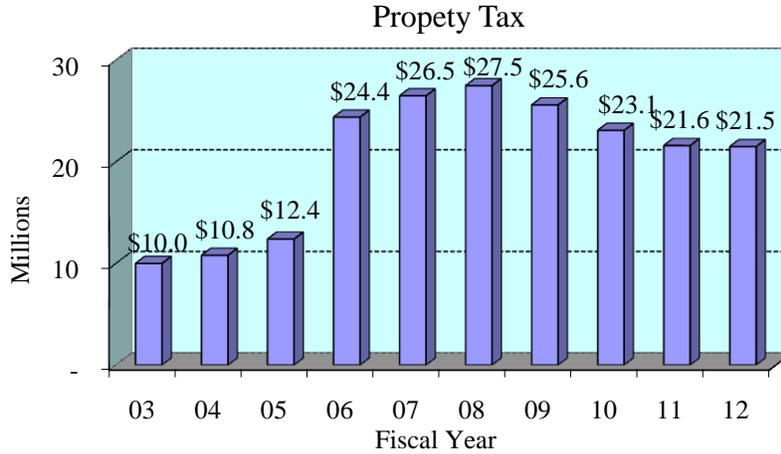


The sales tax and in-lieu sales tax receivable due from the State of California for FY 2011-12 totaled \$5,677,970 and is recorded as revenue for the year ended June 30, 2012.

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. On November 6, 2012, the voters of Salinas approved to extend the 0.50% transaction and use tax with no sunset (Measure E).

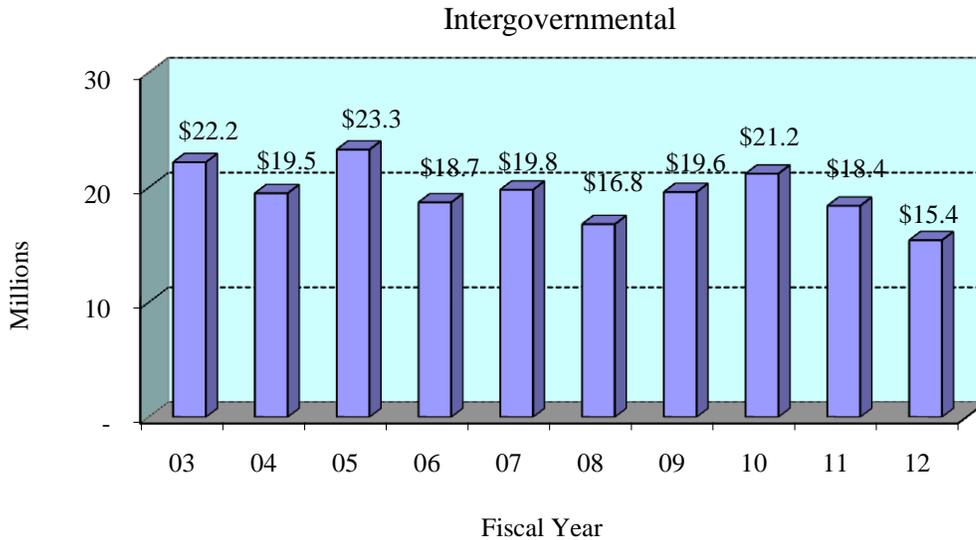
Property Tax

Property Tax revenue was the second largest source of revenue during this fiscal year, producing 19.9% of General and Measure V Fund revenues. Property Tax revenue includes Property Tax- In-lieu of vehicle license fees (2/3 of VLF) of \$9,522,709 that is now determined by the City's growth in assessed property values.



Intergovernmental

Intergovernmental revenue was the third largest single category of revenue during the fiscal year producing 14.3% of the combined governmental fund revenues. Intergovernmental revenues consist of vehicle licenses fees (1/3 of VLF), Federal and State Public Safety Funds, Federal Block Grants, State Gas Taxes and Federal and State Construction Grants. Intergovernmental revenue hit a 10 year low this year, decreasing by 3,008,152, or 16.3% primarily as a result of the Housing and Urban Development Department (HUD) CDBG grant funding being reduced by about \$1,040,000 and the end of Prop 1B funding of about \$2,114,000 in the prior year.



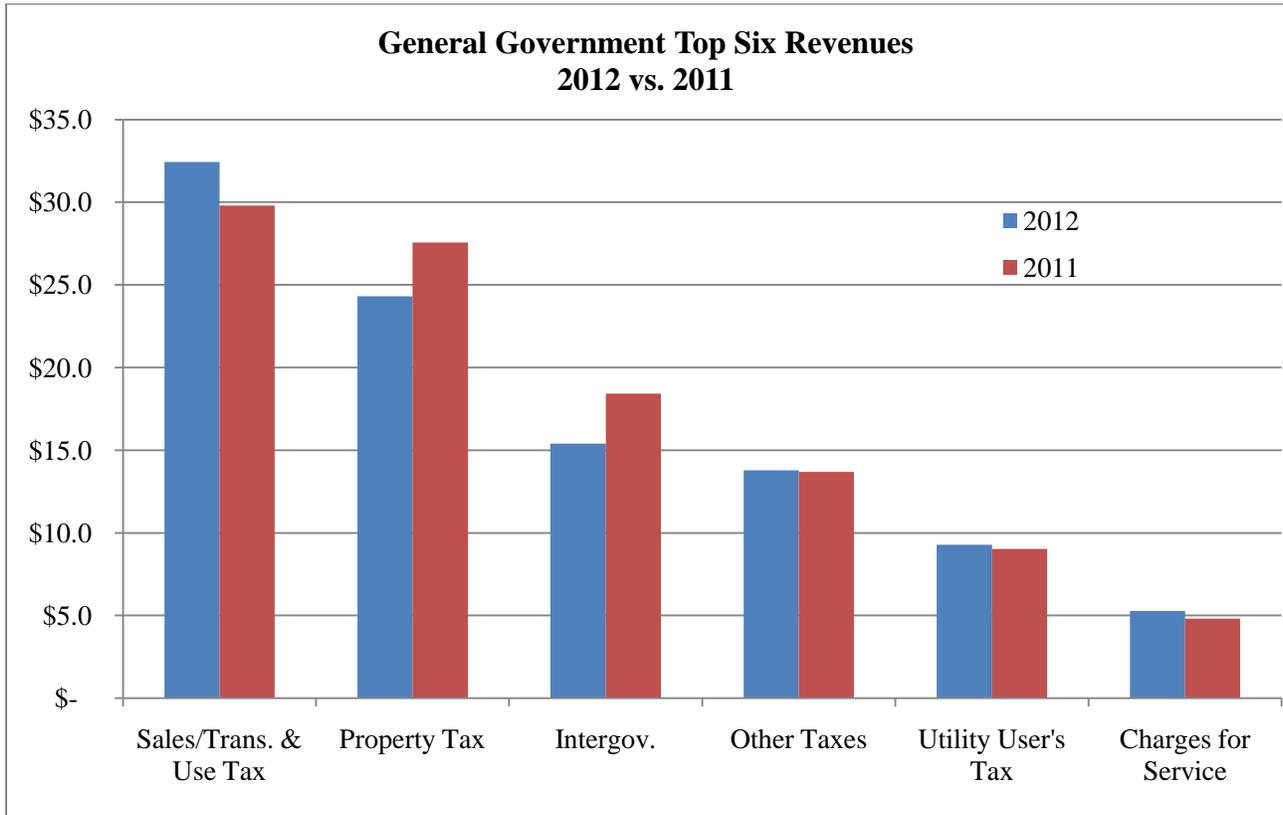
Utility Users Tax and Other Taxes

Utility Users Tax and Other Taxes produced 21.3% of the combined governmental fund type revenues. Other Taxes include business license tax and franchise fees among others. Utility User’s tax grew by \$241,972, or 2.7%, while Other Taxes held steady at \$13,775,370 with a slight 0.7% growth from the prior year.

Taxes receivable total \$9,192,543 for the year ended June 30, 2012 and are further explained in Note 6 to the financial statements.

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

Source of Revenues	2012 Amounts	Percent of Total	2011 Amounts	2011 vs. 2012 Increase/(Decrease)	
				Dollars	Percent
Assessment District:					
Taxes	\$ 4,891,249	4.5%	\$ 4,717,177	\$ 174,072	3.7%
Property Tax	21,527,187	19.9%	21,635,952	(108,765)	-0.5%
Property Tax Increment	2,787,944	2.6%	5,924,838	(3,136,894)	-52.9%
Sales/Transaction & Use Tax	32,432,334	30.1%	29,787,989	2,644,345	8.9%
Utility User's Tax	9,275,944	8.6%	9,033,972	241,972	2.7%
Other Taxes	13,775,370	12.8%	13,680,210	95,160	0.7%
License & Permits	947,445	0.9%	898,451	48,994	5.5%
Intergovernmental	15,405,437	14.3%	18,413,589	(3,008,152)	-16.3%
Charges for Service	5,281,256	4.9%	4,803,503	477,753	10.0%
Interest	342,323	0.3%	349,016	(6,693)	-1.9%
Fines/Forfeitures	283,977	0.3%	711,717	(427,740)	-60.1%
Developer Contributions	654,713	0.6%	370,013	284,700	76.9%
Miscellaneous	370,577	0.3%	614,178	(243,601)	-39.7%
TOTAL	\$107,975,756	100.0%	\$110,940,605	\$(2,964,849)	-2.7%

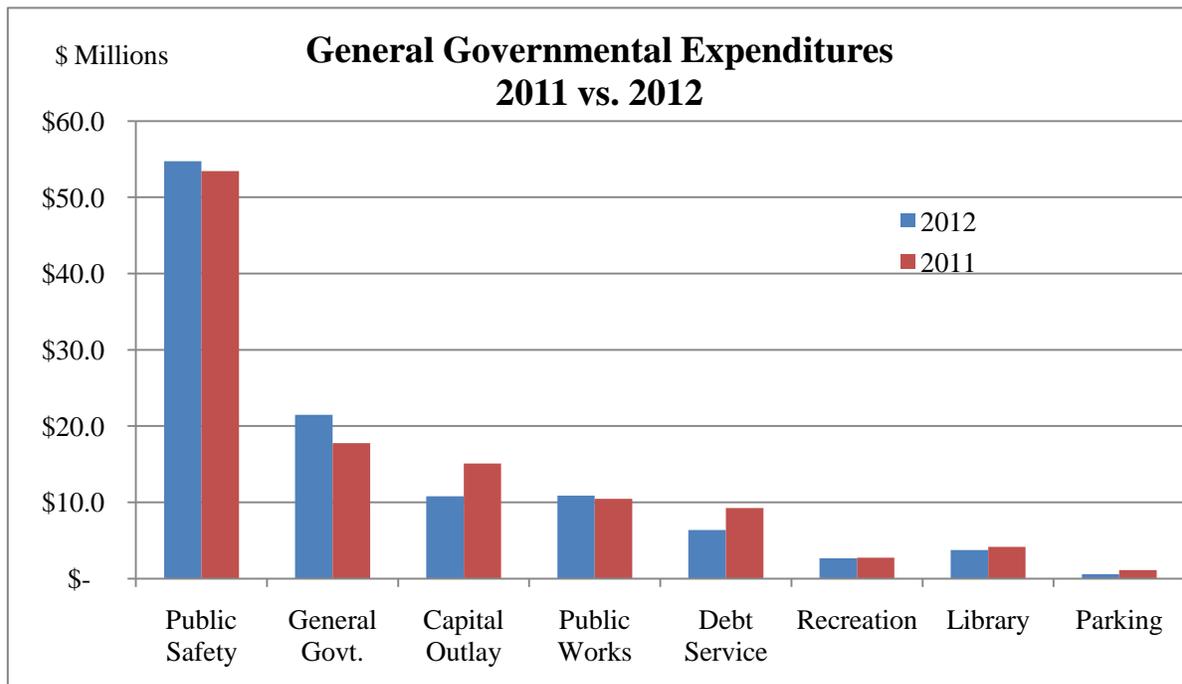


Fund Financial Statements-General Governmental Expenditures

Expenditures for governmental operations during the fiscal year ended June 30, 2012 were \$111,284,783 a net decrease of 2.4% in total expenditures over the previous year.

Changes in expenditures by major function are as follows:

Function	2012	Percent of Total	2011	2011 vs. 2012 Increase/(Decrease)	
				Dollars	Percent
General Government	\$ 21,491,058	19.3%	\$ 17,742,903	\$ 3,748,155	21.1%
Public Safety	54,732,950	49.2%	53,459,688	1,273,262	2.4%
Public Works	10,888,159	9.8%	10,453,797	434,362	4.2%
Recreation	2,652,957	2.4%	2,747,255	(94,298)	-3.4%
Library	3,724,698	3.3%	4,173,844	(449,146)	-10.8%
Parking Structure Debt	544,250	0.5%	1,088,500	(544,250)	-50.0%
Subtotal Operations	94,034,072	84.3%	89,665,987	4,368,085	4.9%
Contribution to other Agency	88,790	0.1%	65,000	23,790	36.6%
Capital Outlay	10,807,704	9.7%	15,073,310	(4,265,606)	-28.3%
Debt Service:					
Principal	4,194,234	3.8%	5,462,360	(1,268,126)	-23.2%
Interest	2,025,981	1.8%	2,369,312	(343,331)	-14.5%
SERAF	-	0.0%	459,236	(459,236)	-100.0%
Pass thru Tax	134,002	0.1%	947,862	(813,860)	-85.9%
Total	\$111,284,783	100.0%	\$114,043,067	\$(2,758,284)	-2.4%



Operating expenditures increased by \$4,368,085 or 4.9% from \$89,665,987 in FY 2010-11 to

\$94,034,072 in FY 2011-12.

General Government increased by \$3,748,155, or 21.1% primarily due to the increases in estimated cost of future claims for workers compensation. The Workers Compensation internal service fund claims liability increased by \$4,876,257 from \$10,382,351 in 2011 to \$15,258,608 in 2012 causing an increase in the amount charged to the General Fund and other funds of the City to cover the deficit net assets at the end of the year in the Workers Compensation internal service fund. The increase was primarily caused by the large increase in medical costs and an increase in the number of new workers compensation claims. Aside from this big hit from estimating future workers compensation, General Government expenditures have been controlled and are down from the prior year.

Public Safety and Public Works have increased during the year slightly, while recreation and library expenditures have decreased. Vacant positions in these functions account for the marginal increase or most of the decrease in comparison to the previous year.

Principal and interest payments decreased by \$1,611,457 mainly due to disillusionment of the Redevelopment Agency and the change in accounting for the Successor Agency. Transactions of the Successor Agency are accounted for in a private purpose trust fund.

Capital Outlay (Project) expenditures decreased \$4,265,606 or 28.3% from \$15,073,310 in FY 2010-11 to \$10,807,704 in FY 2011-12. The four largest projects included \$2,151,918 spent on the Cesar Chavez Library Expansion, \$725,791 of Federal economic stimulus funding spent on HVAC systems at Sherwood Hall and Community Center and City Hall, \$505,752 on replacing and upgrading all computers with Windows 2000 operating systems to a new more efficient to maintain virtual PC thin client device with Windows 7 and Office 2010, \$395,654 of gas tax funding on the East Market Street road reconstruction improvements project, and, lastly, \$388,009 on sidewalk repair projects.

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 Parking District and the Landfill Garbage Surcharge Fund (which is used to account for the proceeds of the installment sale of the Crazy Horse landfill to the Salinas Valley Solid Waste Authority).

The Enterprise Fund's net assets totaled \$103,437,948 at June 30, 2012.

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, 2012, the Internal Service Funds liabilities for estimated claims payable totaled

\$16,669,379, with \$15,258,608 representing Worker's Compensation and \$1,410,771 representing General Liability.

Total Worker's Compensation insurance claims liabilities are \$18,617,017 at June 30, 2012. A portion of the liability is reported in the Internal Service Fund (\$15,258,608) and a portion is treated as long-term debt (\$3,358,409). 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 a net deficit of \$3,426,683 held by City. Of the net deficit, a net deficit of \$3,883,137 is held by the City for the dissolved Redevelopment Agency, which is accounted for in the Successor Agency Trust, and net assets (deposits) of \$456,454 held by the City for Community Center and Sherwood Hall activities, MRWPCA Fees, Sales Tax, Payroll Taxes, Deposits, Construction Bonds and other trust arrangements not properly reported in a pension trust.

Pension Trust Funds held by the City of \$16,312,692 are employee deferred compensation funds. Agency Funds are assets held by the City for Sunrise House, Economic Development, Salinas Valley Enterprise Zone, Second Chance Youth Program, Sherwood Hall Box Office, Employee Cafeteria Plan and Retired Employees Health Insurance Program. Agency assets held by the City total \$833,520.

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 (56.05% of investment at FMV) are invested in the State's Local Agency Investment Fund (LAIF). LAIF yielded average returns of .36% for fiscal year ended June 30, 2012.

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, 2012 is as follows:

Balance at cost - June 30, 2012	\$ 51,632,867
Unrealized Gain	<u>62,974</u>
Balance at fair value - June 30, 2012	<u>\$ 51,695,841</u>

Please refer to the Note 4 for a complete discussion of the City's Cash and Investments.

Property Assessment

Assessed valuation of citywide taxable properties increased \$59.6 million to \$8,370,116,351 representing a decrease of 0.72% over FY 2011-12.

The following table summarizes the growth and declines in assessed valuation.

<u>Fiscal year</u>	<u>Before Redevelopment Increment</u>	<u>After Redevelopment Increment</u>	<u>Percent Change</u>
2012-13	\$ 8,370,116,351	\$ 7,683,295,065	0.72%
2011-12	8,310,478,479	7,628,550,860	2.07%
2010-11	8,361,701,633	7,473,844,928	-6.36%
2009-10	8,966,761,801	7,981,760,147	-12.85%
2008-09	10,102,973,741	9,158,540,984	-6.07%
2007-08	10,645,974,648	9,750,295,032	7.05%
2006-07	9,926,023,729	9,107,918,547	9.66%
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

The City had many accomplishments in the last three years as they have navigated through significant changes and the challenge of re-thinking how City business is done. Through the leadership of the City Council and staff, an amazing amount has been accomplished.

The City Council is committed to three basic initiatives, which guide the activities of each City department. Following is a list of accomplishments during FY 2011-12 for each of the three initiatives:

❖ Economic Development (Prosperity) Initiative

Community and Economic Development Department

- Economic Development/Salinas Valley Enterprise Zone:
 - ✓ Approval of a five-restaurant development at the Harden Ranch Shopping Center.
 - ✓ Approval of a Famous Dave's Restaurant replacing the vacated Marie Calendar's Restaurant at the Westridge Shopping Center.
 - ✓ Attraction and approval of a proposed Dick's Sporting Goods Store to locate within vacant Save Mart at Westridge Shopping Center.
 - ✓ SVEZ job vouchers surpass 2,300, increasing activity compared to last year. Economic impact estimated value of \$11,000,000 returned/retained by local businesses.
 - ✓ Initiated a Micro Loan Program.
- Permit Center:
 - ✓ Continued reduction of General Fund impact by \$500,000 for fee supported permit services.
 - ✓ Communications with the Regional Water Quality Control Board resulting in meetings held in Salinas, a continuance, and approval of a more reasonable NPDES storm water permit.
 - ✓ Expansion of expedited and flexible permits to help projects start and finish on time.
- Planning Community Development:
 - ✓ Approval of Gateway Specific Plan with over 207,000 sq. ft. of retail commercial floor area located at the northeast corner of E. Boronda Road and San Juan Grade Road.
 - ✓ Approval of a 5,000 seat municipal stadium for football and soccer.
 - ✓ Working towards the approval of a new 105-room Hampton Inn and Suites.
- Redevelopment Agency/Successor Agency:
 - ✓ Approval of the sale of 100 Block Main Street properties for construction of a 97,000 sq.ft. corporate office facility for Taylor Fresh Foods.
 - ✓ Secured final approval and funds disbursement of \$700,000 for the historical Freight Building and \$1,200,000 for the Train Depot.
 - ✓ Completion of first phase of streetscape enhancements for East Market Street.
 - ✓ Transition from RDA to Successor Agency and Oversight Board.
 - ✓ Supported street beautification project in the East Market retail corridor in an effort to create jobs and stimulate the local economy.

- Housing:
 - ✓ Assisted with the development and financing of the Gateway Apartments, Hacienda Phase 1, and Wesley Oaks affordable housing projects.
 - ✓ Provided funding for construction of a 53-unit multi-family rental housing that will provide affordable housing units to extremely low, low, and moderate-income families.
 - ✓ Re-started the City's first-time homebuyer program which will increase homeownership opportunities for moderate and low-income households and provide homeownership opportunities for households (up to 120% of AMI) through the Neighborhood Stabilization Program which will assist neighborhoods with high foreclosure rates.

Public Works

- The City's Public Works Department secured a \$3.486 million U.S. Department of Commerce, Economic Development Administration (EDA) grant for the City's Industrial Waste Water Conveyance System Improvements project.
- Secured a \$1.355 million grant from the Department of Energy to complete energy efficiency projects. One of the projects funded, the HVAC/Chiller system at Sherwood Hall, was completed on February 2012.
- Secured \$400,000 Funding for Boronda Road Traffic Signal Coordination Project.
- The East Market Street Phase-2 road reconstruction improvements were completed between North Sanborn Road to Carr Avenue.
- Worked with Caltrans to complete construction of the Airport Boulevard/US 101 Interchange Project and maintain good public relations during the project.
- Provided technical support for the processing and approval of the Cloverfield (Lowe's) Development Project.
- Complete the U.S. 101 highway corridor study and develop a 5-year Capital Improvement Program (CIP) for said corridor
- Address and eradicate graffiti vandalism within 24 hours by reporting to Republic Services.
- Provide well groomed street scapes in all districts to promote pride in the neighborhood and minimize aesthetic degradation/blight potential.

❖ Youth/Gang Violence Prevention Initiative (Peace)

City Attorney

- Successful spin-off of Community Safety Division staff and functions to Administration in January 2012 while maintaining duties, functions and legal services of City Attorney's Office intact.
- Completion of Exclusive Negotiating Rights Agreement and Land Disposition Agreement for 100 Block property with Taylor Fresh Foods and successful close of escrow.
- Completion of graffiti ordinance revisions and adoption by Council.
- Completion of Cloverfield Commercial Development (Lowes) Specific Plan at Boronda and San Juan Grade Road, along with accompanying development and economic incentive agreements.
- Support of City-wide Redistricting Committee and completion and submittal of redistricting plan based on 2010 Census to Department of Justice.

Police Department

- Reduced gang-related homicide rate by 49% from previous year.
- Operationalized the Law Enforcement Operations Center with staffing and funding from local, state and federal partners.

Community and Economic Development Department

- Supported City and community programs focused upon the recreational and educational needs of Salinas' youth.

❖ Organizational Effectiveness Initiative

Administration

- Staff completed the work of the Redistricting Committee, in which the City Council Districts were redrawn based on the information from 2010 census data and Department of Justice regulations.
- The City Clerk's Office processed over 250 Political Reform Act filings and over 220 Council actions; coordinated over 500 commendations and proclamations; responded to over 10,000 public inquiries and over 100 records requests.
- Completed the hiring for the vacant City Manager and City Clerk positions.

- Staff completed the implementation of the Safer Grant Firefighter recruitment, resulting in the hiring of 12 firefighters.
- Conducted safety training
- Coordinated Ergonomic Evaluations for preventative measures

Community and Economic Development Department

- Restructuring of new Community and Economic Development Department. This realignment brings together the entire development review and approval process together as a united team. The new divisions under the umbrella of Community and Economic Development include: Planning, Permit Center (Permit Administration, Building Division, Engineering Review, and Code Enforcement), Redevelopment Agency/Successor Agency, CDBG/Housing, Salinas Valley Enterprise Zone and Economic Development.
- Elimination of the City Redevelopment Agency pursuant to State Law and California State Supreme Court judgment; establishment of a Successor Agency and Oversight Board to carry out State law.
- Improvements in internal and external communication processes, increased training emphasis and technology enhancements are at the forefront for departmental efforts with the goal to improve customer satisfaction, particularly with the development community.
- Process review improvements across the board, including reduced review times, across the counter “back checking” and fewer outsourced reviews have lowered time needed for all permitting review categories. Processing times for initial to final reviews have decreased.
- Elimination of significant general fund support for the Permit Center accomplished through increased efficiencies and effectiveness and as a result of customer supported fee increases.
- Implemented use of online data management system to streamline the division’s RFP (Request for Proposal) process, subrecipient payment and beneficiary data management, and compliance monitoring tasks.

Finance Department

- Coordinated and implemented a second tier PERS benefit level for all new fire and police hires
- Implemented new sanitary sewer rates and refinanced sanitary sewer revenue bonds generating over \$5,917,000 in new bond proceeds to fund needed infrastructure rehabilitation of the sewer system
- Implemented a number of information service technology initiatives such as upgrading desktops for 100% of Fire Department staff and 85% of Police Department staff

- Coordinated false alarm fee restructure and out sourced false alarm billing
- Participated with cross-departmental team to navigate and manage the disillusionment of the former Redevelopment Agency, transition to the Successor Agency, and administer the Oversight Board

Fire Department

- Fire Department Hiring - The Fire Department hired 13 firefighters, 12 SAFER Grant and 1 General Fund positions. The firefighters will be online by mid-January. The new firefighters will reduce the Fire Department's overtime budget by \$500,000-\$700,000 per year.
- County Service Area (CSA) 74 – The Fire Department was successful in establishing a MOU with the County of Monterey that provides one-time reimbursement of \$553,493 and an annual reimbursement of just over \$100,000.
- New Life Pack 15 Cardiac Heart Monitors - The Fire Department was able to replace 10 aging cardiac heart monitors with CSA-74 funds; the recently acquired CSA-74 funding saved the City General fund over \$225,000.
- Fire Protection – The Fire Department Fire Loss for 2011/2012 was \$1,130,068 from the estimated assessed valuation of \$166,823,738; that equates to a .6% loss. In addition, the City experienced no fire-related deaths.

Police Department

- Redirected the PD's gang enforcement efforts from a patrol/suppression orientation to an investigative/intelligence driven orientation to focus on those gang members in the community who are most likely to engage in violence.
- Controlled overtime expenses using creative personnel allocations to meet mandatory minimum staffing levels.
- Reassigned sworn personnel to the CASP Strategic Work Plan (SWP) initiative in Hebron to build positive police/community relations.

Public Works Department

- Negotiated implementation of the City of Salinas Municipal Storm Water Permit CA 0049981; Draft Order No. R3-2012-0005 with the Central Coast Water Quality Control Board.
- Revised Sidewalk Maintenance Program through a community engagement process that included involvement of citizens in revising the program.

- Fleet Maintenance – Fleet Maintenance is the internal service division responsible for the inspection, maintenance, and repair of the City’s Public Works fleet, including over 300 vehicles and hundreds of equipment pieces. Accomplishments include doubling the useful life of our street sweepers through a daily inspection and preventive maintenance program to insure that Sewer flushing and inspection equipment is available on a 24-hour basis and all paving related equipment is on line and ready for use at all times during the year. Fleet dedicates 40% of service time to support the Police fleet and is called on to perform extraordinary repairs or miscellaneous equipment installation on an as needed basis. Because of the record of successful inspections, the California Highway Patrol granted the City of Salinas an Administrative Review instead of a Biennial Inspection of Terminals (BIT) Inspection for 2010.
- Facilities Maintenance – The Facilities Maintenance Division is responsible for maintaining 650,000 square feet of City-owned buildings and facilities through preventative maintenance and repair to ensure clean, safe, sanitary, and well-operating facilities for employees and the public. Although reductions of resources in this area, has been quite challenging, City staff continues to ensure that facilities are maintained as best as possible. City facilities again passed the Monterey County Environmental Health Business Response Plan Inspection.
- Engineering – Flexing and creating special teams from existing staff to address specific issues including working on ADA Transition Plan and East Market Street project.

Library and Community Services

- Library
 - ✓ Numbers: 561,704 visitors; 121,730 internet uses at 148 public computers; 1,138 children and youth programs; 14,948 residents attended programs; 3,171 volunteer hours; 3,672 used Homework Centers; 78% residents have library cards; digitized 165 local history interviews and photographs; ten local history video graphics; 8,000 + free lunches at Homework Centers.
 - ✓ Sixteen grants totaled \$1,332,500: Literary, Cesar Chavez Library, and Technology.
 - ✓ Awards: Monterey County Historical Society Award 2011; Selected for ICMA/Gates National Benchmark Study for technology; Packard Fellow; CA State Library “Pitch a Project;”
 - ✓ Opened Six Community Sites when Cesar Chavez Library closed for construction: Alisal Family Resource Center, Mexican American Opportunity Foundation, Los Padres ES Homework Center, Sherwood ES Library, La Paz Middle School, and Hebron Family Center.
 - ✓ Partnerships with 44 organizations, groups.
- Recreation-Park Sports Division
 - ✓ Through a reallocation of Measure V dollars, the Parks & Community Services Division was able to maintain some basic programming at Central and El Dorado Park

recreation facilities. Youth continue to be a central focus for the programming at these sites. From tiny tots, ages 3-5 learning to identify their colors, to elementary aged youth who enjoy a variety of after school activities, to middle school teens crafting their music skills and/or staying fit through Karate; Central and El Dorado provide a positive outlet for engaging neighborhood youth.

- ✓ Recreation and Community Services programs continue to be in high demand by the residents of Salinas. Over 220,000 residents visited a neighborhood recreation center over the last year while over 4,000 youth participated in a variety of youth sports programs.
- ✓ The Division continues to provide nutritious meals for youth and seniors throughout the year. Last year 14,000 meals were served to seniors at the Firehouse Recreation Center and over 18,000 free lunches were served as part of the summer lunch program at the (5) neighborhood centers and the Cesar Chavez Library.
- ✓ Provide ongoing volunteer opportunities for youth and adults. Last year over 15,000 volunteer hours were provided in support of recreation programs (Youth Sports Coaches – 12,600 hours; Senior Program – 2,500 hours; Hebbbron Teens – 520 hours)
- ✓ Hebbbron Family Center served as a HUB for CASP’s implementation of the Comprehensive Strategy for Community Wide Violence Reduction Plan. Various subcommittees including the Cross Functional Team and The Community Engagement meet bi-monthly at the Center. Other CASP agencies also use Hebbbron to provide services to the target area.

Enterprise Operations

- Completed the Taxiway Bravo Project at the Salinas Municipal Airport. This project was built with \$2.1 million in federal funds and brings the taxiway into compliance with FAA guidelines while improving access to the runway system for all airport businesses and tenants on the South Side of the airport
- Successfully maintained a street sweeping program that ensures that the City remains in compliance with NPDES regulations.
- Successfully increased fees in various funds to ensure that programs and services remain viable.
- Acquired \$3,000,000 in funding from in the federal economic development agency to begin upgrades to the Industrial Waste Water treatment plant and conveyance line.
- Continues to support transition of Fairways Golf Course to contract operator who continues to improve revenue generation.

Assessment & Maintenance Districts

- Contain maintenance costs at budgeted levels.
- Diversify maintenance activities to various contractors to obtain best price and service.

Labor Relations

All employee groups have approved Memorandum of Understandings (MOUs) with the City. Police Management Association (PMA) and Salinas Police Officers Association (SPOA) MOUs will expire December 31, 2013. Fire Supervisors Association (FSA) and International Association of Firefighters (IAFF) MOUs will expire December 31, 2013. All other non-safety groups' contracts will expire December 31, 2015.

Effective July 1, 2011, employee bargaining groups agreed to the following two-year concessions: non-safety employee groups deferred two four-percent salary adjustments scheduled to take place December 2011 and January 2013 for two-years and a 10% reduction in pay with corresponding reduced hours (furlough); Police Management and Salinas Police Officers Associations agreed to defer a 5% salary adjustment scheduled to take place July 1, 2011, a contribution of 2.5% of salary toward City paid health insurance premiums until July 1, 2013, switch their health insurance to Peace Officers Research Association of California (PORAC), and agreed to the reduction of nine officers by December 2011 through attrition or layoffs if necessary; Fire Supervisors Association agreed to a contribution of 6.0% of salary toward City paid health insurance premiums and the suspension of management leave until December 31, 2013; International Association of Firefighters agreed to a 4.5% pay reduction from suspending holiday pay and a contribution of 4.0% of salary toward City paid health insurance premiums until December 31, 2013; Both Police and Fire units agreed to a second tier PERS plan of 3% at 55; and the Executive Group agreed to a contribution of 13% of salary toward City paid health insurance premiums until July 1, 2013.

Most of the negotiated two-year concessions sunset July 1, 2013 with an estimated annual cost in FY 2012-13 of \$5.7 million. The non-safety employee furlough program does not have a sunset. Due to the current economic conditions, the concessions will need to be extended to balance FY 2013-14 and additional concessions will be needed for the FY 2014-15 budget.

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: Alma Gonzales-Delgado and Mary Lagasca, with a very special thanks to Accounting Officer, Miguel Gutierrez, and Supervising Accountant, Elizabeth Mariano, who both are dedicated to the sound fiscal management of the City. 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.

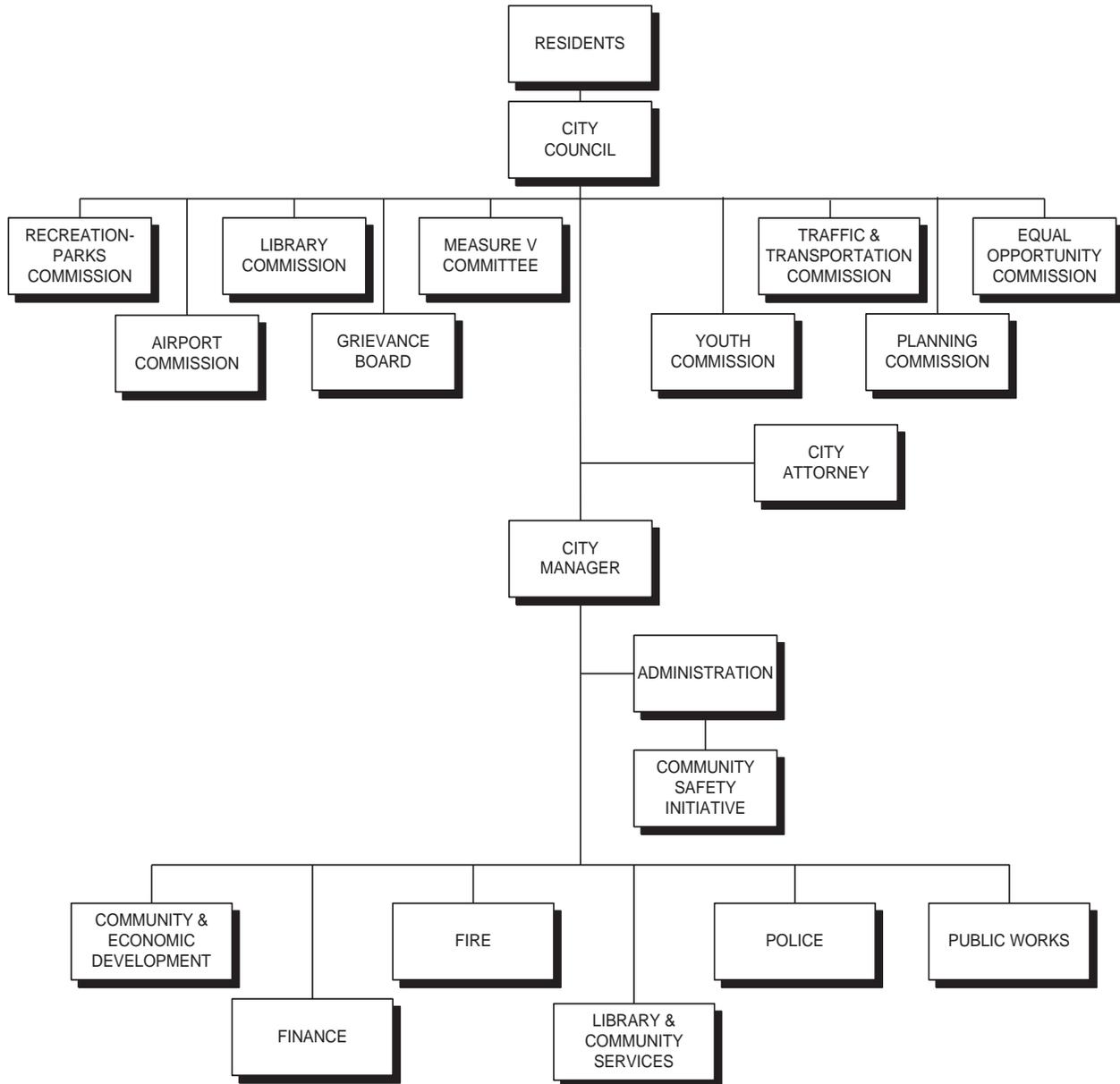
Sincere appreciation is also expressed to the City Manager and members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Matt N. Pressey, CPA
Finance Director

City of Salinas Organization Chart



City of Salinas

List of Principal Officials



Joe Gunter
Mayor

José Castañeda
Councilmember
District 1

Gloria De La Rosa
Councilmember
District 4

Tony Barrera
Councilmember
District 2

Kimbley Craig
Councilmember
District 5

Steve McShane
Councilmember
District 3

Jyl Lutes
Councilmember
District 6

Ray Corpus
City Manager

Vanessa Vallarta
City Attorney

Jeffrey Weir
Community and Economic
Development Director

Gary Petersen
Public Works Director

Kelly McMillin
Police Chief

Edmond Rodriguez
Fire Chief

Matt N. Pressey, CPA
Director of Finance

Elizabeth Martinez
Library and Community
Services Director

McGILLOWAY, RAY, BROWN & KAUFMAN

Accountants & Consultants

2511 Garden Road, Suite A180
Monterey, CA 93940-5301
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Toll Free 866-373-2511

379 West Market Street
Salinas, CA 93901
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Salinas, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salinas, California (City), as of and for the year ended June 30, 2012, 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 the 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 of Salinas, California, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under a separate cover our report dated January 31, 2013, on our consideration of the City of Salinas, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages F-3 through F-15, the budgetary comparison information on pages R-1 through R-10, the Schedule of Funding Progress – Retirement Programs on pages R-11 through R-14, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Mc Galloway, Ray, Brown + Kaufman

January 31, 2013

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012

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, 2012. 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, 2012, the City's net assets (excess of assets over liabilities) were \$301.7 million. Of this amount, \$2.3 million are unrestricted assets.
- During the fiscal year ended June 30, 2012, the City's total net assets decreased by \$3.1 million. This change results from an increase of \$0.8 million in governmental activities net assets and a decrease of \$3.9 million in business-type activities net assets.
- During the fiscal year governmental funds fund balances decreased \$4.9 million to \$60.4 million, of which \$59.7 million is either nonspendable, restricted, committed, or assigned and thus unavailable.
- During the fiscal year the General Fund and Measure V fund balance decreased \$3.2 million to \$7.8 million of which \$6.4 million is either nonspendable, restricted, committed, or assigned. Unassigned General Fund and Measure V fund balance was \$1.4 million.
- The City's total long-term liabilities increased by \$3.3 million during the current fiscal year. The increase of \$5.5 million in insurance claims liabilities and \$1.1 increase in net OPEB obligation was offset by a net decrease of \$3.2 million in long-term debt as result of regularly schedule debt service repayments in both governmental and business-type activities.
- The City's capital assets, net of depreciation, decreased \$6.0 to \$298.1 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, 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.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012

B. OVERVIEW OF FINANCIAL STATEMENTS: (Continued)

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.

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.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2012

B. OVERVIEW OF FINANCIAL STATEMENTS: (Continued)

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, 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 governmental funds.

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

Proprietary Funds - The City maintains two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-Wide Financial Statements. The City uses enterprise funds to account for its Industrial Wastewater System, Airport, Golf Courses,

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2012

B. OVERVIEW OF FINANCIAL STATEMENTS: (Continued)

Sanitary Sewer, 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 and Measure V, 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 the other non-major governmental funds, Internal Service Funds, Fiduciary Funds and General and Measure V Funds are presented immediately following the Required Supplementary Information as supplementary information.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2012

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 \$301.7 million, which is a decrease of \$2.7 million (0.9%) from the prior year.

At June 30, 2012, the largest portion of net assets (74.8%) consists of the City's investment in capital assets net of related debt. This component portrays the total amount of funds required to acquire those assets less any related outstanding debt used for such acquisition. The City uses these capital assets to provide services to residents. The capital assets of the City are not sources of income for repayment of debt as most assets are not revenue generating and generally are not liquidated to repay debt. Debt service payments are funded from other resources available to the City.

The following is the condensed Statement of Net Assets for the fiscal years ended June 30, 2012 and 2011:

City of Salinas
Condensed Statements of Net Assets
June 30, 2012

	Governmental Activities		Business-type Activities		Total		Percent of Total
	2012	2011	2012	2011	2012	2011	
Assets:							
Current Assets	\$ 73,998,612	\$ 74,772,774	\$ 18,665,743	\$ 12,205,894	\$ 92,664,355	\$ 86,978,668	21.3 %
Other Assets	39,671,936	46,708,005	1,052,269	757,404	40,724,205	47,465,409	9.3 %
Capital Assets, Net	173,037,613	169,489,027	129,335,530	134,613,309	302,373,143	304,102,336	69.4 %
Total Assets	286,708,161	290,969,806	149,053,542	147,576,607	435,761,703	438,546,413	100.0 %
Liabilities:							
Current Liabilities	8,922,358	9,335,499	934,101	1,235,661	9,856,459	10,571,160	7.3 %
Other Liabilities	37,747,666	34,266,184	180,663	-	37,928,329	34,266,184	28.3 %
LTD - Due in one year	5,029,508	5,465,577	1,351,653	1,300,587	6,381,161	6,766,164	4.8 %
Long-term Liabilities	36,794,917	44,927,573	43,149,177	37,665,403	79,944,094	82,592,976	59.6 %
Total Liabilities	88,494,449	93,994,833	45,615,594	40,201,651	134,110,043	134,196,484	100.0 %
Net Assets:							
Invested in Capital Assets,							
Net of Related Debt	140,928,276	132,133,772	85,147,137	95,647,319	226,075,413	227,781,091	74.9 %
Restricted	64,230,579	64,859,794	9,090,769	3,236,018	73,321,348	68,095,812	24.3 %
Unrestricted	(6,945,143)	(18,593)	9,200,042	8,491,619	2,254,899	8,473,026	0.7 %
Total Net Assets	\$ 198,213,712	\$ 196,974,973	\$ 103,437,948	\$ 107,374,956	\$ 301,651,660	\$ 304,349,929	99.9 %

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2012

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS:(Continued)

Statement of Activities

The following is the condensed Statement of Activities and Changes in Net Assets for the fiscal years ended June 30, 2012 and 2011:

City of Salinas						
Condensed Statement of Activities and Changes in Net Assets						
For the Fiscal Year Ended June 30, 2011						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 5,784,441	\$ 5,842,006	\$ 5,872,538	\$ 5,942,937	\$ 11,656,679	\$ 11,784,943
Operating Grants & Contributions	13,360,019	13,458,946	696,924	691,173	14,056,943	14,150,119
Capital Grants & Contributions	6,856,436	9,362,423	509,268	3,241,671	7,365,704	12,604,094
General Revenues:						
Taxes	78,327,571	79,321,890	-	-	78,327,571	79,321,890
Licenses & Permits	947,445	898,451	-	-	947,445	898,451
Fines & Forfeitures	62,409	77,759	-	-	62,409	77,759
Grants & Contributions						
not Restricted	80,233	832,882	-	-	80,233	832,882
Unrestricted Investment Earnings	69,865	202,512	290,214	300,981	360,079	503,493
Gain (Loss) on Disposal of Assets	583,032	-	-	-	583,032	-
Loans Receivable Forgiven	(18,000)	(380,236)	-	-	(18,000)	(380,236)
Miscellaneous	299,227	574,951	-	-	299,227	574,951
Total Revenues	106,352,378	110,191,584	7,368,944	10,176,762	113,721,322	120,368,346
Expenses						
General Government	20,658,608	18,986,318	1,792,260	1,955,936	22,450,868	20,942,254
Public Safety	57,316,292	55,943,707	-	-	57,316,292	55,943,707
Public Works	20,522,216	23,069,652	10,399,043	10,191,932	30,921,259	33,261,584
Recreation	3,611,561	3,572,172	953,099	893,397	4,564,660	4,465,569
Library	3,963,623	4,329,674	-	-	3,963,623	4,329,674
Interest	1,840,086	2,297,837	-	-	1,840,086	2,297,837
Total Expenses	107,912,386	108,199,360	13,144,402	13,041,265	121,056,788	121,240,625
Increase in Net Assets before Contributions and Transfers						
Transfers	(1,560,008)	1,992,224	(5,775,458)	(2,864,503)	(7,335,466)	(872,279)
Contributions						
Transfers	(88,790)	-	-	-	(88,790)	-
	(749,950)	(1,020,353)	749,950	320,353	-	(700,000)
	(838,740)	(1,020,353)	749,950	320,353	(88,790)	(700,000)
Increase in Net Assets before Extraordinary Gain						
Extraordinary Gain	(2,398,748)	971,871	(5,025,508)	(2,544,150)	(7,424,256)	(1,572,279)
	3,760,316	-	-	-	3,760,316	-
Increase in Net Assets						
	1,361,568	971,871	(5,025,508)	(2,544,150)	(7,424,256)	(1,572,279)
Net Assets - Beginning of Year						
	196,974,973	197,091,602	107,374,956	108,830,606	304,349,929	305,922,208
Prior Period Adjustment						
	421,421	-	-	-	421,421	-
Net Asset - Beginning of Year as restated						
	197,396,394	197,091,602	107,374,956	108,830,606	304,771,350	305,922,208
Transfer Parking Net Assets to Business-type Activities						
	(544,250)	(1,088,500)	1,088,500	1,088,500	544,250	-
Net Assets - Ending						
	\$ 198,213,712	\$ 196,974,973	\$ 103,437,948	\$ 107,374,956	\$ 297,891,344	\$ 304,349,929

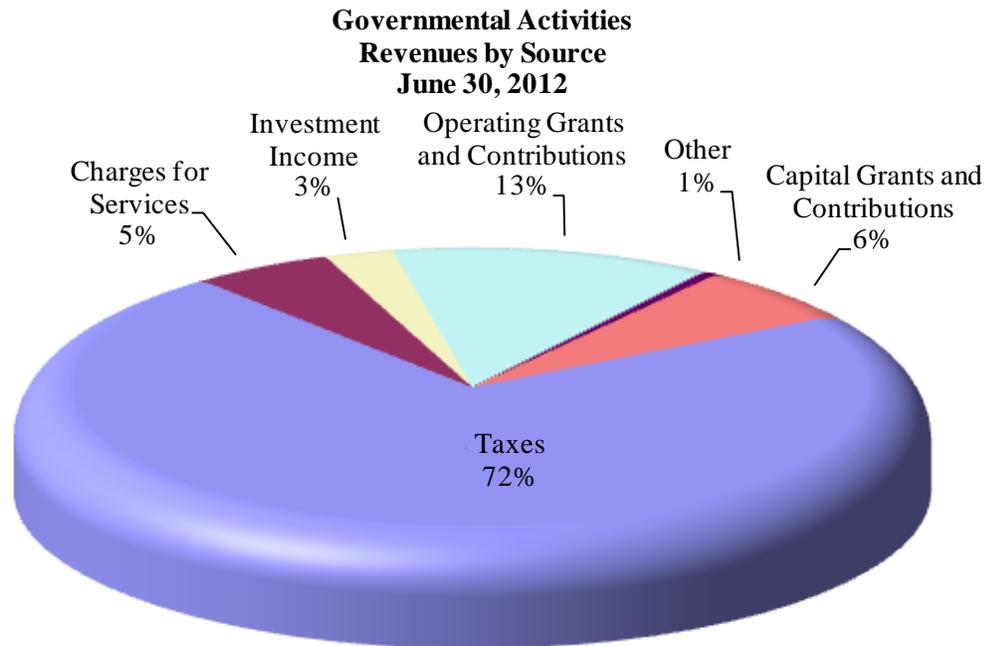
CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2012

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS: (Continued)

Total revenues decreased from the prior year by \$6.7 million and total expenditures had a slight decrease of \$0.2 million from prior year. Further analysis is provided within the governmental and business-type activities sections.

Governmental Activities

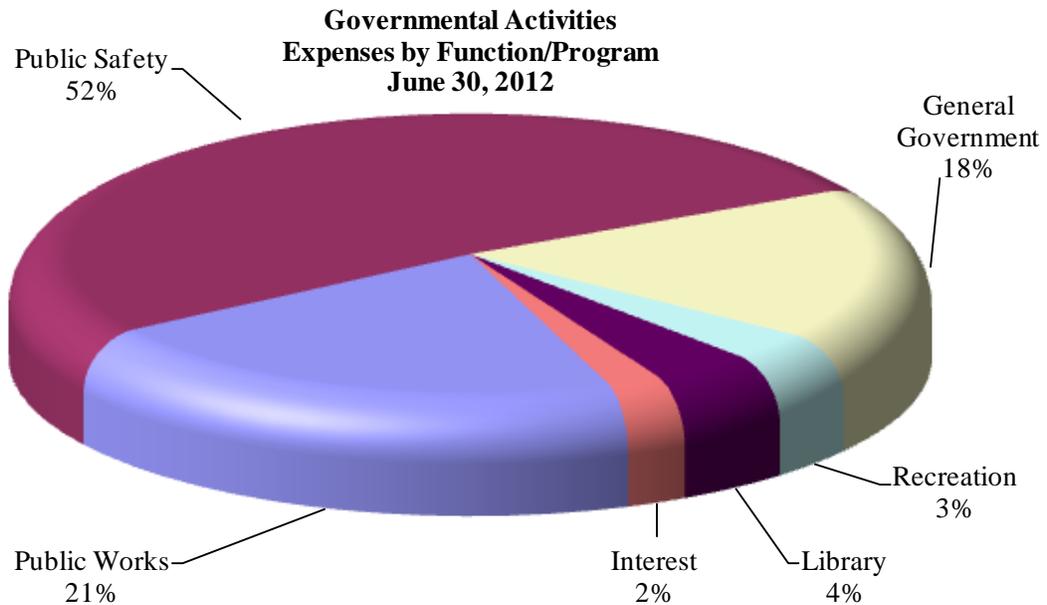
Governmental activities resources total \$106.4 million. The City's governmental activities increased net assets by \$1.4 million. The following charts highlight the sources of revenues and purpose of expenses:



Total expenses for governmental activities, excluding transfers and contributions, were \$107.9 million including interest on long-term debt of \$1.8 million. Total expenditures that were funded by tax revenues, investment income and other general revenues were \$81.9 million.

CITY OF SALINAS
 Management's Discussion and Analysis
 Fiscal Year ended June 30, 2012

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS: (Continued)



Functional expenses for the year ended June 30, 2012 were as follows:

	Total Cost of Services	Percent	Net Cost of Services	Percentage
	2012	2012	2012	2012
General Government	\$ 20,658,608	19.1%	\$ 10,460,004	13.2 %
Public Safety	57,316,292	53.1%	52,313,100	65.7 %
Public Works	20,522,216	19.0%	7,471,922	9.4 %
Recreation	3,611,561	3.3%	3,221,166	4.1 %
Library	3,963,623	3.7%	3,694,197	4.6 %
Interest	1,840,086	1.7%	2,297,837	2.9 %
Total	\$ 107,912,386	100 %	\$ 79,458,226	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 \$81.9 million.

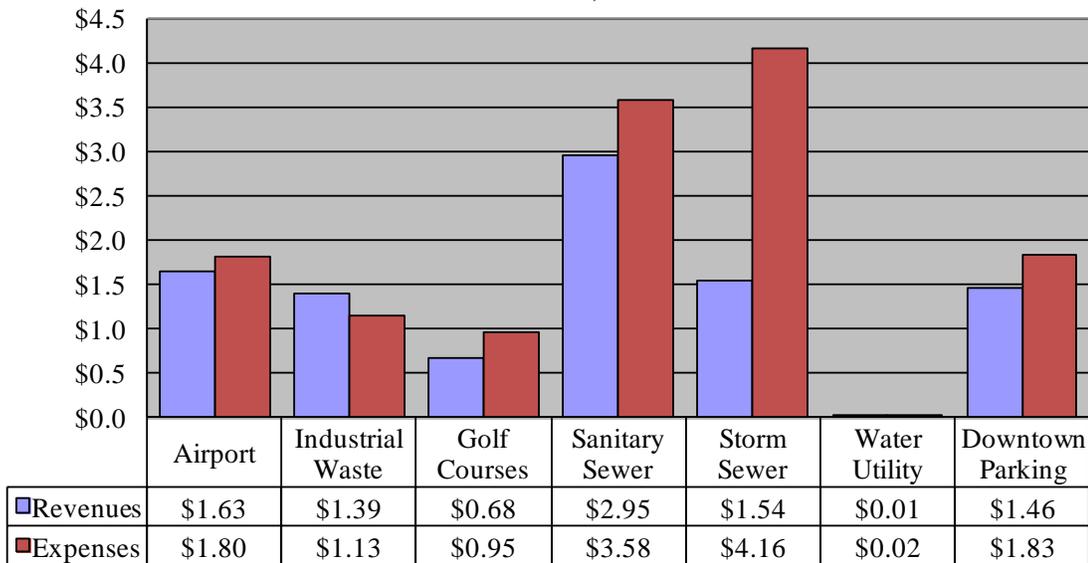
CITY OF SALINAS
 Management's Discussion and Analysis
 Fiscal Year ended June 30, 2012

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS: (Continued)

Business Type Activities

The City's business-type activities net assets were \$103.4 million, a decrease of \$3.9 million from the prior fiscal year. Total program revenues for business-type activities were \$9.2 million. The largest program revenues were charges for services of \$5.9 million. Other program revenues included operating/capital grants and contributions of \$3.3 million. Total expenses for the business-type activities were \$13.1 million during FY 2011-12.

**Business Type Activities
 Revenues, Expenses (in millions)
 June 30, 2012**



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. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2012

D. FUND FINANCIAL STATEMENT ANALYSIS:(Continued)

As of the end of current fiscal year, the City's governmental funds reported combined ending fund balances of \$60.4 million. Of the total fund balance of \$60.4 million, \$16.2 million was nonspendable and indicates the resources are nonspendable inventory, loans, notes, land and property held for resale and are not anticipated to be liquidated in the near-term. Of the total fund balance, \$34.1 million was restricted fund balance and indicates the use of resources is constrained by external parties, resource providers, constitutions or enabling legislations. Fund balance of \$15.3 was restricted for future development, \$3.6 million for maintenance districts, \$2.1 million for capital projects related to the airport, \$2.5 million for street repairs, \$4.2 million was restricted for debt service, and \$1.6 million for was restricted for emergency medical services (EMS) and police public safety purposes.. Committed fund balance totaled \$4.0 million are limited to specific purposes as defined in the City Charter or through a formal budgetary action of the City Council occurring through adoption of an ordinance or resolution. The \$4.0 million committed fund balance is committed for capital projects. Assigned fund balance totaled \$5.3 million, of which \$4.6 million was assigned to capital projects. The remaining fund balance of \$0.7 million is unassigned and includes the unassigned fund balance of the General Fund of \$1.4 million, the unassigned fund balance deficit of the Housing and Urban Development Fund of 0.1 million, and the nonmajor governmental funds deficits totaling \$0.6 million. The unassigned fund balance deficit of the major fund and the nonmajor governmental funds will be eliminated in future years by the receipt of various grants, tax increment revenues, and other special revenue.

The General Fund is the chief operating fund of the City. The General and Measure V Fund's fund balance increased by \$3.2 million in FY 2011-12 to \$7.8 million, of which \$1.8 million was nonspendable and indicates the resources are nonspendable inventory, loans, notes and advances and are not anticipated to be liquidated in the near-term. Of the total General Fund's fund balance, \$2.0 million was committed fund balance and is limited to specific purposes as defined in the City Charter or through a formal budgetary action of the City Council occurring through adoption of an ordinance or resolution. The \$2.0 million committed fund balance is committed for capital projects. Assigned fund balance totaled \$2.7 million, of which \$2.1 million was assigned to capital projects. The remaining fund balance of \$1.4 million is unassigned.

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.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2012

E. GENERAL FUND BUDGETARY HIGHLIGHTS:

The final amended General Fund and Measure V budget, including transfers out and advances, totaled \$88.7 million.

Significant Appropriations Increases/Decreases:

Appropriations during the year totaled \$3.3 million, of which, \$1.7 were related to transfers for capital projects. The Public Safety decreased by \$0.5 million and General Government increased by \$0.7 million. Estimated revenue was adjusted upward by \$1.4 million.

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, 2012 and 2011:

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 22,524,752	\$ 22,674,022	\$ 3,632,339	\$ 3,632,339	\$ 26,157,091	\$ 26,306,361
Buildings	40,351,308	40,351,308	27,097,169	27,313,974	67,448,477	67,665,282
Improvements	12,257,011	11,771,556	16,064,746	15,257,221	28,321,757	27,028,777
Equipment	25,222,097	24,093,297	6,969,725	6,913,056	32,191,822	31,006,353
Infrastructure	225,580,877	223,595,092	218,566,713	218,364,631	444,147,590	441,959,723
Construction in Progress	6,520,981	3,187,440	2,547,551	2,581,394	9,068,532	5,768,834
	332,457,026	325,672,715	274,878,243	274,062,615	607,335,269	599,735,330
Accumulated Depreciation	(163,843,282)	(156,183,688)	(145,542,713)	(139,449,306)	(309,385,995)	(295,632,994)
	<u>\$ 168,613,744</u>	<u>\$ 169,489,027</u>	<u>\$ 129,335,530</u>	<u>\$ 134,613,309</u>	<u>\$ 297,949,274</u>	<u>\$ 304,102,336</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, 2012, net capital assets of the governmental activities totaled \$168.6 million and the net capital assets of the business-type activities totaled \$129.3 million. During FY 2002-03, American Appraisal Associates were hired to conduct an inventory and valuation of all the City's capital assets. Finance' staff maintains and updates the Capital Assets inventory by recording all assets acquired or retired at the end of every fiscal year.

The City has elected to report and depreciate all infrastructures.

Governmental activities acquired \$7.5 million of capital assets during the year. The acquisitions include \$5.0 million in construction in progress, \$0.6 million in infrastructure improvements, \$0.2 million in improvements, \$1.7 million in machinery and equipment and no changes in buildings and land.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2012

F. CAPITAL ASSETS AND LONG-TERM OBLIGATIONS: (Continued)

Business-type activities acquired \$0.8 million of capital assets during the year. The Airport Fund had \$0.1 million in construction in progress and \$0.3 million in building improvements and the Parking District Fund had infrastructure improvements of \$0.2 million. Other additions of capital assets were routine replacements of current capital assets.

Long-Term Obligations

As of June 30, 2012, the City had \$86,392,160 in long-term debt composed of \$86,325,255 from governmental and business-type activities, and \$66,905 from fiduciary annual leave.

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Annual Leave	\$ 9,352,941	\$ 8,787,966	\$ 312,437	\$ 286,966	\$ 9,665,378	\$ 9,074,932
Estimated Insurance Claims	3,358,409	2,572,048	-	-	3,358,409	2,572,048
Net Pension Obligation	28,194	33,024	-	-	28,194	33,024
Capital Leases	1,589,881	1,754,967	399,859	545,990	1,989,740	2,300,957
Loans and Notes	-	310,135	128,534	-	128,534	310,135
Revenue Bonds	-	-	17,995,000	12,030,000	17,995,000	12,030,000
Tax Allocation Bonds	-	6,835,488	-	-	-	6,835,488
Certificates of Participation	12,625,000	13,135,000	25,665,000	26,390,000	38,290,000	39,525,000
Assessment District Bonds	14,870,000	16,995,000	-	-	14,870,000	16,995,000
Unamortized Bond Discount	-	(115,944)	-	-	-	(115,944)
	<u>\$ 41,824,425</u>	<u>\$ 50,307,684</u>	<u>\$ 44,500,830</u>	<u>\$ 39,252,956</u>	<u>\$ 86,325,255</u>	<u>\$ 89,560,640</u>

Further details on the City of Salinas' long-term debt can be found in Note 20 to the financial statements.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET:

While fiscal years 08-09 and 09-10 proved to be two of the worse fiscal years in decades in the City of Salinas, FY 10-11 and FY 11-12 ushered in strong signs that the economy had hit rock bottom and the City is moving out of its dire economic state of affairs. A major sign of this positive trend was the revenue reports that begin to show sales tax revenues increasing for the last 8 quarters. This was significant because the City had already experienced 10 quarters of sales tax reductions, starting in the second quarter of 2007. In addition, the Monterey County Assessor informed the City that property tax revenue had stabilized after a 23.8% reduction over the last four years. Through the continued and significant concessions from all bargaining groups as part of a two year agreement and the elimination of twelve vacant positions, a balanced budget was achieved for the FY 2011-12 year and for the FY 2012-13 proposed operating budget year.

CITY OF SALINAS
Management's Discussion and Analysis
Fiscal Year ended June 30, 2012

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET: (Continued)

Although much has been done to streamline the organization and identify efficiencies, there is much more to be done to secure our future. The Five-Year Forecast predicts a grim future for the City if we are not steadfast in our efforts to identify new revenue sources, and reduce expenditures.

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**

CITY OF SALINAS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 57,955,607	\$ 5,426,255	\$ 63,381,862
Receivables, net			
Taxes	9,398,372	-	9,398,372
Accounts	67,651	800,336	867,987
Accrued interest	947,127	2,897	950,024
Due from other agencies	3,286,592	3,405,605	6,692,197
Due from other funds	15,190	(11,631)	3,559
Advance from fiduciary funds	940,000	-	940,000
Restricted cash and investments	1,388,073	9,042,281	10,430,354
Long-term internal balances	1,710,000	(1,710,000)	-
Inventory	16,259	-	16,259
Assessments receivable	12,420,000	-	12,420,000
Loans receivable	23,812,491	-	23,812,491
Deferred charges	1,713,186	2,762,269	4,475,455
Land and properties held for resale	4,423,869	-	4,423,869
Capital Assets			
Land and nondepreciable assets	29,045,733	6,179,890	35,225,623
Depreciable assets, net of accumulated depreciation	139,568,011	123,155,640	262,723,651
Total assets	<u>286,708,161</u>	<u>149,053,542</u>	<u>435,761,703</u>
LIABILITIES			
Accounts payable	8,471,148	332,713	8,803,861
Accrued interest payable	451,210	556,463	1,007,673
Prepaid deposits	-	44,925	44,925
Deferred revenues	15,034,583	180,663	15,215,246
Long term liabilities			
Insurance claims payable	16,669,379	-	16,669,379
Net OPEB obligation	6,043,704	-	6,043,704
Debt due within one year	5,029,508	1,351,653	6,381,161
Debt due in more than one year	36,794,917	43,149,177	79,944,094
Total liabilities	<u>88,494,449</u>	<u>45,615,594</u>	<u>134,110,043</u>
NET ASSETS			
Invested in capital assets, net of related debt	140,928,276	85,147,137	226,075,413
Restricted for:			
Housing	28,448,048	-	28,448,048
Capital Projects	5,929,703	-	5,929,703
Highways and Streets	17,954,126	-	17,954,126
Debt Service	7,772,411	9,090,769	16,863,180
Special Programs	4,126,291	-	4,126,291
Total restricted assets	<u>64,230,579</u>	<u>9,090,769</u>	<u>73,321,348</u>
Unrestricted net assets (deficits)	<u>(6,945,143)</u>	<u>9,200,042</u>	<u>2,254,899</u>
Total net assets	<u>\$ 198,213,712</u>	<u>\$ 103,437,948</u>	<u>\$ 301,651,660</u>

The accompanying notes are an integral part of this statement.

**CITY OF SALINAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

FUNCTION/PROGRAM ACTIVITIES	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General Government	\$ 20,658,608	\$ 4,576,401	\$ 3,070,469	\$ 451	\$ (13,011,287)	\$ -	\$ (13,011,287)
Public Safety	57,316,292	986,415	3,502,467	46	(52,827,364)	-	(52,827,364)
Public Works	20,522,216	7,733	6,469,129	6,797,654	(7,247,700)	-	(7,247,700)
Recreation	3,611,561	188,668	43,913	-	(3,378,980)	-	(3,378,980)
Library	3,963,623	24,924	274,041	55,630	(3,609,028)	-	(3,609,028)
Interest on long-term debt	1,840,086	-	-	2,655	(1,837,431)	-	(1,837,431)
Total governmental activities	107,912,386	5,784,141	13,360,019	6,856,436	(81,911,790)	-	(81,911,790)
Business-Type Activities:							
Airport	1,792,260	1,206,331	8,725	418,465	-	(158,739)	(158,739)
Industrial Waste	1,083,946	1,376,283	-	13,544	-	305,881	305,881
Golf Courses	953,099	-	675,000	-	-	(278,099)	(278,099)
Sanitary Sewer	3,435,910	2,860,498	10,627	67,943	-	(496,842)	(496,842)
Storm Sewer	4,030,435	47,539	2,572	9,316	-	(3,971,008)	(3,971,008)
Water Utility	18,496	5,568	-	-	-	(12,928)	(12,928)
Downtown Parking	1,830,256	376,319	-	-	-	(1,453,937)	(1,453,937)
Total Business-Type Activities	13,144,402	5,872,538	696,924	509,268	-	(6,065,672)	(6,065,672)
Total Primary Government	\$ 121,056,788	\$ 11,656,679	\$ 14,056,943	\$ 7,365,704	(81,911,790)	(6,065,672)	(87,977,462)
General Revenues and Transfers:							
Taxes					78,327,571	-	78,327,571
Licenses and Permits					947,445	-	947,445
Fines and Forfeitures					62,409	-	62,409
Grants and Contributions not Restricted to Specific Programs					80,233	-	80,233
Unrestricted Investment Earnings					69,865	290,214	360,079
Miscellaneous					299,227	-	299,227
Gain (Loss) on Disposal of Assets/Debt					583,032	-	583,032
Contribution to Other Agency					(88,790)	-	(88,790)
Monterey Parking Structure					(544,250)	1,088,500	544,250
Loans Receivable Forgiven					(18,000)	-	(18,000)
Transfers					(749,950)	749,950	-
Total General Revenues and Transfers					78,968,792	2,128,664	81,097,456
Change in Net Assets before extraordinary gain					(2,942,998)	(3,937,008)	(6,880,006)
Extraordinary gain/(loss) - Note 30					3,760,316	-	3,760,316
Change in Net Assets					817,318	(3,937,008)	(3,119,690)
Net Assets - Beginning of Year					196,974,973	107,374,956	304,349,929
Prior period adjustment - Note 28					421,421	-	421,421
Net Assets - Beginning of Year, as restated					197,396,394	107,374,956	304,771,350
Net Assets - End of Year					\$ 198,213,712	\$ 103,437,948	\$ 301,651,660

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

GENERAL FUND

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

SPECIAL REVENUE FUNDS

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

Community Development Block Grant Fund (Housing and Urban Development)

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

Development Fees Fund

This fund accounts for the fees that subdividers and developers of property are required to pay, by Resolution 3823 (N.C.S.), covering traffic impact, annexation, use of existing or new sewers, storm drains, park facilities, library facilities and street trees.

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, 2012**

	General and Measure V	Housing & Urban Development	Development Fees	Assessment District Debt Service	Other Non-major Governmental Funds	Total
ASSETS						
Cash and investments	\$ 13,499,490	\$ 202,130	\$ 15,346,271	\$ 3,554,939	\$ 18,514,299	\$ 51,117,129
Receivables, net:						
Taxes	9,192,543	-	-	-	-	9,192,543
Accounts	67,621	-	-	-	-	67,621
Accrued interest	16,298	-	9,788	-	916,460	942,546
Assessments	-	-	-	12,420,000	-	12,420,000
Due from other agencies	-	403,410	-	-	2,883,182	3,286,592
Due from other funds	1,894,822	-	-	-	1,197,672	3,092,494
Advances to other funds	1,710,000	-	-	-	940,000	2,650,000
Restricted cash and investments	-	-	-	-	1,139,699	1,139,699
Loans receivable	29,800	13,798,446	-	-	9,984,245	23,812,491
Inventory	16,259	-	-	-	-	16,259
Land and properties held for resale	-	1,891,870	-	-	2,531,999	4,423,869
Total assets	<u>\$ 26,426,833</u>	<u>\$ 16,295,856</u>	<u>\$ 15,356,059</u>	<u>\$ 15,974,939</u>	<u>\$ 38,107,556</u>	<u>\$ 112,161,243</u>
LIABILITIES						
Accounts payable	\$ 6,106,542	\$ 103,360	\$ -	\$ -	\$ 2,193,268	\$ 8,403,170
Due to other funds	12,486,883	454,926	81,707	-	1,520,448	14,543,964
Deferred revenue	-	13,798,446	-	12,420,000	2,614,583	28,833,029
Total liabilities	<u>18,593,425</u>	<u>14,356,732</u>	<u>81,707</u>	<u>12,420,000</u>	<u>6,328,299</u>	<u>51,780,163</u>
FUND BALANCE						
Nonspendable	1,756,059	1,891,870	-	-	12,516,244	16,164,173
Restricted	-	140,353	15,274,352	3,554,939	15,176,804	34,146,448
Committed	2,018,900	-	-	-	2,000,000	4,018,900
Assigned	2,668,262	-	-	-	2,675,544	5,343,806
Unassigned	1,390,187	(93,099)	-	-	(589,335)	707,753
Total fund balances	<u>7,833,408</u>	<u>1,939,124</u>	<u>15,274,352</u>	<u>3,554,939</u>	<u>31,779,257</u>	<u>60,381,080</u>
Total liabilities and fund balances	<u>\$ 26,426,833</u>	<u>\$ 16,295,856</u>	<u>\$ 15,356,059</u>	<u>\$ 15,974,939</u>	<u>\$ 38,107,556</u>	<u>\$ 112,161,243</u>

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT WIDE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total fund balances - total governmental funds (page F-23)		\$ 60,381,080
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.		168,613,744
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.		(451,210)
Deferred revenues are adjusted as follows:		
Deferred revenues resulting from revenues that are not available to liquidate liabilities of the current period in the governmental funds are reclassified as revenues in the statement of net assets.		13,798,446
Taxes receivable not collectible within sixty days are not available to pay current period expenditures and, therefore, are not reported in the funds.		205,829
Internal service funds are used by management to charge the costs of insurance programs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net assets.		1,818,340
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet as follows:		
Annual leave	\$ (9,350,515)	
Estimated insurance claims	(3,358,409)	
Net pension obligation	(28,194)	
Capital leases	(1,589,881)	
Certificates of participation	(12,625,000)	
Assessment bonds	<u>(14,870,000)</u>	(41,821,999)
The Other Post Employment Benefit (OPEB) obligation is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(6,043,704)
Deferred charges for bond issuance costs are not reported in the governmental funds balance sheet.		<u>1,713,186</u>
Net Assets of governmental activities (page F-19)		<u><u>\$ 198,213,712</u></u>

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General and Measure V	Housing & Urban Development	Development Fees	Assessment District Debt Service	Other Non-major Governmental Funds	Total
REVENUES						
Taxes	\$ 76,427,015	\$ -	\$ -	\$ -	\$ 3,371,764	\$ 79,798,779
Taxes - special assessments	-	-	-	3,406,774	1,484,475	4,891,249
Licenses and permits	947,445	-	-	-	-	947,445
Intergovernmental	473,851	3,565,495	-	-	11,366,091	15,405,437
Charges for services	4,226,420	-	674,548	-	380,288	5,281,256
Interest	67,308	10	53,312	-	221,693	342,323
Rental income	88,366	-	-	-	195,611	283,977
Fines and forfeits	62,409	-	-	-	592,304	654,713
Miscellaneous	197,497	150,993	1,509	-	20,578	370,577
Total revenues	<u>82,490,311</u>	<u>3,716,498</u>	<u>729,369</u>	<u>3,406,774</u>	<u>17,632,804</u>	<u>107,975,756</u>
EXPENDITURES						
Current:						
General government	16,832,675	3,704,095	-	-	954,288	21,491,058
Public safety	49,919,873	-	-	-	4,813,077	54,732,950
Public works	10,888,159	-	-	-	-	10,888,159
Recreation	1,363,560	-	-	-	1,289,397	2,652,957
Library	3,439,691	-	-	-	285,007	3,724,698
Contribution to other agency	-	-	-	-	88,790	88,790
Capital outlay	73,752	-	9,317	-	10,724,635	10,807,704
Debt service:						
Principal retirement	-	-	-	2,125,000	2,069,234	4,194,234
Interest and fiscal charges	-	-	-	894,501	1,131,480	2,025,981
Parking Structure debt	-	-	-	-	544,250	544,250
Pass through tax	-	-	-	-	134,002	134,002
Total expenditures	<u>82,517,710</u>	<u>3,704,095</u>	<u>9,317</u>	<u>3,019,501</u>	<u>22,034,160</u>	<u>111,284,783</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(27,399)</u>	<u>12,403</u>	<u>720,052</u>	<u>387,273</u>	<u>(4,401,356)</u>	<u>(3,309,027)</u>
OTHER FINANCING SOURCES (USES)						
Loan proceeds	-	-	-	-	650,625	650,625
Loans receivable forgiven	-	-	-	-	(18,000)	(18,000)
Gain on sale of assets	-	-	-	-	583,032	583,032
Operating transfers in	2,762,327	-	-	-	25,065,937	27,828,264
Operating transfers out	(5,960,900)	(310,320)	(1,858,848)	-	(20,449,257)	(28,579,325)
Total other financing sources (uses)	<u>(3,198,573)</u>	<u>(310,320)</u>	<u>(1,858,848)</u>	<u>-</u>	<u>5,832,337</u>	<u>464,596</u>
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY LOSS	<u>(3,225,972)</u>	<u>(297,917)</u>	<u>(1,138,796)</u>	<u>387,273</u>	<u>1,430,981</u>	<u>(2,844,431)</u>
Extraordinary gain/(loss) - Note 30	-	-	-	-	(2,007,636)	(2,007,636)
NET CHANGE IN FUND BALANCES	<u>(3,225,972)</u>	<u>(297,917)</u>	<u>(1,138,796)</u>	<u>387,273</u>	<u>(576,655)</u>	<u>(4,852,067)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>11,059,380</u>	<u>2,237,041</u>	<u>16,413,148</u>	<u>3,167,666</u>	<u>32,355,912</u>	<u>65,233,147</u>
FUND BALANCES, END OF YEAR	<u>\$ 7,833,408</u>	<u>\$ 1,939,124</u>	<u>\$ 15,274,352</u>	<u>\$ 3,554,939</u>	<u>\$ 31,779,257</u>	<u>\$ 60,381,080</u>

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
GOVERNMENT WIDE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds (page F-25)		\$ (4,852,067)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		(714,417)
Net increase (decrease) in taxes receivable not collectible within sixty days.		(887,388)
Deferred revenues of new housing loans are reported in the statement of net assets.		1,791,175
Deferred revenues of principal payments are reported in the statement of net assets.		(1,299,911)
Issuance of long-term debt including capital advances, compensating absences, and leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources in governmental funds. Neither transaction has any affect on net assets. Also, governmental funds report the affect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Following is the net affect of these differences in the treatment of long-term debt and related items:		
Increase in benefits' liability	\$(1,348,910)	
Net pension obligation	4,830	
Capital leases	165,086	
Loans and notes payable	87,369	
Certificates of participation	510,000	
Bonds payable	821,240	
Assessment district 1915 act bonds	<u>2,125,000</u>	2,364,615
Transfer of net capital assets and long-term debt of the former Redevelopment Agency previously reported in the government-wide financial statements to the Successor Agency -		5,767,952
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.		(1,069,984)
Governmental funds report the affect of issuance costs and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net current period change in deferred charges for bond affect of the bond issuance costs on bonds.		(116,909)
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 gunds. This amount is the current year net change in interest payable.		185,895
Internal service funds are used by management to charge the costs of activities involved in rendering services to departments within the City. The assets and liabilities of the internal service funds are included in the statement of net assets.		<u>(351,643)</u>
Change in net assets of governmental activities (page F-20)		<u>\$ 817,318</u>

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 by user fees and by 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.

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 FUND NET ASSETS (DEFICITS)
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-type Activities - Enterprise Funds								Governmental Activity	
	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer	Storm Sewer	Landfill Garbage Surcharge	Water Utility	Parking District	Totals	Internal Service
ASSETS										
Current assets:										
Cash and investments	\$ 144,208	\$ 1,500,960	\$ 516,861	\$ 2,362,392	\$ 695,094	\$ -	\$ 44,053	\$ 162,687	\$ 5,426,255	\$ 6,838,478
Receivables, net										
Accounts	225,422	302,791	16,667	194,547	9,672	-	5,568	45,669	800,336	30
Accrued interest	116	1,016	-	1,356	409	-	-	-	2,897	4,581
Deferred charges	-	7,430	1,172,060	782,623	-	-	-	800,156	2,762,269	-
Due from general fund	-	-	-	-	-	-	-	-	-	11,466,660
Total current assets	<u>369,746</u>	<u>1,812,197</u>	<u>1,705,588</u>	<u>3,340,918</u>	<u>705,175</u>	<u>-</u>	<u>49,621</u>	<u>1,008,512</u>	<u>8,991,757</u>	<u>18,309,749</u>
Noncurrent assets:										
Due from other agencies	-	-	-	-	-	3,405,605	-	-	3,405,605	-
Restricted cash and investments	-	-	914,885	6,979,001	-	-	-	1,148,395	9,042,281	248,374
Capital assets										
Nondepreciable	4,048,202	1,088,394	-	1,027,278	-	-	-	16,016	6,179,890	-
Depreciable buildings, property, and infrastructure, net	11,459,524	4,187,073	4,538,595	36,101,724	53,778,849	-	118,078	12,971,797	123,155,640	-
Net capital assets	<u>15,507,726</u>	<u>5,275,467</u>	<u>4,538,595</u>	<u>37,129,002</u>	<u>53,778,849</u>	<u>-</u>	<u>118,078</u>	<u>12,987,813</u>	<u>129,335,530</u>	<u>-</u>
Total noncurrent assets	<u>15,507,726</u>	<u>5,275,467</u>	<u>5,453,480</u>	<u>44,108,003</u>	<u>53,778,849</u>	<u>3,405,605</u>	<u>118,078</u>	<u>14,136,208</u>	<u>141,783,416</u>	<u>248,374</u>
Total assets	<u>15,877,472</u>	<u>7,087,664</u>	<u>7,159,068</u>	<u>47,448,921</u>	<u>54,484,024</u>	<u>3,405,605</u>	<u>167,699</u>	<u>15,144,720</u>	<u>150,775,173</u>	<u>18,558,123</u>
LIABILITIES										
Current liabilities:										
Accounts payable	60,346	76,388	2,035	64,240	62,125	-	1,266	66,313	332,713	67,978
Deposits	44,925	-	-	-	-	-	-	-	44,925	-
Due to other funds	1,053	2,857	-	7,484	237	-	-	-	11,631	-
Insurance claims payable	-	-	-	-	-	-	-	-	-	16,669,379
Interest payable	-	4,980	81,710	245,756	871	-	-	223,146	556,463	-
Long term debt - due within one year	35,831	89,459	335,000	391,307	46,621	-	-	453,435	1,351,653	485
Total current liabilities	<u>142,155</u>	<u>173,684</u>	<u>418,745</u>	<u>708,787</u>	<u>109,854</u>	<u>-</u>	<u>1,266</u>	<u>742,894</u>	<u>2,297,385</u>	<u>16,737,842</u>
Noncurrent Liabilities:										
Advance from general fund	-	-	150,000	-	-	-	-	1,560,000	1,710,000	-
Deferred revenue	-	-	-	180,663	-	-	-	-	180,663	-
Long term debt - due in more than one year	105,815	202,836	10,615,000	17,710,226	107,377	-	-	14,407,923	43,149,177	1,941
Total noncurrent liabilities	<u>105,815</u>	<u>202,836</u>	<u>10,765,000</u>	<u>17,890,889</u>	<u>107,377</u>	<u>-</u>	<u>-</u>	<u>15,967,923</u>	<u>45,039,840</u>	<u>1,941</u>
Total liabilities	<u>247,970</u>	<u>376,520</u>	<u>11,183,745</u>	<u>18,599,676</u>	<u>217,231</u>	<u>-</u>	<u>1,266</u>	<u>16,710,817</u>	<u>47,337,225</u>	<u>16,739,783</u>
Net Assets:										
Invested in capital assets, net of related debt	15,397,645	5,005,467	(6,411,405)	19,134,002	53,759,071	-	118,078	(1,855,721)	85,147,137	-
Restricted	-	20,161	914,885	6,989,095	8,236	-	-	1,158,392	9,090,769	248,374
Unrestricted	231,857	1,685,516	1,471,843	2,726,148	499,486	3,405,605	48,355	(868,768)	9,200,042	1,569,966
Total net assets (deficits)	<u>\$ 15,629,502</u>	<u>\$ 6,711,144</u>	<u>\$ (4,024,677)</u>	<u>\$ 28,849,245</u>	<u>\$ 54,266,793</u>	<u>\$ 3,405,605</u>	<u>\$ 166,433</u>	<u>\$ (1,566,097)</u>	<u>\$ 103,437,948</u>	<u>\$ 1,818,340</u>

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (DEFICITS)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds								Governmental Activity	
	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer	Storm Sewer	Landfill Garbage Surcharge	Water Utility	Parking District	Totals	Internal Service
OPERATING REVENUES:										
Charges for services										
Fees	\$ 2,775	\$ 1,376,283	\$ -	\$ 2,860,498	\$ 50,111	\$ -	\$ 5,568	\$ -	\$ 4,295,235	\$ 11,414,016
Licenses and permits	6,294	-	-	-	-	-	-	376,319	382,613	-
Rental income	1,197,262	-	675,000	-	-	-	-	-	1,872,262	-
Total operating revenues	<u>1,206,331</u>	<u>1,376,283</u>	<u>675,000</u>	<u>2,860,498</u>	<u>50,111</u>	<u>-</u>	<u>5,568</u>	<u>376,319</u>	<u>6,550,110</u>	<u>11,414,016</u>
Operating Expenses:										
Personnel services	495,164	228,970	-	710,691	1,001,162	-	-	104,743	2,540,730	284,410
Administration	169,653	127,038	-	241,683	195,885	-	1,009	71,321	806,589	-
Contractual services	177,087	165,930	46,767	26,074	54,170	-	7,220	307,142	784,390	416,643
Supplies	70,142	16,195	-	128,800	126,259	-	-	6,967	348,363	1,832
Insurance	20,000	18,500	-	44,800	25,500	-	-	-	108,800	723,741
Insurance claims	-	-	-	-	-	-	-	-	-	10,362,332
Fees and permits (taxes)	47,264	10,437	-	-	-	-	-	-	57,701	-
Utilities	103,354	312,952	-	166,863	3,712	-	-	51,764	638,645	-
Depreciation	685,898	174,026	555,735	1,477,570	2,616,862	-	10,267	573,049	6,093,407	-
Amortization	-	2,476	71,153	32,367	-	-	-	36,371	142,367	-
Land rent	-	-	-	-	-	-	-	-	-	-
Other	23,698	5,743	15,977	19,085	8,740	-	-	1,003	74,246	272
Total operating expenses	<u>1,792,260</u>	<u>1,062,267</u>	<u>689,632</u>	<u>2,847,933</u>	<u>4,032,290</u>	<u>-</u>	<u>18,496</u>	<u>1,152,360</u>	<u>11,595,238</u>	<u>11,789,230</u>
Operating income (loss)	<u>(585,929)</u>	<u>314,016</u>	<u>(14,632)</u>	<u>12,565</u>	<u>(3,982,179)</u>	<u>-</u>	<u>(12,928)</u>	<u>(776,041)</u>	<u>(5,045,128)</u>	<u>(375,214)</u>
NONOPERATING REVENUES (EXPENSES)										
Investment income	499	4,840	77	6,436	2,295	275,946	-	121	290,214	23,571
Interest expense	-	(21,679)	(263,467)	(587,977)	1,855	-	-	(677,896)	(1,549,164)	-
Gain (loss) on disposition of fixed assets	-	-	-	-	-	-	-	-	-	-
Other nonoperating revenues (expenses)	8,725	-	-	10,627	-	-	-	-	19,352	-
Total nonoperating revenues(expenses)	<u>9,224</u>	<u>(16,839)</u>	<u>(263,390)</u>	<u>(570,914)</u>	<u>4,150</u>	<u>275,946</u>	<u>-</u>	<u>(677,775)</u>	<u>(1,239,598)</u>	<u>23,571</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(576,705)</u>	<u>297,177</u>	<u>(278,022)</u>	<u>(558,349)</u>	<u>(3,978,029)</u>	<u>275,946</u>	<u>(12,928)</u>	<u>(1,453,816)</u>	<u>(6,284,726)</u>	<u>(351,643)</u>
Contributed assets	418,465	13,544	-	67,943	9,316	-	-	-	509,268	-
Contribution for parking structure debt	-	-	-	-	-	-	-	1,088,500	1,088,500	-
General fund advance forgiven	-	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	1,475,000	-	-	-	1,475,000	-
Transfers out	(10,799)	(49,991)	-	(147,257)	(131,906)	(385,097)	-	-	(725,050)	-
CHANGE IN NET ASSETS	<u>(169,039)</u>	<u>260,730</u>	<u>(278,022)</u>	<u>(637,663)</u>	<u>(2,625,619)</u>	<u>(109,151)</u>	<u>(12,928)</u>	<u>(365,316)</u>	<u>(3,937,008)</u>	<u>(351,643)</u>
NET ASSETS, BEGINNING OF YEAR	<u>15,798,541</u>	<u>6,450,414</u>	<u>(3,746,655)</u>	<u>29,486,908</u>	<u>56,892,412</u>	<u>3,514,756</u>	<u>179,361</u>	<u>(1,200,781)</u>	<u>107,374,956</u>	<u>2,169,983</u>
NET ASSETS (DEFICITS), END OF YEAR	<u>\$ 15,629,502</u>	<u>\$ 6,711,144</u>	<u>\$ (4,024,677)</u>	<u>\$ 28,849,245</u>	<u>\$ 54,266,793</u>	<u>\$ 3,405,605</u>	<u>\$ 166,433</u>	<u>\$ (1,566,097)</u>	<u>\$ 103,437,948</u>	<u>\$ 1,818,340</u>

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Airport	Industrial Waste	Municipal Golf Courses	Sanitary Sewer	Storm Sewer	Landfill Garbage Surcharge	Water Utility	Parking District	Totals	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:										
Receipts from customer and users	\$ 1,111,849	\$ 1,301,277	\$ 683,334	\$ 3,332,849	\$ 43,019	\$ -	\$ 7,771	\$ 420,402	\$ 6,900,501	\$ 489,313
Receipts from interfund services provided	-	-	-	-	-	-	-	-	-	5,802,988
Payments to suppliers	(594,619)	(668,478)	(135,220)	(663,913)	(415,182)	-	(7,738)	(436,926)	(2,922,076)	(1,136,480)
Payments to employees	(488,325)	(226,279)	-	(708,476)	(997,404)	-	-	(114,363)	(2,534,847)	(282,634)
Payments to claimants	-	-	-	-	-	-	-	-	-	(5,312,931)
Net Cash Provided (Used) by Operating Activities	<u>28,905</u>	<u>406,520</u>	<u>548,114</u>	<u>1,960,460</u>	<u>(1,369,567)</u>	<u>-</u>	<u>33</u>	<u>(130,887)</u>	<u>1,443,578</u>	<u>(439,744)</u>
Cash Flows from Non-Capital Financing Activities:										
Other non-operating revenue	8,725	-	-	-	-	-	-	-	8,725	-
Deposits	(23,871)	-	-	-	-	-	-	-	(23,871)	-
Advance received from General Fund	-	-	-	-	-	-	-	200,000	200,000	-
Payment on Advance from General Fund	-	-	-	-	-	-	-	-	-	-
Due from other agencies	22,422	-	-	-	-	-	-	-	22,422	-
Contribution from SRA	-	-	-	-	-	-	-	1,088,500	1,088,500	-
Operating transfers in	-	-	-	-	1,475,000	-	-	-	1,475,000	-
Operating transfers out	(10,799)	(49,991)	-	(147,257)	(131,906)	(385,097)	-	-	(725,050)	-
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(3,523)</u>	<u>(49,991)</u>	<u>-</u>	<u>(147,257)</u>	<u>1,343,094</u>	<u>(385,097)</u>	<u>-</u>	<u>1,288,500</u>	<u>2,045,726</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:										
Acquisition of capital assets	(78,248)	(95,791)	-	(27,696)	(18,108)	-	-	(202,081)	(421,924)	-
Net proceeds from capital debt	-	-	-	5,949,057	-	109,150	-	128,534	6,186,741	-
Deferred bond issuance costs	-	2,476	71,153	32,367	-	-	-	36,371	142,367	-
Principal paid on capital debt	-	(75,000)	(320,000)	(430,000)	(42,157)	-	-	(405,000)	(1,272,157)	-
Interest paid on capital debt	-	(23,063)	(267,034)	(588,608)	-	-	-	(680,622)	(1,559,327)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(78,248)</u>	<u>(191,378)</u>	<u>(515,881)</u>	<u>4,935,120</u>	<u>(60,265)</u>	<u>109,150</u>	<u>-</u>	<u>(1,122,798)</u>	<u>3,075,700</u>	<u>-</u>
Cash Flows from Investing Activities:										
Interest received	679	5,639	76	5,531	1,793	275,947	-	121	289,786	25,793
Increase (decrease) in fair value of investments	(109)	(490)	-	526	296	-	-	-	223	(1,383)
Transfer (to) from restricted cash	-	-	45,981	(5,947,472)	-	-	-	(7)	(5,901,498)	170,666
Net Cash Provided by Investing Activities	<u>570</u>	<u>5,149</u>	<u>46,057</u>	<u>(5,941,415)</u>	<u>2,089</u>	<u>275,947</u>	<u>-</u>	<u>114</u>	<u>(5,611,489)</u>	<u>195,076</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(52,296)	170,300	78,290	806,908	(84,649)	-	33	34,929	953,515	(244,668)
Cash and Cash Equivalents at Beginning of Year	196,504	1,330,660	438,571	1,555,484	779,743	-	44,020	127,758	4,472,740	7,083,146
Cash and Cash Equivalents at End of Year	<u>\$ 144,208</u>	<u>\$ 1,500,960</u>	<u>\$ 516,861</u>	<u>\$ 2,362,392</u>	<u>\$ 695,094</u>	<u>\$ -</u>	<u>\$ 44,053</u>	<u>\$ 162,687</u>	<u>\$ 5,426,255</u>	<u>\$ 6,838,478</u>

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Airport</u>	<u>Industrial Waste</u>	<u>Municipal Golf Courses</u>	<u>Sanitary Sewer</u>	<u>Storm Sewer</u>	<u>Landfill Garbage Surcharge</u>	<u>Water Utility</u>	<u>Parking District</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:										
Operating income (loss)	\$ (585,929)	\$ 314,016	\$ (14,632)	\$ 12,565	\$ (3,982,179)	\$ -	\$ (12,928)	\$ (776,041)	\$ (5,045,128)	\$ (375,214)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:										
Depreciation	685,898	174,026	555,735	1,477,570	2,616,862	-	10,267	573,049	6,093,407	-
(Increase) decrease in accounts receivable	(298)	(75,006)	8,333	472,350	(7,093)	-	2,203	44,083	444,572	135
Increase (decrease) in allowance for bad debt	(94,184)	-	-	-	-	-	-	-	(94,184)	-
(Increase) decrease in due from General Fund	-	-	-	-	-	-	-	-	-	(5,578,834)
Increase (decrease) in accounts payable	16,580	(7,837)	(1,322)	(6,970)	(16,073)	-	491	34,571	19,440	(21,213)
Increase (decrease) in insurance claims	-	-	-	-	-	-	-	-	-	5,532,956
Increase (decrease) in accrued leave	6,838	1,321	-	4,945	18,916	-	-	(6,549)	25,471	2,426
Increase (decrease) in restricted cash	-	-	-	-	-	-	-	-	-	49,354
Transfer (to) from restricted cash	-	-	-	-	-	-	-	-	-	(49,354)
Total adjustments to net income	614,834	92,504	562,746	1,947,895	2,612,612	-	12,961	645,154	6,488,706	(64,530)
Net Cash Provided by Operating Activities	<u>\$ 28,905</u>	<u>\$ 406,520</u>	<u>\$ 548,114</u>	<u>\$ 1,960,460</u>	<u>\$ (1,369,567)</u>	<u>\$ -</u>	<u>\$ 33</u>	<u>\$ (130,887)</u>	<u>\$ 1,443,578</u>	<u>\$ (439,744)</u>

The accompanying notes are an integral part of this statement.

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, Monterey Regional Water Pollution Control Agency (MRWPCA) Fees, Sales Tax, Payroll Taxes, Developer Deposits, Evidence Room, Construction Bonds, Monterey County Tourism Improvement District, Leadership Salinas, and miscellaneous.

This fund also accounts for the Successor Agency of the former Redevelopment Agency which was dissolved on January 31, 2012 pursuant to state law.

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: Sunrise House, Economic Development, Salinas Valley Enterprise Zone, 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, 2012

	Private Purpose Trust	Pension Trust	Agency	Total
ASSETS				
Cash and investments	\$ 2,791,803	\$ 16,314,552	\$ 910,586	\$ 20,016,941
Receivables				
Taxes	100,862			100,862
Accounts	30,008	-	125,089	155,097
Interest	5,352	740	198	6,290
Loans and notes receivable	699,290	-	-	699,290
Due from other agencies	-	-	83,623	83,623
Total current assets	<u>3,627,315</u>	<u>16,315,292</u>	<u>1,119,496</u>	<u>21,062,103</u>
Noncurrent assets				
Restricted cash and investments	1,592,904	-	-	1,592,904
Deferred charges	298,269	-	-	298,269
Capital assets, net	160,866	-	-	160,866
Total noncurrent assets	<u>2,052,039</u>	<u>-</u>	<u>-</u>	<u>2,052,039</u>
Total assets	<u>5,679,354</u>	<u>16,315,292</u>	<u>1,119,496</u>	<u>23,114,142</u>
LIABILITIES				
Current liabilities				
Accounts payable	1,729,253	2,600	243,050	1,974,903
Due to outside agencies	27,909	-	-	27,909
Due to other funds	3,559	-	-	3,559
Advance from other funds	940,000	-	-	940,000
Deferred revenues	4,624	-	(23,979)	(19,355)
Interest payable	270,703	-	-	270,703
Long term debt - due within one year	889,928	-	13,381	903,309
Total current liabilities	<u>3,865,976</u>	<u>2,600</u>	<u>232,452</u>	<u>4,101,028</u>
Long-term liabilities				
Long term debt - due in more than one year	5,240,061	-	53,524	5,293,585
Total long-term liabilities	<u>5,240,061</u>	<u>-</u>	<u>53,524</u>	<u>5,293,585</u>
Total liabilities	<u>9,106,037</u>	<u>2,600</u>	<u>285,976</u>	<u>9,394,613</u>
NET ASSETS				
Held in trust for benefits and other purposes	<u>\$ (3,426,683)</u>	<u>\$ 16,312,692</u>	<u>\$ 833,520</u>	<u>\$ 13,719,529</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, 2012

	Private Purpose Trust	Pension Trust	Total
ADDITIONS			
Taxes	\$ 1,889,772	\$ -	\$ 1,889,772
Rental income	15,818	-	15,818
Miscellaneous	6,916	-	6,916
Contributions			
Plan members		481,839	481,839
Private donations	728,783	-	728,783
Total contributions	<u>2,641,289</u>	<u>481,839</u>	<u>3,123,128</u>
Investment earnings			
Interest	62,646	744,390	807,036
Net investment earnings	<u>62,646</u>	<u>744,390</u>	<u>807,036</u>
Transfers in	161,687	-	161,687
Total additions	<u>2,865,622</u>	<u>1,226,229</u>	<u>4,091,851</u>
DEDUCTIONS			
Benefit payments	-	2,689,609	2,689,609
Payments on behalf of trustees	3,348,941	-	3,348,941
Transfers out	160,576	-	160,576
Total deductions	<u>3,509,517</u>	<u>2,689,609</u>	<u>6,199,126</u>
Additions over(under) deductions before extraordinary loss	(643,895)	(1,463,380)	(2,107,275)
Extraordinary loss - Note 30	<u>(3,760,316)</u>	<u>-</u>	<u>(3,760,316)</u>
CHANGE IN NET ASSETS	(4,404,211)	(1,463,380)	(5,867,591)
NET ASSETS			
BEGINNING OF THE YEAR	<u>977,528</u>	<u>17,776,072</u>	<u>18,753,600</u>
END OF YEAR	<u>\$ (3,426,683)</u>	<u>\$ 16,312,692</u>	<u>\$ 12,886,009</u>

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies:

A. Reporting Entity

Description of the 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.

The basic financial statements of the City of Salinas, California (City), include the financial activities of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. The blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units is combined with data of the primary government. The City has no discretely presented component units. The City and its blended component units have June 30 year ends.

Blended Component Units

City of Salinas Redevelopment Agency – The City of Salinas Redevelopment Agency (the Agency) was created by the City Council with the authority and responsibility for redeveloping and upgrading blighted areas of the City. The Agency is financed by property tax increments according to the State Community Redevelopment Law. The Agency's purpose was to eliminate blighted areas by encouraging the development of residential, including low and moderate-income housing, commercial and industrial facilities. The Redevelopment Agency was 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's Executive Director, Legal Counsel, and Treasurer. In the attached statements, the Agency is presented in the Special Revenue, Debt Service and Capital Projects Funds.

However on December 29, 2011, the California Supreme Court upheld Assembly Bill 1X26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California, effective January 31, 2012. This action impacted the reporting entity of the City of Salinas which had previously reported a redevelopment agency within the reporting entity of the City as a blended component unit. Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private purpose trust fund) in the financial statements of the City.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill. See Note 29 – Successor Agency Trust for Assets of Former Redevelopment Agency.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

The 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 the following dates for the following purposes:

- April 19, 1994 - to issue a site lease to finance the expansion of the industrial waste facility.
- September 17, 1996 - to issued Central City Revitalization Project Tax Allocation Bonds, Series A 1996.
- March 25, 1997 - issue Variable Rate Lease Revenue Bonds, Series A and B 1997.
- October 24, 1997 - to issue Certificates of Participation, Series A 1997.
- February 25, 1999 - to issue Certificates of Participation, Series A 1999.
- December 17, 2003 - to issue Certificates of Participation, Series A 2004.
- September 1, 2005 - issue Refunding Certification of Participation, Series 2005 A and B
- 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. The Agency will be succeeded by the Successor Agency for the former Redevelopment Agency.

Other Organizations

The City of Salinas acts as fiscal agent for Sunrise House and Second Chance Youth Program; therefore, financial information for these agencies are included in the accompanying financial statements as fiduciary fund types.

B. Financial Statement Presentation

In recent years, the City's General Fund has struggled to balance its revenues and expenditures, and has attempted to balance its deficit spending through the sale of surplus assets, reduction in employee compensation packages and reductions in workforce. Additionally, the economic downturn had a considerable negative impact to the City's revenues. For the long term, the City believes additional revenues will be generated by an increase in sales tax revenues mainly due to the recovery of the economy and new commercial development. The City will address the structural deficit by prioritizing service levels, optimizing cost recovery and reviewing all opportunities to increase revenues. The City believes that success in increasing revenues and controlling cost is achievable and that available cash and cash equivalents will provide adequate liquidity to fund the City's operations through at least June 30, 2013.

Government-Wide Financial Statements - The statement of net assets and statement of activities display information about the primary government (City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which are normally supported by taxes and inter-governmental revenues, are reported separately from business type activities, which rely to a significant extent on fees charged to external parties.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements – The fund financial statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise of assets, liabilities, fund equity, revenues, expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis of the fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

- General Fund and Measure V - is the general operating fund of the City. It accounts for all financial resources traditionally associated with governments, which are not required to be 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.
- 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 citizens and handicapped citizens.
- Development Fees – This fund accounts for fees paid by subdividers and developers of property, by Resolution 3823 (N.C.S.), covering traffic impact, annexation, use of existing or new sewers, storm drains, park facilities, library facilities and street trees.
- 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
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

The City reports the following major enterprise funds:

- Airport Fund – This fund accounts for the operations of the City owned airport. The activities necessary to provide such service are accounted for in the fund, including, but not limited to, operations, maintenance, financing and related debt service, and billing and collection.
- Industrial Waste Fund – This fund accounts for the operations of the City operated Industrial Waste Water treatment facility.
- Municipal Golf Courses Fund - This fund accounts for the operations of Fairways and Twin Creek golf courses.
- Sanitary Sewer Fund – This fund accounts 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 accounts 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 accounts for the installment sale of the Crazy Horse landfill site to the Salinas Valley Solid Waste Authority.
- Water Utility Fund – This fund accounts 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.
- Parking District Fund – This fund accounts for the operations of the City’s parking facilities. The activities necessary to provide such services are accounted for in the fund, including, but not limited to, operations, maintenance, financing and related debt service, and billing and collection.

The City reports the following additional fund types:

- Internal Service Fund (a proprietary fund type) accounts for the services provided to internal users (other departments or agencies).
- Fiduciary Fund accounts for the assets held in a trustee or agency capacity for others and therefore cannot be used to support the government’s own programs. The private-purpose trust funds accounts for assets and activities of the dissolved Redevelopment Agency, which is accounted for in the Successor Agency Trust, and other trust arrangements not properly reported in a pension trust. The pension trust funds account for resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plan, other post-employment benefit plans, other employee benefit plans. The agency fund is used to account for assets held in an agency capacity by the City for individuals, private organizations, other governments and/or other funds.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

C. Measurement Focus and Basis of Accounting

Measurement focus and basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, Other Post Employment Benefits (OPEB), claims and judgments, are recorded only when payment is due.

Sales tax, utility users' tax, charges for services and intergovernmental revenue are recognized in the period when eligibility requirements are met. Licenses and permits, fines and forfeitures, and miscellaneous revenues are generally recorded as revenue when received in cash, because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

All property taxes are collected and allocated by the County of Monterey to the various taxing entities. Property taxes are determined annually as of January 1 and attached as enforceable liens on real property as July 1. Taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. Secured property taxes become a lien on the property on March 1. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31. Property tax revenues are recognized in the fiscal period for which they are levied and collected, adjusted for any amounts deemed uncollectible and amounts expected to be collected more than 60 days after the fiscal year.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

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.

Property Tax Levy, Collection and Maximum Rates - The State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent of its assessed value unless an additional amount for debt or assessments has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased no more than two percent per year unless the property is sold, transferred or improved. The State Legislature has determined the method of distribution of receipts from a one percent tax levy among the counties, cities, school districts and other districts.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

For its business-type activities and enterprise funds, the City has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards that, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United State of America (GAAP) for governmental units.

D. Interest Earnings

Interest received on time deposits and investments is prorated quarterly to the following funds generally based on an average of three month ending cash balances. Interest earned by other funds under this method is allocated to the General Fund.

- General Fund
- Airport Fund
- Industrial Waste Fund
- Asset Seizure Fund
- Local Public Safety Fund
- Community Development Act of 1974 Fund
- Lighting, Landscape and Maintenance District Funds
- Storm Sewer Fund

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

- 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
- 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

E. Cash and Investments

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. For purposes of cash flows, the City considers all liquid market investments with maturities of one year or less at time of purchase to be cash equivalents. 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.

Investment held in Local Agency Investment Fund - 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.

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, 2012, by multiplying its account balance with LAIF times a fair value factor determined by LAIF value for all LAIF participants by total aggregate amortized cost.

Other Investments - Investments are accounted for in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This Statement requires governmental entities to report investments at fair value in the statement of net assets or balance sheet and to recognize the corresponding change in fair value of investments in the year in which the change occurred.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

Investments in nonparticipating interest earning contracts (certificate of deposits) are reported at cost, and all other investments are reported at fair value. Fair value is defined as the amount the City could reasonably expect to receive for an investment in a current sale between a willing buyer and seller and is generally measured by quoted market prices.

Deferred Compensation - The Deferred Compensation Plan is invested in deeds of trust secured by real or personal property and in real estate holdings. The trust deeds are considered nonparticipating interest earning investments and are reported at cost. Due to the economic and real estate downturn, on October 28, 2010, the trust deeds were valued by an independent real estate professional and the real estate holdings and loans have been revalued to current real estate market values. See Note 15 for additional information on the various deferred compensation plans.

F. 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.

G. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

H. Special Assessment Districts

Special assessments are recorded as receivables when they become a lien on property. Special assessments not considered available are recorded as receivables and offset by deferred revenues. In general, special assessments and special tax bonds are fully secured by liens against the privately owned properties benefited by the improvement for which the bonds were issued. There is no reserve for delinquent receivables since priority liens exist against the related properties and hence the City's management believes value will ultimately be received by the City.

I. Interfund-fund Balances/Internal Balances

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans and residual balances outstanding in the fund financial statements are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances to other funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

All other outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

J. Inventory of Supplies

Inventory is valued at average cost, which approximates cost as determined on a first-in-first-out basis. Inventory in the General Fund consists of expendable supplies held for consumption by all departments of the City. The cost is recorded as an expenditure or expense in the appropriate fund at the time individual inventory items are withdrawn for use (consumption method). The General Fund inventory amount is recorded as a nonspendable portion of fund balance because such assets are not available for current operations.

K. Land Held for Resale

Land held for resale is being carried at the lower of cost or market, but no greater than the net realizable value. In the fund financial statements, this amount is recorded as a nonspendable portion of fund balance because such assets are not available for current operations.

L. Restricted Assets

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

M. Capital Assets

Capital assets, which include land, buildings, improvements, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or, for donated assets, at their estimated fair market value on the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. City policy has set the capitalization thresholds for reporting capital assets at the following:

General capital assets	\$ 5,000
Infrastructure capital assets	\$ 150,000

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

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

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

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 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

It is the policy of the City to permit employees to accumulate earned but unused vacation. The City records a liability for its employees' earned but unused accumulated vacation and comp time in entity-wide and proprietary funds. The unused vacation and overtime are expensed in the relative City fund where the employee costs are charged, which incurs the liability.

Eligible employees may accrue a maximum of 600 annual leave hours (75 days). Any hours accumulated in excess of 600 hours are paid at the employee's adjusted hourly rate of pay. For the Firefighter group the maximum is 840 hours for 56 hour shift employees and 600 for 40 hour shift employees. Employees with fewer than 20 years of service may request pay in lieu of Annual Leave up to a maximum of 10 days. Employees with more than 20 years of service may request a maximum of 15 days pay in lieu of annual leave.

P. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. For additional information on deferred revenues, see Note 14.

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

In the Government-wide Financial Statements and the proprietary fund types in the Fund Financial Statements, long-term debt and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using effective interest methods. Bonds Payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the governmental funds statement of revenue, expenditures and changes in fund balance, issuance of debt is recorded as another financing source (use) in the respective fund. Issuance costs and payment of principal are reported as debt service expenditures.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

S. Fund Equity

GASB 54 established fund balance classifications for governmental fund types in the fund financial statements. The classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. In the fund financial statements, the governmental funds may report nonspendable, restricted, committed, assigned, and unassigned fund balances to show the level of constraint governing the use of the funds.

- Nonspendable fund balances cannot be spent, because they are in nonspendable form or are required to be maintained intact.
- Restricted fund balances are restricted for specific purposes by third parties or enabling legislation.
- Committed fund balances include amounts that can be used only for specific purposes determined by formal action of the City Council. These committed amounts cannot be used for any other purpose unless the City removes or changes the specified use through the same type of formal action taken to establish the commitment.
- Assigned fund balances comprise amounts intended to be used by the City for specific purposes but are not restricted or committed. The City Council delegates the authority to assign amounts to be used for specific purposes to the Director of Finance.
- Unassigned fund balances are residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories, and include all deficit amounts in all other governmental funds.

When both restricted and unrestricted resources are available for an incurred expenditure, it is the City's policy to spend restricted resources first then unrestricted resources, as necessary. When unrestricted resources are available for incurred expenditures, it is the City's policy to use committed amounts first, followed by assigned amounts, and then unassigned amounts.

T. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets, excluding unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1. Description of the Reporting Entity and Significant Accounting Policies: (Continued)

V. Self-Insurance

The City is self-insured for workers' compensation, general liability, auto liability, and certain other risks. In the government-wide financial statements, the estimated liability for all self-insurance liability claims are recorded as a liability.

W. GASB Statement No. 51 Implementation

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Management has evaluated the criteria and determined that the adoption of GASB Statement No. 51 did not have any impact on the financial position, results of operation or cash flows of the City.

X. 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.

2. Stewardship, Compliance and Accountability:

A. 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 the 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 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.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

2. Stewardship, Compliance and Accountability: (Continued)

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.

B. Deficit Fund Equity

At June 30, 2012, the following funds had a deficit fund balance or deficit net assets:

Major Funds

Business-type Activities

Municipal Golf Courses Fund	\$ 4,024,677
Parking District Fund	1,566,097

Non-Major Funds

Governmental Activities

Construction Assistance Fund	21,553
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Governmental Funds – Other Nonmajor Fund – Special Construction Assistance Fund

The deficit fund balance in Construction Assistance Fund of \$21,553 is due primarily to amounts advanced by the City for costs associated with the annexation of 2,457 acres for the development of the Future Growth Area. The planned development includes 11,600 dwelling units and 1,600,000 square feet of retail and office commercial space. These costs will be recovered from developer paid annexation fees when subdivision agreements are finalized.

Enterprise Funds – Municipal Golf Courses Fund

The deficit net asset balance of \$4,024,677 is a result of the long-term bonds payable for the 2005A Certificates of Participation and the 2008 Certificated of Participation amounting to \$6,300,000 and \$4,650,000, respectively, exceeding the related assets. This deficit will continue to decline over time as the bonds are paid back.

Enterprise Funds – Parking District Fund

The deficit net assets in the Parking District Fund of \$1,566,097 is a result of the long-term bond payable for the 2004 Certificates of Participation amounting to \$14,715,000. This deficit will continue to decline over time as the bonds are paid back.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

3. Debt Compliance:

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

4. Cash and Investments:

The City's cash and investments at June 30, 2012 are included in the accompanying basic financial statements as follows:

	<u>Government-Wide Statement of Net Assets</u>			<u>Fund 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	\$ 57,955,607	\$ 5,426,255	\$ 63,381,862	\$ 20,016,941	\$ 83,398,803
Restricted Cash and Investments	<u>1,388,073</u>	<u>9,042,281</u>	<u>10,430,354</u>	<u>1,592,904</u>	<u>12,023,258</u>
Total Cash and Investments	<u>\$ 59,343,680</u>	<u>\$ 14,468,536</u>	<u>\$ 73,812,216</u>	<u>\$ 21,609,845</u>	<u>\$ 95,422,061</u>

Cash and investments at June 30, 2012 consisted of the following:

Cash

Demand Accounts at Banks	\$ 3,179,889
Petty Cash and Revolving Fund	<u>15,000</u>
	<u>3,194,889</u>

Investments

State Local Agency Investment Fund	50,737,947
Certificates of Deposits	110,868
Money Market	11,960,594
Investments held in trust by Fiscal Agent	12,855,171
Insurance Reserves	248,041
Deferred Compensation	
Cash in State Local Agency Investment Fund	957,894
Trust Deeds	<u>15,356,657</u>
	<u>92,227,172</u>

Total Cash Investments \$ 95,422,061

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

4. Cash and Investments: (Continued)

Investment income from cash and investment held by fiscal agents is credited directly to the related fund.

Investments are stated at fair value. Investments shown at fair value are used only to assess the actual value if the City were to liquidate the investments before maturity. The City intends to hold all investments to maturity.

As of June 30, 2012, the City's investment in LAIF was \$51,695,841, which has a weighted average maturity of 270 days.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of the City's position in the pool. The City's investment in LAIF is unrated for credit risk.

Investments permitted by the City's investment policy include the following:

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

The Deferred Compensation Plan is permitted by City resolution to invest in deeds of trust secured by real or personal property.

Deposits

At June 30, 2012, the carrying amount of the City's deposits was \$3,179,889. The bank balance was \$4,021,436. The difference is due to outstanding checks and deposits in transit. All bank balances are insured or collateralized.

Investments

As of June 30, 2012, the City had the following investment and maturities:

	Cost	Fair Value	0-12 months	1-5 years	over 5 years
Local Agency					
Investment Fund	\$ 51,632,867	\$ 51,695,841	\$ 51,695,841	\$ -	\$ -
Money Market	11,960,594	11,960,594	11,960,594	-	-
Certificates of Deposits	110,868	110,868	110,868	-	-
Investment Agreements	12,855,171	12,855,171	-	-	12,855,171
Insurance Reserves	248,041	248,041	248,041	-	-
Trust Deeds-Def Comp	15,356,657	15,356,657	-	15,356,657	-
Total	\$ 92,164,198	\$ 92,227,172	\$ 64,015,344	\$ 15,356,657	\$ 12,855,171

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

4. Cash and Investments: (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. As a means of limiting exposure to fair value losses 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, 2012 had an average life of 270 days, it was presented as an investment with a maturity of 0-12 months. However, LAIF allows the City to make withdrawals of any amount within 24 hours. Information about the sensitivity of the fair values of the City investments to market interest rate fluctuations is provided by the preceding table that shows the distribution of the City's investment by maturity.

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

	<u>Fair Value</u>	<u>S&P</u>	<u>Moodys</u>	<u>% of Total</u>
Local Agency Investment Fund	\$ 51,695,841	NR	NR	56.05%
Money Market				
Rabobank	11,960,594	AA-	Aaa/P-1B+	12.97%
Certificates of Deposits				
Rabobank	10,868	AA-	Aaa/P-1B+	0.01%
Pinnacle Bank	100,000	NR	NR	0.11%
Investment Agreements				
Fed PRM Obl	11,273,134	AAAm	Aaa-mf	12.22%
Ally Bank Midvale	230,000	B+	B	0.25%
Capital GFY	1	NR	NR	
Wells Fargo	376,569	AAAm	Aaa-mf	0.41%
Westdeutsche Bank	975,467	BBB-	A1	1.06%
Insurance Reserves	248,041	NR	NR	0.27%
Trust Deeds-Def Comp	15,356,657	NR	NR	16.65%
Total	<u>\$ 92,227,172</u>			<u>100.00%</u>

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. However, the City's investment policy calls for portfolio diversification by avoiding over concentration in a specific maturity sector or specific investments. The City's portfolio is detailed in the preceding table (see above).

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy limits safekeeping of investments to third-party custody.

All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) up to \$250,000 or collateralized with pledge securities held in the trust department of the financial institution in the City's name.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

5. Restricted Assets:

Cash and investments of \$10,430,354 are recorded as restricted assets at June 30, 2012 as follows:

Debt Service Fund:

Debt Service Fund - restricted to cover expenses of debt	\$	1,139,699
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Enterprise Fund:

Restricted to cover expenses of debt service

Golf Courses Fund	\$	914,885	
Sanitary Sewer		6,979,001	
Downtown Parking District		1,148,395	9,042,281

Internal Service Fund:

Restricted for liability expenses and workers compensation		248,374
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Total Restricted Assets	\$	10,430,354
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6. Taxes Receivable:

Taxes receivable recorded in the General Funds of \$9,192,543 represent amounts due for the quarter ending June 30, 2012 for the following taxpayer – assessed taxes:

Sales Tax	\$	3,164,955
Transaction and Use Tax		1,882,349
In-lieu Sales Tax		1,729,137
Utility Users Tax		993,638
Franchise Tax		704,294
Transient Occupancy Tax		435,910
Property Tax		104,503
Vehicle License Fee		80,233
Other Taxes		52,935
Property Transfer Tax		44,589
Total	\$	9,192,543

7. Assessment Receivable:

Debt Service Fund – Assessments receivable recorded in the Assessment District Debt Service Fund of \$12,420,000 at June 30, 2012, will be collected from property owners to retire outstanding bond principal issued for improvements in special assessment districts. Cash and investments at June 30, 2012 of \$3,554,939 are available to make bond and interest payments of \$3,195,897 that are due on September 1, 2012.

Assessment receivables in the amount of \$12,420,000 are not expected to be collected within the subsequent year.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

8. Due From Other Agencies:

Due from other agencies consists of the following:

	Federal	State	Other	Total
Governmental Activities:				
Special Revenue Funds:				
Dept. of Housing & Urban Development:				
CDBG Improvement Program	\$ 291,986	\$ -	\$ -	\$ 291,986
HOME Investment Program	22,832	-	-	22,832
Emergency Shelter Grant	56,858	-	-	56,858
Homelessness Prevention (ARRA)	31,734	-	-	31,734
US Department of Justice	17,136	-	-	17,136
US Department of Justice (ARRA)	500,189	-	-	500,189
California Dept of Motor Vehicles	-	78,575	-	78,575
California Highway Users Tax	-	414,314	-	414,314
Gang Reduction, Interv. and Prevent.	-	167,657	-	167,657
California Office of Traffic Safety (US DOT)	-	80,822	-	80,822
Local JAG Program	18,401	-	-	18,401
COPS Hiring Program	101,449	-	-	101,449
Department of Homeland Security	408,670	-	-	408,670
South Bay Regional Public Safety	122,348	-	-	122,348
Cable Franchise	-	-	46,213	46,213
County of Monterey	-	-	300,596	300,596
	<u>1,571,603</u>	<u>741,368</u>	<u>346,809</u>	<u>2,659,780</u>
Capital Projects Funds:				
Federal Aviation Administration	21,879	-	-	21,879
Federal Highway Administration	212,136	-	-	212,136
Federal Economic Stimulus	18,156	-	-	18,156
Federal Train Grant	31,274	-	-	31,274
TEA Grant	-	13,544	-	13,544
HUD EDI	-	300,747	-	300,747
Air District Grant	-	-	1,390	1,390
Developers	-	-	27,686	27,686
	<u>283,445</u>	<u>314,291</u>	<u>29,076</u>	<u>626,812</u>
Total Governmental Activities	<u>1,855,048</u>	<u>1,055,659</u>	<u>375,885</u>	<u>3,286,592</u>
Business-Type Activities:				
Enterprise Funds:				
Landfill Garbage Surcharge				
Salinas Valley Solid Waste Authority	-	-	3,405,605	3,405,605
Primary Government Totals	<u>\$ 1,855,048</u>	<u>\$ 1,055,659</u>	<u>\$ 3,781,490</u>	<u>\$ 6,692,197</u>

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

9. Interfund Transactions:

Interfund Receivables/Payables (Due to/Due from) – The composition of interfund balances as of June 30, 2012 was as follows:

<u>Due From:</u>	<u>Due To</u>			<u>Total</u>
	<u>Governmental Activities</u>			
	<u>General</u>	<u>Capital Projects</u>	<u>Internal Service</u>	
Primary Government				
Governmental Activities:				
Major Funds:				
General	\$ -	\$ 84,272	\$ 11,466,660	\$ 11,550,932
Measure V	-	935,951	-	935,951
Comm Dev Act of 1974	449,909	5,017	-	454,926
Development Fee	9,621	72,086	-	81,707
Non-Major Funds:				
Emergency Medical Services	-	19,018	-	19,018
Lighting, Landscape & Maintenance	27,519	-	-	27,519
Local Public Safety	483,696	-	-	483,696
Recreation Parks Fund	-	1,223	-	1,223
Gas Tax	-	68,474	-	68,474
Traffic Safety	1,637	-	-	1,637
Debt Service	58,127	-	-	58,127
Construction Assist	131,951	-	-	131,951
Grants	728,803	-	-	728,803
Total Governmental Activities	<u>1,891,263</u>	<u>1,186,041</u>	<u>11,466,660</u>	<u>14,543,964</u>
Business Type Activities:				
Airport	-	1,053	-	1,053
Industrial Waste	-	2,857	-	2,857
Sanitary Sewer	-	7,484	-	7,484
Storm Sewer	-	237	-	237
Downtown Parking	-	-	-	-
Total Business Type Activities	<u>-</u>	<u>11,631</u>	<u>-</u>	<u>11,631</u>
Total Primary Government	<u>1,891,263</u>	<u>1,197,672</u>	<u>11,466,660</u>	<u>14,555,595</u>
Expendable Trust Funds:				
Trust Deposits	3,559	-	-	3,559
Total Expendable Trust Funds	<u>3,559</u>	<u>-</u>	<u>-</u>	<u>3,559</u>
	<u>\$ 1,894,822</u>	<u>\$ 1,197,672</u>	<u>\$ 11,466,660</u>	<u>\$ 14,559,154</u>

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

9. 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. The composition of interfund balances as of June 30, 2012 was as follows:

	Operating Transfers In	Operating Transfers Out
General Fund	\$ 2,762,327	\$ 5,960,900
Special Revenue Funds:		
Emergency Medical Services	522,500	321,543
Lighting, Landscape & Maintenance	-	276,395
Local Public Safety	11,723	-
Housing and Urban Development	-	310,320
Vehicle Abatement Program	50,000	-
Development Fee	-	1,858,848
Gas Tax	-	3,699,019
Traffic Safety	-	611,700
Recreation Parks	-	28,327
Grants	106	3,047
SRA Accounts Transferred to City	-	3,213,330
SRA Public Improvement Grant	1,791,277	-
Redvelopment Agency - Central City Housing	314,124	5,943,983
Redevelopment Agency - Sunset Avenue Merged Housing	243,465	5,745,609
Affordable Housing - Central City Housing	6,860,124	-
Affordable Housing - Sunset Avenue Merged Housing	6,131,521	-
	<u>15,924,840</u>	<u>22,012,121</u>
Debt Service Funds:		
COPS 2005B	780,097	-
COPS 1999	84,000	-
Redvelopment Agency - Central City Housing	120,000	314,124
Redevelopment Agency - Sunset Avenue Merged Housing	-	243,465
	<u>984,097</u>	<u>557,589</u>
Capital Projects Funds:		
Special Aviation	-	48,370
Construction Assistance	294,349	345
Capital Project	7,862,651	-
	<u>8,157,000</u>	<u>48,715</u>
Total Governmental Activities	<u>27,828,264</u>	<u>28,579,325</u>
Enterprise Funds:		
Airport	-	10,799
Industrial Waste	-	49,991
Sanitary Sewer	-	147,257
Storm Sewer	1,475,000	131,906
Solid Waste	-	385,097
Total Business Type Activities	<u>1,475,000</u>	<u>725,050</u>
Total Governmental & Business Activities	<u>29,303,264</u>	<u>29,304,375</u>
Expendable Trust Fund:		
Trust Deposits	161,687	160,576
Total Expendable Trust Fund	<u>161,687</u>	<u>160,576</u>
	<u>\$ 29,464,951</u>	<u>\$ 29,464,951</u>

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

9. Interfund Transactions: (Continued)

Advances to/from other funds

The total advances made from the General Fund to the Municipal Golf Course Fairways fund totaled \$150,000 as of June 30, 2012. The advance offset the bond payment deficit.

An advance of \$200,000 from the General Fund to the Parking District fund was made during fiscal year 2011-2012. The total advances made from the General Fund to the Parking District fund totaled \$1,560,000 as of June 30, 2012. The advance offset the operating deficit experienced while the Downtown Parking Management Plan was 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, 2012.

10. Loans Receivable:

At June 30, 2012, the Government-Wide and Fund Financial Statements show the City had \$23,812,491 in long-term loans receivable, summarized as follows:

<u>Loan Type</u>	<u>Rate</u>	<u>Balance June 30, 2011</u>	<u>New Loans</u>	<u>Principal Payments</u>	<u>Transferred to Private Trust</u>	<u>Balance June 30, 2012</u>
<u>General Fund</u>						
First Time Homebuyers	3.00%	\$ 29,800	\$ -	\$ -	\$ -	\$ 29,800
<u>Special Revenue Funds</u>						
Deferred Housing Rehabilitation	3.00%	2,007,247	30,000	(109,315)	-	1,927,932
Direct Housing Rehabilitation	8.00%	304,616	41,000	(98,723)	-	246,893
First Time Homebuyers	3.00%	1,633,000	-	(121,520)	-	1,511,480
Sherwood Seniors Village	3.00%	2,550,000	-	-	-	2,550,000
Wesley Oaks	3.00%	970,353	-	(970,353)	-	-
Gateway Apartments	3.00%	704,346	500,814	-	-	1,205,160
Small Business Loans	various	-	-	-	-	-
Plaza House	0.00%	95,370	-	-	-	95,370
La Gloria Apartments	3.00%	745,000	-	-	-	745,000
Los Padres Apartments	3.00%	300,000	-	-	-	300,000
Circle of Friends	1.00%	75,000	-	-	-	75,000
Tynan Village	1.00%	2,600,000	-	-	-	2,600,000
Sun Street	1.00%	500,000	-	-	-	500,000
Green Gold Inn	0.00%	157,500	-	-	-	157,500
Tresor Apartments	3.00%	500,000	-	-	-	500,000
Lagunas Haciendas	3.00%	-	1,125,000	-	-	1,125,000
Neighborhood Stabilization Program	0.00%	164,750	94,361	-	-	259,111
		<u>13,307,182</u>	<u>1,791,175</u>	<u>(1,299,911)</u>	<u>-</u>	<u>13,798,446</u>
<u>Central City Project Fund</u>						
Unreinforced Masonry	0.00%	213,063	-	(29,163)	(183,900)	-
<u>Central City Debt Service Fund</u>						
Steinbeck Center Debt	1.00%	484,716	-	-	(484,716)	-

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

10. Loans Receivable: (Continued)

<u>Loan Type</u>	<u>Rate</u>	<u>Balance June 30, 2011</u>	<u>New Loans</u>	<u>Principal Payments</u>	<u>Transferred to Private Trust</u>	<u>Balance June 30, 2012</u>
<u>Affordable Housing - Central City Housing Fund</u>						
First Time Homebuyers	various	\$ 1,123,500	\$ -	\$ (18,000)	\$ -	\$ 1,105,500
Housing Assistance	various	163,550	-	(14,850)	-	148,700
Gateway Apartments	3.00%	1,590,000	105,545	-	-	1,695,545
Tynan Village	3.00%	1,275,000	-	-	-	1,275,000
Tresor Apartments	3.00%	400,000	-	-	-	400,000
La Gloria Apartments	3.00%	434,000	-	-	-	434,000
Lagunas Haciendas	3.00%	-	685,000	-	-	685,000
		<u>4,986,050</u>	<u>790,545</u>	<u>(32,850)</u>	<u>-</u>	<u>5,743,745</u>
<u>Affordable Housing - Sunset Avenue Housing Fund</u>						
Los Padres Apartments	3.00%	1,500,000	-	-	-	1,500,000
First Time Homebuyers	3.00%	95,000	-	-	-	95,000
Los Abuelitos Senior Housing	0.00%	300,000	-	-	-	300,000
Tynan Village	3.00%	725,000	-	-	-	725,000
La Gloria Apartments	0.00%	396,000	-	-	-	396,000
Sunflower Gardens	3.00%	1,000,000	-	-	-	1,000,000
Down Payment Assistance	3.50%	224,500	-	-	-	224,500
		<u>4,240,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,240,500</u>
<u>Sunset Avenue Merged Project Fund</u>						
Small Business Loans	0.00%	37,539	-	(6,865)	(30,674)	-
		<u>\$ 23,298,850</u>	<u>\$ 2,581,720</u>	<u>\$ (1,368,789)</u>	<u>\$ (699,290)</u>	<u>\$ 23,812,491</u>

Following are the details on the loans receivable at June 30, 2012:

General Fund

\$29,800 - First time homebuyers loans with 3% interest forgiven if owner occupied for thirty years, which are due upon transfer of property title.

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:

\$1,927,932- Deferred housing rehabilitation loans at 3% simple interest are reviewed for extension every five years, and are due upon transfer of property title.

\$246,893 - Direct housing rehabilitation loans at 5-8% interest amortized over fifteen years, and due upon transfer of property title.

\$1,511,480 - First time homebuyers loans with 3% simple interest forgiven if owner occupied for thirty years, are due upon transfer of property title.

Deferred payment loan to Community Housing Improvement Systems and Planning Association Inc. (CHISPA) for:

- \$2,550,000 - Deferred payment loan to Community Housing Improvement Systems and Planning Association Inc. (CHISPA) for Sherwood Seniors Village, bearing simple interest at an annual rate of 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.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

10. Loans Receivable: (Continued)

- \$1,205,160 - Deferred payment loan to Salinas Gateway, L.P. for the development of the Gateway Apartments located at 39 West Market bearing simple interest at 3% annually. Repayment in full is due by June 30, 2028.

\$95,370 - Plaza House loan for costs related to the interior replacement and improvements of the property located at 30 E. Market Street.

\$745,000 - Deferred payment loan for the acquisition of La Gloria Apartments located at 531-539 E. Market Street. Loan bears a simple annual interest rate of 3% for 30 years. Interest charges commenced July 1, 2009. Repayment of principal and interest is due in full no later than December 31, 2029.

\$300,000 - Deferred payment loan for the acquisition of Los Padres Apartments located at 1260 John Street. Loan bears a compounded annual interest rate of 3% for 55 years. No payment shall be due for the first 10 years. Repayment of principal and interest is due in full no later than June 1, 2058.

\$75,000 - Acquisition of 7 Spoleto Circle by Children's Circle of Friends, a foster case housing. Deferred payment loan bearing simple interest at an annual rate of 1% for 30 years. Interest charges began accruing July 1, 2007. Repayment of principal and interest is due in full no later than December 31, 2024.

\$2,600,000 - Loan to Tynan Affordable Housing Limited Partnership for construction of Tynan Village; a mixed income apartment project for low and very low income households. The loan is secured by a deed of trust and bears an annual interest rate of 1% for 55 years. Interest charges began accruing on July 1, 2007. Repayment of principal and interest is due in full no later than June 30, 2062.

\$500,000 - Deferred payment loan bearing simple interest at an annual rate of 1% for 55 ½ years. Loan is for the acquisition of complex at Sun Street by Interim Inc Sunflower Housing Corp. Interest charges will accrue from the date of acquisition or upon full repayment of CalHFA MSA loan.

\$157,500 - Loan 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).

\$500,000 - Deferred payment loan for the acquisition of the Tresor Apartments located at 1041 Buckhorn Drive. Loan bears a simple annual interest rate of 3% for 40 years. Interest charges will accrue beginning January 1, 2010. Repayment of principal and interest is due in full no later than June 30, 2050.

\$1,125,000 - Deferred payment loan for the acquisition of the Lagunas Haciendas located at 275 Calle Cebu. Loan bears a simple annual interest rate of 3% for 55 years. Interest charges will accrue beginning July 1, 2012. Repayment of principal and interest is due in full no later than June 30, 2067 or such later maturity date as may be required by the senior permanent phase lender for the Project, which later maturity date shall be memorialized in an amendment.

\$259,111 - Neighborhood Stabilization Program (NSP) 4 Silent 2nd loans deferred interest rate for 15 years. The loans are due and payable upon transfer or sale of property, and are forgiven after the affordability period.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

10. Loans Receivable: (Continued)

Affordable Housing – Central City Housing Fund

\$775,500 - Loan to 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.

\$250,000 - Loan made during May 2003 to the Plaza Grande for a 92-unit very low-income residential project. Loan bears no interest and requires no payments until due in forty years.

\$80,000 - Six First Time Homebuyer Loans at 3% interest for 30 years due and payable upon transfer or sale of property. If owner occupies property for 30 years, the 3% interest is forgiven.

\$19,564 - Housing Construction Loan at 6% amortized over 30 years due and payable upon transfer or sale of property.

\$112,570 - Housing Construction Loan at 5% amortized over 20 years due and payable upon transfer or sale of property.

\$16,566 - Housing Rehab Loan at 2.75% rate amortized over 15 years due and payable upon transfer or sale of property.

\$1,695,545 - Loan to Salinas Gateway LP for land acquisition and construction of Gateway Apartments. The loan is secured by a deed of trust and bears interest at 3%. The terms of the loan call for annual repayments equal to 50% of the residual receipts (rents less operating expenses) commencing on May 1st following the issuance of a certificate of occupancy.

\$1,275,000 - Loan to Tynan Affordable Housing Limited Partnership for construction of Tynan Village. The loan is secured by a deed of trust and bears interest at 3%. The terms of the loan call for annual repayments equal to a 1/3 pro rata share of 50% of the residual receipts (rents less operating expenses) commencing in December, 2018.

\$400,000 - Loan to Salinas Pacific Associates Limited Partnership for construction of Tresor Apartments. The loan is secured by a deed of trust and bears 3% simple interest for 60 years. The terms of the loan call for annual repayments equal to 13% of the residual receipts (rents less operating expenses) commencing May 1, after Certificate of Occupancy is issued or May 1, 2012.

\$434,000 - Loan to CHISPA for construction of La Gloria Apartments. Loan is secured by a deed of trust, bears no interest for 60 years commencing February 1, 2010 or 55 years from when Certificate of Occupancy is issued, whichever is later. Due in full upon transfer, default, or end of term.

\$685,000 - Deferred payment loan for the acquisition of the Lagunas Haciendas located at 275 Calle Cebu. Loan bears a simple annual interest rate of 3% for 55 years. Interest charges will accrue beginning December 8, 2011. Repayment of principal and interest is due in full no later than December 7, 2066.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

10. Loans Receivable: (Continued)

Affordable Housing - Sunset Avenue Merged Housing Fund

\$1,500,000 - 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, respectively. 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.

\$95,000 - Five First Time Homebuyer Loans at 3% interest for 30 years due and payable upon transfer or sale of property. If owner occupies property for 30 years the 3% interest is forgiven.

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

\$725,000 - Loan to Tynan Affordable Housing Limited Partnership for construction of Tynan Village. The loan is secured by a deed of trust and bears interest at 3%. The terms of the loan call for annual repayments equal to a 1/3 pro rata share of 50% of the residual receipts (rents less operating expenses) commencing in December 2018.

\$396,000 - Loan to CHISPA for construction of La Gloria Apartments. Loan is secured by a deed of trust, bears no interest for 60 years from February 1, 2010 or 55 years from when Certificate of Occupancy is issued, whichever is later. Due in full upon transfer, default, or end of term.

\$1,000,000 - Loan to Interim Inc. for the acquisition and reconstruction of Sunflower Gardens. The loan bears a deferred simple interest at 3%, is due in 55 years, and is secured by a deed of trust. \$403,883 was loaned during the fiscal year ended June 30, 2009 and \$596,117 was loaned during fiscal year ended June 30, 2010.

\$224,500 - Loan to 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.

No allowance for doubtful accounts for loans receivable is presented in the accompanying financial statements.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

11. Land and Properties Held for Resale:

Land and properties held for resale consisted of the following at June 30, 2012:

<u>Housing & Urban Development Fund - Neighborhood Stabilization Program</u>	
1514 Verona Ct.	\$ 228,436
1905 Bradbury St	225,098
1941 Gladstone Way	281,861
975 Longfellow	241,366
1853 Bradbury St	205,877
7 Vera Circle	223,217
1137 Ranchero Drive	148,341
1427 Mustang Court	184,258
551 Cherokee Court	153,416
	1,891,870
<u>Special Revenue Fund</u>	
117 Main St – Alley by Steinbeck	24,446
137, 145 & 151 Division Street	850,000
	874,446
<u>Affordable Housing Fund - Central City Housing</u>	
17 & 19 Soledad Street	370,693
9 & 11 Soledad Street	129,738
	500,431
<u>Affordable Housing Fund -Sunset Avenue Merged Housing</u>	
115 Division Street	335,947
123 Division Street	300,000
923 E. Market Street	521,175
	1,157,122
Total Land and Properties Held for Resale	\$ 4,423,869

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

12. Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Adjustments/ Retirements	Transfer to Successor Agency	Balance June 30, 2012
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 22,674,022	\$ -	\$ -	\$ (149,270)	\$ 22,524,752
Construction in progress	3,187,440	4,994,621	(1,661,080)	-	6,520,981
Total assets not being depreciated	<u>25,861,462</u>	<u>4,994,621</u>	<u>(1,661,080)</u>	<u>(149,270)</u>	<u>29,045,733</u>
Capital assets, being depreciated:					
Buildings and improvements	40,351,308	-	-	-	40,351,308
Improvements other than buildings	11,771,556	201,517	283,938	-	12,257,011
Machinery and equipment	24,093,297	1,670,101	(523,461)	(17,840)	25,222,097
Infrastructure	223,595,092	608,643	1,377,142	-	225,580,877
Total assets being depreciated	<u>299,811,253</u>	<u>2,480,261</u>	<u>1,137,619</u>	<u>(17,840)</u>	<u>303,411,293</u>
Less accumulated depreciation:	<u>(156,183,688)</u>	<u>(8,169,954)</u>	<u>504,116</u>	<u>6,244</u>	<u>(163,843,282)</u>
Total capital assets being depreciated, net	<u>143,627,565</u>	<u>(5,689,693)</u>	<u>1,641,735</u>	<u>(11,596)</u>	<u>139,568,011</u>
Governmental Activities capital assets, net	<u>\$ 169,489,027</u>	<u>\$ (695,072)</u>	<u>\$ (19,345)</u>	<u>\$ (160,866)</u>	<u>\$ 168,613,744</u>
Business-type Activities					
Capital assets, not being depreciated:					
Land	\$ 3,632,339	\$ -	\$ -	\$ -	\$ 3,632,339
Construction in progress	2,581,394	225,964	(259,807)	-	2,547,551
Total assets not being depreciated	<u>6,213,733</u>	<u>225,964</u>	<u>(259,807)</u>	<u>-</u>	<u>6,179,890</u>
Capital assets, being depreciated:					
Buildings and improvements	27,097,169	-	-	-	27,097,169
Improvements other than buildings	15,474,026	330,913	259,807	-	16,064,746
Machinery and equipment	6,913,056	56,669	-	-	6,969,725
Infrastructure	218,364,631	202,082	-	-	218,566,713
Total assets being depreciated	<u>267,848,882</u>	<u>589,664</u>	<u>259,807</u>	<u>-</u>	<u>268,698,353</u>
Less accumulated depreciation:	<u>(139,449,306)</u>	<u>(6,093,407)</u>	<u>-</u>	<u>-</u>	<u>(145,542,713)</u>
Total capital assets being depreciated, net	<u>128,399,576</u>	<u>(5,503,743)</u>	<u>259,807</u>	<u>-</u>	<u>123,155,640</u>
Business-type Activities capital assets, net	<u>\$ 134,613,309</u>	<u>\$ (5,277,779)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,335,530</u>

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

12. Capital Assets: (Continued)

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

Governmental Activities:

General Government	\$ 216,384
Police	560,659
Fire	537,620
Public Works, including infrastructure assets	5,847,018
Recreation and Parks	913,753
Library	94,520
Total depreciation expense - Governmental Activities	\$ 8,169,954

Business-type Activities:

Airport	\$ 685,898
Industrial Waste	174,026
Golf Courses	555,735
Sanitary Sewer	1,477,570
Storm Sewer	2,616,862
Water Utility	10,267
Preferential Parking	5,469
Downtown Parking	567,580
Total depreciation expense - Business-type Activities	\$ 6,093,407

13. Contingent Assets:

The City made land acquisition advances totaling \$682,904 to the Community Housing Improvement Systems and Planning Associations, Inc. (CHISPA). The City holds two promissory notes for 17 years, non-interest bearing, deferred payment notes in the amount of \$334,362 and \$348,542. All principal and other amounts are due and payable no later than September 30, 2013. The notes are secured by deeds of trust. On November 27, 2012, CHISPA expressed their intent to combine the two phases of the Roosevelt Townhomes I and II project into one (Roosevelt Townhomes, LP), refinance the existing first mortgages (due to expire on December 18, 2012) to a single first mortgage, and retire the City notes. The City anticipates receipt of payoff by January 2013.

14. Deferred Revenues:

Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period (unavailable). 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 \$15,034,583 in the Government-Wide Statements and \$28,833,029 in the Fund statements. The difference of \$13,798,446 represents long-term loans in the Special Revenue Funds recorded as deferred revenue. These are not available resources.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

14. Deferred Revenues: (Continued)

Deferred revenues of \$28,833,029 at June 30, 2012 consist of the following:

Governmental Activities:

Major Funds:

Housing and Urban Development

Housing Rehab Loans	\$ 2,174,825
First Time Homebuyers Loans	1,421,480
CDBG/Home Program Deferred Revenue	10,202,141
Total Housing and Urban Development	13,798,446

Assessment District Debt Service

Assessment receivable	12,420,000
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Non-Major Funds:

Special Revenue and Capital Projects grants, advances

Grants and advances	2,614,583
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Total Governmental Activities	\$ 28,833,029
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15. Deferred Compensation Plan:

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

The City has established Employer Trust agreements with ICMA Retirement Corporation, Hartford Insurance, and Central Coast Credit Union. In 1998, the City Council adopted a Resolution amending the City administered deferred compensation plans to conform to the new law protecting the plan participant assets from any claim against the City. 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 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 contribute to differ each year, based on changes in the consumer price index.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

15. Deferred Compensation Plan: (Continued)

International City Manager's Association (ICMA)

The International City Manager's Association Retirement, Inc., Plan had 339 participants and a balance of \$18,460,482 at June 30, 2012. All employees are eligible to participate through voluntary salary deduction. 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, 2012 pursuant to the Employer Trust established by the City with ICMA Retirement Corporation during November 1997.

Trust Deed Program

The City administers a Trust Deposit Fund that includes a deferred compensation plan funded solely by the voluntary salary reductions. The goal of the Trust Deed program is to invest participants funds in short-term deeds of trust. This investment option is administered within the City of Salinas by the City's appointed administrator of the Deferred Compensation Plan. Loans are based on equity after obtaining a fee appraisal. All property is physically inspected and the loan package is reviewed and approved/disapproved by a Deferred Compensation Committee. All employees are eligible to participate. The Plan had 415 participants and a balance of \$16,313,470 in net assets at June 30, 2012. 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, 2012.

Central Coast Federal Credit Union (CCFCU)

This third deferred compensation plan was established in August 1993. The plan funds are backed by the full faith and credit of the U.S. Government and are also insured by the National Credit Union Administration (NCUA), an agency of the federal government for up to \$100,000. Central Coast collateralizes any amounts invested in their savings accounts in excess of NCUA insurance limits in accordance with applicable law. There were 82 participants with a balance at June 30, 2012 is \$4,670,798. All employees are eligible to participate through voluntary salary deductions. The assets for this plan are not reported on the City's financial statements.

Hartford Life Insurance

This fourth Deferred Compensation plan was established in September 2000. This retirement savings plan enables employees to defer a portion of their current compensation for payment at later date, generally retirement. Salary deferrals (or contributions) are voluntary, and are made through the ease of payroll deduction. Hartford offers a variety of investment vehicles that vary in risks, term and return to the investment. These investment options are offered through a group variable annuity contract. There were 38 participants with a balance at June 30, 2012 of \$2,259,560. All employees are eligible to participate through voluntary salary deductions. The assets for this plan are not reported on the City's financial statements.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

16. Retirement Programs:

As of June 30, 2012, the City was contributing to three employee retirement programs. Total pension expenses for the fiscal year were \$15,514,435, 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. Under the authority of approved legislation, the CalPERS Board of administration created a Risk pooling system for plans with less than 100 participants. The Fire 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. 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. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, includes the Fire Public Safety Group risk pool history as available from CalPERS.

A menu of benefit provisions as well as other requirements is established by state statutes within the Public Employees’ Retirement Law. The City of Salinas selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS’ annual financial report may be obtained from CalPERS Executive Office – 400 Q Street – Sacramento, CA 95811.

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’s contract with CalPERS for the Fire Public Safety Group provided 2% at 50 through 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% 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% 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.

As a point of clarification to this note, the City entered in negotiations and achieved an agreement in June 2011, with both public safety groups (police and fire) to create a second tier of benefits and amend the retirement formula from the current 3% at 50 with the single highest year of salary to a less expensive formula for all new employees under these classifications to 3% at 55 with a three-year final compensation. The contract with CalPERS was formally amended October 17, 2011.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

16. Retirement Programs: (Continued)

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 2011-12 were as follows:

Employee Group	City Contribution			Employee Contribution
	3% @ 50	3% @ 55	2% @ 55	
Police	31.117%	27.378%	-	9.000%
Firefighters	39.956%	22.062%	-	9.000%
Miscellaneous	-	-	12.470%	7.000%

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 2011-12, the City of Salinas’ annual pension cost of \$13,394,063 was equal to the City’s required and actual contributions. The City of Salinas actually contributed \$10,141,659 while the employees contributed \$3,252,404. The required contribution for fiscal year 2011-12 was determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumption included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service ranging from 3.25% to 13.15% for safety members (3.25% to 14.45% for miscellaneous members), and (c) 3.25% payroll growth. Both (a) and (b) include an inflation component of 3%. CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of assumed future payroll on a closed basis.

THREE YEAR TREND INFORMATION

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011-12	\$ 13,394,063	100%	\$ -
2010-11	12,721,718	100%	-
2009-10	12,779,887	100%	-

The Annual Pension Cost represents the contribution rate as determined by CalPERS for the period of July 1, 2010 to June 30, 2011 multiplied by the payroll of covered employees that was actually paid during the same period.

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

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

16. Retirement Programs: (Continued)

New York Life Retirement Plan

Plan Description – The New York Life Retirement Plan (Plan) is a closed single-employer defined benefit pension plan that covers Non-Public Safety Employees. The Plan benefit offers a formula of 2% at 60 for vested employees. The Plan was established on September 1, 1954 and has been amended and restated from time to time since that date. Prior Plan amendments eliminated the six-month service requirement for entry into the plan and credited participants with up to six-months of service from hire to plan entry prior to time change. The Plan was amended and restated effective September 1, 1996 to bring the Plan into compliance with the Internal Revenue Code and Regulations promulgated thereby to provide for the City's pick-up of employee eligible participants equal to the present value of vested accrued benefits. Effective June 1, 2001, the Plan amended its benefit formula to one that uses an average salary computed from the twelve month period, replacing an old formula that uses an average salary computed from a thirty six month period.

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

The City of Salinas has an agreement with New York Life Insurance Company to hold and invest plan assets of the Retirement Plan, which covers employees other than Police and Fire. During FY 2009-10 the City allowed employees participating in this retirement plan to transfer to CalPERS retirement plan. Twenty-eight active participants and three terminated vested participants opted to transfer on January 25, 2010 with all their corresponding assets accumulated throughout their years of participation. At June 30, 2012, there are thirty-two employees left in this closed plan after transfers and retirements. The total covered payroll for employees participating in the Plan for fiscal year ended June 30, 2012 is \$2,094,262. Non-Public Safety 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 Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

16. 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. Since January 1, 1994, participants are required to contribute 4.5% of their compensation to the Plan. Since September 1, 1996, participant contributions are made by the City under the employee pretax pick-up provision for government-sponsored plans allowed under the Internal Revenue Code. As established in their Memorandum of Understanding document for personnel of the SEIU Blue Collar bargaining group, the City will contribute (pick-up) four and one-half percent of the employee retirement contribution.

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, 2012 was \$829,737. During fiscal year 2011-12, the City contributed \$829,737 to the New York Life retirement plan, while the employees contributed \$80,113. The City also contributed \$16,028 on behalf of employees represented by SEIU Blue Collar.

The Net Pension Obligation as determined by the Actuarial valuation of September 1, 2011 is \$28,194 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 1, 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, 2010, the unfunded actuarial accrued liability was determined to be \$7,098,975 based on the market of plan assets and plan accrued liabilities. The actuarial assumptions include (a) 7.0% investment return (net of administrative expenses) (b) projected salary increases of 2.0% per year and (c) projected cost of living adjustment of 2%. The actuarial liability represents the actuarial present value of all benefits accrued as of the valuation date, based on service and salary at that date.

THREE YEAR TREND INFORMATION

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 825,663	100.50%	\$ 28,194
2010	801,975	100.73%	33,024
2009	1,545,142	52.28%	38,914

The Annual Pension Cost represents the contribution rate as determined by the New York Life actuary for the period of July 1, 2011 to June 30, 2012 multiplied by the payroll of covered employees that was actually paid during the same period. The City made the recommended minimum employer contribution (30 year amortization of unfunded liabilities) of \$829,737 during fiscal year 2011-12.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

16. Retirement Programs: (Continued)

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

ICMA Retirement Corporation Defined Contribution Plan

Plan Description – On June 19, 1995, the City established a qualified retirement program in accordance with Internal Revenue Code Section 401(a). This defined contribution 401(a) Money Purchase Retirement Plan was established with International City Managers Association Retirement Corporation (ICMA). Non-Public Safety Mid-Management employees that were participating in the ICMA 457 non-qualified deferred compensation plan in-lieu of participation in the New York Life Retirement Program, were required to transfer to one of the other City's three qualified retirement plans. The City's annual contribution to this plan is determined by the employer required contribution to the New York Life Plan Retirement Plan.

During the fiscal year 2011-12, the City's contribution to this plan was \$49,784, while the employees had a mandatory contribution of 4.5% of their salary or \$5,832. 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, 2012, the total Plan Assets totaling \$651,890 consisted of \$49,784 of employer contributions during the year coupled with \$5,832 of employee mandatory contributions and \$2,927 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, 2012, there were 6 participants in this program and the City's annual contribution was \$69,439 while the employees had an equal mandatory matching contribution of \$69,439.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

17. Post Employment Benefits Other Than Pensions (OPEB):

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 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 (\$67.20 per month in 2012).

Membership of the plan consisted of the following at June 30, 2011, the date of the latest actuarial valuation:

	<u>Miscellaneous</u>	<u>Fire</u>	<u>Police</u>	<u>Total</u>
Active plan members				
Count	282	78	152	512
Average Age	47.5	42.2	40	44.4
Average Service	9.2	12.0	11.5	10.3
Average PERS Service	10.3	12.6	13	11.5
Average PERS Pay	\$ 53,100	\$ 101,700	\$ 108,800	\$ 77,000
Total PERS Payroll (millions)	\$ 15.0	\$ 7.9	\$ 16.5	\$ 39.4
Retirees				
Count	76	106	123	305
Average Age	65.9	66.8	64.1	65.5
Average Retirement Age	60.5	49.9	49.4	52.3
Currently Receiving \$100 Monthly Benefit	-	35	29	58

Funding Policy - The City's policy approved by Council on May 20, 2008, established a contribution of \$100,000 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. The amounts of annual appropriations for contributions to CERBT are subject to budget constraints. Additionally, the City will continue paying the portion of the retiree premiums outside of the trust (Pay-as-you-go approach). During FY 2009-10 and FY 2010-11, the City opted not to fund the Post Employment Benefit cost for the those two years in accordance with established policy. During FY 2011-12, the City contributed \$150,000 to the CERBT trust account. After recognizing administrative fees and accruing earning and losses experienced in the Trust Plan, the City shows an ending balance of \$444,553 at June 30, 2012.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

17. Post Employment Benefits Other Than Pensions (OPEB): (Continued)

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:

	June 30, 2012
Annual required contribution (ARC)	\$ 1,587,000
Interest on net OPEB obligation	240,000
Adjustment to annual required contribution	(209,000)
Annual OPEB cost (expense)	1,618,000
Contributions made to CERBT Trust	(150,000)
Contributions under "pay-as-you-go"	
Payment to Retirees	(333,868)
Payment to CalPERS	(64,148)
Subtotal	(548,016)
Change in net OPEB obligation	1,069,984
Net OPEB obligation - beginning of the year	4,973,720
Net OPEB obligation - end of the year	\$ 6,043,704

At June 30, 2012, the City recorded net OPEB obligations totaling \$6,043,704 in the government-wide financial statements.

The City's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for 2012 and two preceding years were as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 1,353,000	\$ 109,358	8.1%	\$ 3,987,839
2011	1,491,384	505,503	33.9%	4,973,720
2012	1,618,000	548,016	33.9%	6,043,704

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

17. Post Employment Benefits Other Than Pensions (OPEB): (Continued)

Funded Status and Progress - The 2011-12 Annual Required Contribution included the normal cost at \$843,000 plus a 30-year amortization of the Unfunded Actuarial Accrued Liability (UAAL) of \$744,000, for a total Annual Required Contribution of \$1,587,000 representing 4.0% of the annual payroll. The estimated covered payroll (annual payroll of active employees covered by the plan) was \$39.4 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.

The discount rate applied was 4.98% for the portion of the Annual Required Contribution (ARC) not funded and 7.25% 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 \$432,000 of the total Annual Required Contribution of \$1,587,000.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

18. Risk Management:

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disaster. For insurable risks, the City is self insured except for excess insurance coverage provided by commercial insurance companies that are limited to the following:

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

The City reports its risk management activities in the internal service funds, which include Worker's Compensation Insurance, Long-term Disability, and Personal Injury and Property Damage Funds. All of the City funds participate in the City self-insured programs and make payments to the corresponding internal service fund based on estimated costs to pay prior and current year claims.

The actuarially determined liability (which covers workers' compensation losses, general liability, and automobile liability) includes allocated loss adjustment expenses, case reserves, development of known claims, and incurred but not reported claims. While the ultimate amount of losses incurred through June 30, 2012 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.

- Worker's Compensation insurance liability of \$18,617,017 includes \$14,893,613 for claims incurred but not paid and \$3,723,404 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, 2012, Worker's Compensation Insurance liability of \$18,617,017 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, 2012 is \$15,258,608 and is reported in the Internal Service Fund; \$3,358,409 of this is treated as long-term debt.
- General liability insurance liability at June 30, 2012 of \$1,410,771 includes \$870,458 for claims incurred but not paid and \$540,313 for claims incurred but not reported which is based on expected claims and past claims history. Unreserved retained earnings is \$462,600 at June 30, 2012 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 Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

18. Risk Management: (Continued)

Changes to the claims liability for FY 2011-12 are as follows:

	Workers Compensation	General Liability
Beginning balance of claims liability	\$ 12,954,399	\$ 754,072
Less beginning provision for incurred but not reported claims	(2,590,880)	(462,600)
Beginning provisions for incurred but not paid claims	10,363,519	291,472
Increase (decrease) in claims incurred and reported	8,704,182	1,435,423
Claims expenses paid	(4,174,088)	(856,437)
Ending balance provision for incurred but not paid claims	14,893,613	870,458
Provisions for incurred but not reported claims	3,723,404	540,313
Ending balance of claims liability	\$ 18,617,017	\$ 1,410,771

19. Lease Obligations:

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

Year Ended June 30,	
2013	\$ 470,959
2014	464,512
2015	464,446
	\$ 1,399,917

Economic Development – Office space at 65 West Alisal was leased by the City of Salinas to the Economic Development program. Total cost of the lease for the year ended June 30, 2012 was \$12,400.

Community Development Block Grant – Office space at 65 West Alisal 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, 2012 was \$22,400.

Police – Office space lease located within the City limits to house the Law Enforcement Operation Center (LEOC). The City’s Joint Gang Task Force entered into a long-term partnership with the Federal Bureau of Investigation with assistance from the Drug Enforcement Administration, The Bureau of Alcohol, Tobacco, and Firearms, Immigration Customs Enforcement and the California Department of Justice Bureau of Narcotic Enforcement, in addition to other local, state, and federal agencies, in the on-going efforts to suppress gang activity in Monterey County. The lease agreement carries a five-year term (beginning August 2010) with a locally-competitive base rent of \$13,125 per month. Total cost for the lease for the year ended June 30, 2012 was \$157,500.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

19. Lease Obligations: (Continued)

Police/Fire – The 10 year lease of 801 Abbott Place (began 07/01/2008) will provide a facility for firefighters training, space for police storage and for maintenance equipment. Rent at \$15,125 per month. Total cost of the lease for the year ended June 30, 2012 was \$181,500.

20. Long Term Debt:

The following is a summary of Long Term Debt transactions for the fiscal year ended June 30, 2012:

	June 30, 2011	Increases	Decreases	Transfer to Successor Agency	June 30, 2012	Due Within One Year
Governmental Activities:						
Annual Leave	\$ 8,787,966	\$ 564,975	\$ -	\$ -	\$ 9,352,941	\$ 1,870,588
Estimated Insurance claims	2,572,048	786,361	-	-	3,358,409	-
Net Pension Obligation	33,024	-	4,830	-	28,194	7,049
Capital Leases	1,754,967	-	165,086	-	1,589,881	171,871
Loans and Notes Payable:						
Homeless Shelter	157,500	-	-	(157,500)	-	-
Breadbox Gym Note Payable	46,469	-	46,469	-	-	-
Church Purchase Note Payable	106,166	-	40,900	(65,266)	-	-
Total Loans & Notes Payable	310,135	-	87,369	(222,766)	-	-
Certificates of Participation						
Series B-2005	9,890,000	-	395,000	-	9,495,000	415,000
Series A-1999	910,000	-	45,000	-	865,000	45,000
Series A-2002	2,335,000	-	70,000	-	2,265,000	70,000
Total Certificates	13,135,000	-	510,000	-	12,625,000	530,000
Tax Allocation Refunding Bonds:						
Series A-1996	4,510,000	-	680,000	(3,830,000)	-	-
Series A-1992	2,325,488	-	141,240	(2,184,248)	-	-
Total Bonds Payable	6,835,488	-	821,240	(6,014,248)	-	-
Assessment District 1915 Act Bonds	16,995,000	-	2,125,000	-	14,870,000	2,450,000
Unamortized Bond Discount	(115,944)	-	-	115,944	-	-
Government Activities	50,307,684	1,351,336	3,713,525	(6,121,070)	41,824,425	5,029,508
Business-type Activities						
Annual Leave	286,966	25,471	-	-	312,437	62,487
Capital Leases:						
Street Sweeper	61,935	-	42,157	-	19,778	19,778
Industrial Waste Lease	345,000	-	75,000	-	270,000	85,000
Airport Fuel Facility Lease	139,055	-	28,974	-	110,081	29,518
Total Leases	545,990	-	146,131	-	399,859	134,296
State of CA - - Parking Garage Lighting	-	128,534	-	-	128,534	34,870
Bonds Payable:						
Sanitary Sewer Revenue Bonds -1998	12,030,000	-	12,030,000	-	-	-
Sanitary Sewer Revenue Bonds - 2012	-	17,995,000	-	-	17,995,000	370,000
Certificates of Participation						
Series A-2004	15,120,000	-	405,000	-	14,715,000	415,000
Series A-2005	6,610,000	-	310,000	-	6,300,000	320,000
Series A-2008	4,660,000	-	10,000	-	4,650,000	15,000
Total Bonds Payable	38,420,000	17,995,000	12,755,000	-	43,660,000	1,120,000
Business-type Activities	39,252,956	18,149,005	12,901,131	-	44,500,830	1,351,653
Total Long-Term Liability	\$ 89,560,640	\$ 19,500,341	\$ 16,614,656	\$ (6,121,070)	\$ 86,325,255	\$ 6,381,161

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

20. Long Term Debt: (Continued)

The annual requirements to amortize capital leases, loans and notes, certificates of participation and bonds outstanding as of June 30, 2012 by activity are as follows:

Year Ended June 30,	Governmental-Wide Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 3,151,871	\$ 1,337,013	\$ 1,254,296	\$ 1,789,516
2014	3,303,935	1,175,409	1,244,518	1,790,688
2015	3,471,289	1,003,616	1,284,518	1,747,550
2016	1,743,946	873,954	1,226,527	1,701,889
2017	1,816,917	789,233	1,260,000	1,654,169
2018-2022	7,710,216	2,662,860	7,215,000	7,458,871
2023-2027	5,403,856	1,093,486	9,065,000	5,776,882
2028-2032	2,482,851	196,335	8,415,000	3,832,910
2033-2037	-	-	7,060,000	1,975,706
2038-2042	-	-	5,050,000	734,581
2043	-	-	985,000	20,931
	<u>\$ 29,084,881</u>	<u>\$ 9,131,906</u>	<u>\$ 44,059,859</u>	<u>\$ 28,483,693</u>

The debt for the State of California – Parking Garage Lighting, 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 accumulated at fiscal year end is recorded as a liability within Proprietary and Fiduciary Funds. At June 30, 2012 the liability for all compensated absences totaled \$9,732,283. It includes \$9,726,916 of annual leave and \$5,367 of sick leave. These amounts are reported on the financial statements in the following funds:

	June 30, 2011	Increases	Decreases	June 30, 2012	Due Within One Year
Governmental Activities					
General Fund	\$ 7,941,943	\$ 145,435	\$ -	\$ 8,087,378	\$ 1,617,476
Measure V	654,554	161,204	-	815,758	163,152
Special Revenue Funds	179,637	261,895	-	441,532	88,306
Debt Service Funds	11,832	-	5,985	5,847	1,169
Internal Service Funds	-	2,426	-	2,426	485
	<u>\$ 8,787,966</u>	<u>\$ 570,960</u>	<u>\$ 5,985</u>	<u>\$ 9,352,941</u>	<u>\$ 1,870,588</u>
Business-type Activities					
Enterprise Funds	\$ 286,966	\$ 25,471	\$ -	\$ 312,437	\$ 62,487
Fiduciary Activities					
Agency Funds	\$ 66,381	\$ 524	\$ -	\$ 66,905	\$ 13,381

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

20. Long Term Debt: (Continued)

Estimated Insurance Claims

At June 30, 2012, the estimated insurance claims liability recorded in the Internal Service Funds is as follows:

Worker's Compensation	\$ 15,258,608
General Liability	1,410,771
Total	\$ 16,669,379

An additional \$3,358,409 of Worker's Compensation claims liability is reported in the Long-Term Debt under estimated insurance claims.

Net Pension Obligation

At June 30, 2012, a Net Pension Obligation of \$28,194 is reported as determined by the September 1, 2011 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:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 171,871	\$ 65,344	\$ 237,215
2014	178,935	58,280	237,215
2015	186,289	50,926	237,215
2016	193,946	43,269	237,215
2017	201,917	35,298	237,215
2018-2022	210,216	27,000	237,216
2023-2027	218,856	18,360	237,216
2028-2032	227,851	9,365	237,216
	\$ 1,589,881	\$ 307,842	\$ 1,897,723

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 to 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 at June 30, 2012 of \$9,495,000 are secured by a lien on City owned assets based on the following appraised values; City Hall (\$3,820,000); Public Safety Building (\$1,990,000); Steinbeck Library (\$2,350,000) and 65 W. Alisal Building (\$2,805,000).

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

20. Long Term Debt: (Continued)

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 AAAM rating from Standard and Poor's. In conjunction with this refunding, Standard and Poor's affirmed the City's issuer's credit rating of A+.

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 415,000	\$ 373,418	\$ 788,418
2014	425,000	358,717	783,717
2015	440,000	343,580	783,580
2016	460,000	327,830	787,830
2017	475,000	311,171	786,171
2018-2022	2,630,000	1,266,288	3,896,288
2023-2027	3,180,000	673,819	3,853,819
2028-2032	1,470,000	64,969	1,534,969
	<u>\$ 9,495,000</u>	<u>\$ 3,719,792</u>	<u>\$ 13,214,792</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 at June 30, 2012 of \$865,000 are 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 balance at June 30, 2012 of \$6,300,000 is reported in the Golf Course Enterprise Fund.

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

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

20. Long Term Debt: (Continued)

Debt service requirements to maturity are as follow:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 45,000	\$ 41,765	\$ 86,765
2014	45,000	39,763	84,763
2015	50,000	37,500	87,500
2016	50,000	35,000	85,000
2017	55,000	32,375	87,375
2018-2022	310,000	118,000	428,000
2023-2027	310,000	32,250	342,250
	<u>\$ 865,000</u>	<u>\$ 336,653</u>	<u>\$ 1,201,653</u>

Series A-2002 – Steinbeck Center

On May 2, 2002, the Salinas Public Financing Authority issued City of Salinas Certificates of Participation Series A-2002, in aggregate principle amount of \$2,855,000 to finance the acquisition by the Agency of a leasehold interest in the Steinbeck Center site. This financing provided funds to repay the \$2,300,000 in bank loans of the Steinbeck Center and release the collateral posted by the Agency. In addition, the funds repaid an advance 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 at June 30, 2012 of \$2,265,000 are secured by the City taking possession of the Steinbeck Center building pursuant to a ground lease, if the Steinbeck Center defaults on its lease payments. In case of default by the Steinbeck Center, the City would become responsible for the payments on the Certificates.

Debt service requirements to maturity for Steinbeck Center are as follow:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 70,000	\$ 110,589	\$ 180,589
2014	75,000	107,614	182,614
2015	75,000	104,426	179,426
2016	80,000	101,126	181,126
2017	85,000	97,526	182,526
2018-2022	480,000	423,415	903,415
2023-2027	615,000	291,750	906,750
2028-2032	785,000	122,001	907,001
	<u>\$ 2,265,000</u>	<u>\$ 1,358,447</u>	<u>\$ 3,623,447</u>

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

20. Long Term Debt: (Continued)

Assessment Districts Bonds

At June 30, 2012, outstanding Assessment District Bonds totaled \$14,870,000. Bonds issued for improvements in special assessment districts are liabilities of the property owners and are secured by liens against the assessed property. In the case of default, the City has the authority to advance bonds payments from the special reserve fund and to foreclosure on delinquent property.

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 2,450,000	\$ 745,897	\$ 3,195,897
2014	2,580,000	611,035	3,191,035
2015	2,720,000	467,184	3,187,184
2016	960,000	366,729	1,326,729
2017	1,000,000	312,863	1,312,863
2018-2022	4,080,000	828,157	4,908,157
2023-2027	1,080,000	77,307	1,157,307
	<u>\$ 14,870,000</u>	<u>\$ 3,409,172</u>	<u>\$ 18,279,172</u>

Business-Type Activities

Capital Leases

Street Sweepers

The City, using lease purchase financing, purchased another street sweeper on June 12, 2007. The City of Salinas will make five annual payments of \$45,000 and a sixth remaining payment of \$20,686. Debt payable of \$19,778 for all sweepers is recorded in the Storm Sewer Enterprise Fund at June 30, 2012.

Debt service requirements to maturity is as follows:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 19,778	\$ 908	\$ 20,686

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

20. Long Term Debt: (Continued)

Bonds Payable

Industrial Waste Lease

On May 1, 1994, the City sold a lease in the amount of \$1,050,000 to finance the construction of the industrial waste facility expansion. This is a twenty-year lease at 7.5% interest per annum. Annual lease payments are secured by the City's obligation to make lease payments from any lawful available source of funds and by the pledge of net revenues of the City's Industrial Waste System. Debt payable of \$270,000 is recorded in the Industrial Waste Enterprise Fund at June 30, 2012.

Debt service requirements to maturity is as follows:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 85,000	\$ 17,063	\$ 102,063
2014	90,000	10,500	100,500
2015	95,000	3,562	98,562
	\$ 270,000	\$ 31,125	\$ 301,125

Airport Fuel Facility Lease

On December 12, 2007 the City Council entered into a lease agreement with Central Coast Aviation Services, Inc. to purchase a Fuel Facility at the Salinas Municipal Airport. The agreed total cost for the facility is \$415,924. The City acquired its ownership interest in the fuel facility subject to the City's obligation to reimburse Central Coast for the costs of construction and installation of \$250,000 and to credit the total amount of rent due under the Fuel Facility and Offices Leases for a ten year period. The rent credits for the fiscal year ending June 30, 2012 of \$28,430 have been applied to the obligation leaving an outstanding balance of \$110,081 as of June 30, 2012.

Debt service requirements to maturity is as follows:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 29,518	\$ -	\$ 29,518
2014	29,518	-	29,518
2015	29,518	-	29,518
2016	21,527	-	21,527
	\$ 110,081	\$ -	\$ 110,081

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

20. Long Term Debt: (Continued)

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

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

On August 24, 2004, the City entered into a sublease agreement with the Monterey Peninsula Foundation and its related foundation, Future Citizens Foundation, dba the First Tee of Monterey County providing for the lease of 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 ultimately the responsibility of the City.

At the request of First Tee of Monterey County, on December 6, 2011 the City approved a sublease payment reduction from \$575,000 to \$125,000 (an annual reduction of \$450,000). This request was the result of First Tee’s significant unsustainable golf course operating losses experienced recently due to the downturn of the economy. With the goal of maintaining a quality of level of service to the thousands of golf youth participants and as the most cost effective alternative, the City Council approved the General Fund support through fiscal year 2014-15 to offset the reduced amount of the sublease to the First Tee of Monterey County.

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 320,000	\$ 242,908	\$ 562,908
2014	335,000	231,445	566,445
2015	345,000	219,545	564,545
2016	355,000	207,295	562,295
2017	370,000	194,376	564,376
2018-2022	2,060,000	745,990	2,805,990
2023-2027	2,515,000	279,263	2,794,263
	<u>\$ 6,300,000</u>	<u>\$ 2,120,822</u>	<u>\$ 8,420,822</u>

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

20. Long Term Debt: (Continued)

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

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

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

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

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 15,000	\$ 209,250	\$ 224,250
2014	25,000	208,575	233,575
2015	30,000	207,450	237,450
2016	40,000	206,100	246,100
2017	50,000	204,300	254,300
2018-2022	405,000	978,750	1,383,750
2023-2027	735,000	860,400	1,595,400
2028-2032	1,170,000	655,200	1,825,200
2033-2037	1,485,000	362,925	1,847,925
2038-2041	695,000	47,250	742,250
	<u>\$ 4,650,000</u>	<u>\$ 3,940,200</u>	<u>\$ 8,590,200</u>

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

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

On December 17, 2003, the Salinas Public Financing Authority issued City of Salinas Certificates of Participation Series A-2004, with a principle amount of \$16,630,000 an aggregate interest of 4.68%, for a term of thirty years to finance the acquisition and construction of a five level (with one below grade) 452-space public parking garage adjacent to the National Steinbeck Center and the planned Maya Cineplex Theater. Both the public parking structure and multiplex movie theatre complex were completed and opened during July 2005.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

20. Long Term Debt: (Continued)

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 415,000	\$ 667,291	\$ 1,082,291
2014	430,000	652,762	1,082,762
2015	445,000	636,337	1,081,337
2016	460,000	618,238	1,078,238
2017	480,000	599,437	1,079,437
2018-2022	2,725,000	2,663,375	5,388,375
2023-2027	3,400,000	1,964,638	5,364,638
2028-2032	4,325,000	1,020,675	5,345,675
2033-2037	2,035,000	97,731	2,132,731
	<u>\$ 14,715,000</u>	<u>\$ 8,920,484</u>	<u>\$ 23,635,484</u>

The former Salinas Redevelopment Agency and the Successor Agency each paid \$544,250, a total of \$1,088,500, of the fiscal year 2011-12 debt service. Beginning in fiscal year 2007-08, maximum annual debt service payments are \$1,091,950. Annual debt service payments of approximately \$1,090,000 will most likely need to be paid by the Successor Agency funds through September 1, 2033 when bonds will be paid in full. Pursuant to a reimbursement agreement, the Successor Agency (Central City Debt Service RORF) is responsible for the debt service.

Series 2012 – Sanitary Sewer Revenue Bonds

On February 8, 2012, the City of Salinas issued Sanitary Sewer System Revenue Bonds, Series 2012 in the amount of \$17,995,000 to provide funds for the current refunding of the City's Sanitary Sewer System Revenue Bonds, Series 1998 and to finance capital replacement of existing sewer mains and other sewer related capital replacement. Maximum annual debt service is \$1,022,406, including interest ranging from 1.0% to 4.4% 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. On January 10, 2012, the City Council approved adjustments to wastewater collection fees effective February 1, 2012 to reflect the cost of wastewater conveyance through the Enterprise and an amount to cover debt service. The fee is billed by the Monterey Regional Water Pollution Control Agency.

Debt payable of \$17,995,000 is recorded in the Sanitary Sewer Enterprise Fund at June 30, 2012.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

20. Long Term Debt: (Continued)

Debt service requirements and maturity are as follows:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 370,000	\$ 652,096	\$ 1,022,096
2014	335,000	687,406	1,022,406
2015	340,000	680,656	1,020,656
2016	350,000	670,256	1,020,256
2017	360,000	656,056	1,016,056
2018-2022	2,025,000	3,070,756	5,095,756
2023-2027	2,415,000	2,672,581	5,087,581
2028-2032	2,920,000	2,157,035	5,077,035
2033-2037	3,540,000	1,515,050	5,055,050
2038-2042	4,355,000	687,331	5,042,331
2043	985,000	20,931	1,005,931
	<u>\$ 17,995,000</u>	<u>\$ 13,470,154</u>	<u>\$ 31,465,154</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, 2012 the total conduit debt outstanding related to these bonds is \$4,655,000.

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

As of June 30, 2012, total conduit debt outstanding related to the Economic Development Revenue Bonds is \$18,270,000.

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.

21. Legal Liability on Assessment Bonds Payable:

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, 2012, assessment bonds outstanding are \$12,420,000. The Assessment District Reserve Fund balance is \$3,554,939 at June 30, 2012.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

22. Restricted Net Assets:

The government-wide statement of net assets reports \$64,230,579 of restricted net assets, of which enabling legislation restricts \$6,979,001 represented by the net assets held at the Sanitary Sewer Fund.

23. Fund Balance:

It is the policy of the City to maintain a minimum reserve for a reasonable level of assurance that the City's day-to-day operations will be able to continue even if circumstances occur where revenues are insufficient to cover expenditures. The minimum reserve of the General Fund is 5% of the next year's General Fund annual budgeted operating expenditures, as calculated by the Finance Director. The minimum fund balance is shown as unassigned in the General Fund. For the year ending June 30, 2012, the City did not meet their minimum fund balance reserve of 5%.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

23. Fund Balance: (Continued)

Fund balance for governmental funds as of June 30, 2012 consists of the following:

	General and Measure V	Housing & Urban Development	Development Fees	Assessment District Debt Service	Other Nonmajor Governmental Funds	Total
Nonspendable:						
Inventory	\$ 16,259	\$	\$	\$	\$ -	\$ 16,259
Loans & Notes Receivable	29,800				1,657,553	1,687,353
Advances	1,710,000				-	1,710,000
Properties Held for Resale	-	1,891,870			-	1,891,870
Land Held for Resale	-				10,858,691	10,858,691
	<u>1,756,059</u>	<u>1,891,870</u>	<u>-</u>	<u>-</u>	<u>12,516,244</u>	<u>16,164,173</u>
Restricted for:						
Public Safety	-	140,353			1,741,944	1,882,297
Future Development	-		15,274,352		-	15,274,352
Maintenance District	-				3,573,175	3,573,175
Recreation Parks	-				168,857	168,857
Housing Trust	-				115,539	115,539
Franchise-Cable	-				207,994	207,994
Street Repairs	-				2,479,834	2,479,834
Grants	-				337,080	337,080
Low/Moderate Housing	-				218,200	218,200
Capital Projects-Airport	-				2,116,709	2,116,709
Debt Service	-			3,554,939	4,217,472	7,772,411
	<u>-</u>	<u>140,353</u>	<u>15,274,352</u>	<u>3,554,939</u>	<u>15,176,804</u>	<u>34,146,448</u>
Committed for:						
Capital Projects	2,018,900	-	-	-	2,000,000	4,018,900
Assigned for:						
Other Purposes	1,446,224				796,424	2,242,648
Unrealized Market Value	23,884				-	23,884
Carryover Appropriations	1,198,154				-	1,198,154
Capital Projects	-				1,879,120	1,879,120
	<u>2,668,262</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,675,544</u>	<u>5,343,806</u>
Unassigned:						
Operations-Reserve	2,000,000				-	2,000,000
Other-Accruals	2,108,215				-	2,108,215
Other Unassigned	(2,718,028)	(93,099)			(589,335)	(3,400,462)
	<u>1,390,187</u>	<u>(93,099)</u>	<u>-</u>	<u>-</u>	<u>(589,335)</u>	<u>707,753</u>
Total Fund Balances	<u>\$ 7,833,408</u>	<u>\$ 1,939,124</u>	<u>\$ 15,274,352</u>	<u>\$ 3,554,939</u>	<u>\$ 31,779,257</u>	<u>\$ 60,381,080</u>

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

24. Encumbrance:

The City uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to contracts not yet performed and purchase orders not yet filled (executor contracts; and open purchase orders). Commitments for such expenditures of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year end are not accounted for as expenditures and liabilities but, rather, as restricted, committed, or assigned governmental fund balance. As of June 30, 2012, total governmental fund encumbrance balances for the City are as follows:

General Fund and Measure V	\$ 1,446,224
Housing and Urban Development	140,353
Development Fees	504,213
Nonmajor governmental funds	3,676,135
	\$ 5,766,925

25. 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.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

25. Joint Venture – Salinas Valley Solid Waste Authority: (Continued)

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 available from the Authority Treasurer at the Authority's Finance Department located at 128 Sun Street, Suite 101, Salinas, CA 93901.

26. 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.

27. Pronouncements Issued But Not Yet Implemented:

GASB issued pronouncements prior to June 30, 2012 that have an effective date that may impact future financial presentation. Management has not currently determined any impact on the implementation of the following statements may have on the financial statements of the City.

- Governmental Accounting Standards Board Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements.*
- Governmental Accounting Standards Board Statement No. 61 – *The Financial Reporting Entity: Omnibus-An amendment to GASB Statements No. 14 and No. 34.*
- Governmental Accounting Standards Board Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30,1989 FASB and AICPA Pronouncements*
- Governmental Accounting Standards Board Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
- Governmental Accounting Standards Board Statement No. 65 – *Items Previously Reported as Assets and Liabilities.*
- Governmental Accounting Standards Board Statement No. 66 – *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 27.*
- Governmental Accounting Standards Board Statement No. 67 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 25.*
- Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.*

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

28. Prior Period Adjustment:

An adjustment to deferred revenue to the Government Wide Statement of Activities was incurred at June 30, 2011 in the amount of \$421,421. The impact of the prior period adjustments on the Statement of Activities is as follows:

	Governmental Activities
Beginning net assets	\$196,974,973
Prior period adjustment	421,421
Beginning net assets, as restated	\$197,396,394

29. Subsequent Events:

The City has evaluated subsequent events through January 31, 2013, the date these financial statements were available to be issued.

Industrial Wastewater Treatment Facility Rates - On July 24, 2012, the City Council approved increasing the Industrial Wastewater Treatment Facility rate by 10%, effective August 1, 2012 using the current five-part structure and then converts to a three-part structure effective January 1, 2013.

30. Successor Agency Trust For Assets of Former Redevelopment Agency:

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Salinas that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 20142.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

30. Successor Agency Trust For Assets of Former Redevelopment Agency: (Continued)

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

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain (or loss).

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

30. Successor Agency Trust For Assets of Former Redevelopment Agency: (Continued)

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary (gain) loss reported in governmental funds - to net assets of the Successor Agency Trust Fund		
Debt Service Funds		
Central City	\$ 1,798,720	
Sunset Avenue Merged	(5,658)	
Capital Projects Fund		
Central City	183,900	
Sunset Avenue Merged	<u>30,674</u>	\$ 2,007,636
Capital assets recorded in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	160,866	
Deferred charges recorded in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	324,173	
Accrued bond interest reported in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	(131,921)	
Long-term debt reported in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	(6,237,014)	
Unamortized bond discount reported in government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	<u>115,944</u>	<u>(5,767,952)</u>
Net decrease to nets of the Successor Agency Trust Fund as a result of the initial transfer (equal to amount of extraordinary gain reported in the government-wide financial statements of the City)		<u><u>\$ (3,760,316)</u></u>

Restricted Assets – Cash and investments of \$1,582,036 recorded as restricted assets are restricted to cover debt service. These funds are held by the fiscal agent.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

30. Successor Agency Trust For Assets of Former Redevelopment Agency: (Continued)

Deferred Charges (Bond Issuance Cost) – The Statement of Fiduciary Net Assets reports \$298,269 in deferred charges. The Agency incurred bond issuance costs of \$377,714 and \$372,789 in connection with the issuance of the 1992 and 1996 tax allocation bonds, respectively. The issuance costs are being amortized over the life of bonds - 30 and 28 years, respectively. Following is a summary of unamortized bond issuance costs that are reported as deferred charges:

	February 1, 2012	Transfer From Former Redevelopment Agency	Additions/ Decrease	June 30, 2012
Tax Allocation Bonds				
Series A-1992	\$ -	\$ 151,094	\$ (12,590)	\$ 138,504
Series A-1996	-	173,079	(13,314)	159,765
	<u>\$ -</u>	<u>\$ 324,173</u>	<u>\$ (25,904)</u>	<u>\$ 298,269</u>

Capital Assets – On February 1, 2012, the Salinas Redevelopment Agency transferred \$160,866 of capital assets to the Successor Agency as required by State Statute.

At June 30, 2012, the Agency’s capital assets consisted of the following:

	Balance February 1, 2012	Redevelopment Agency	Adjustments/ Retirements	Balance June 30, 2012
Fiduciary Activities				
Capital assets, not being depreciated:				
Land	\$ -	\$ 149,270	\$ -	\$ 149,270
Total assets not being depreciated	-	149,270	-	149,270
Capital assets, being depreciate				
Improvements other than buildings	-	17,840	-	17,840
Total assets being depreciated	-	17,840	-	17,840
Less accumulated depreciation:	-	(6,244)	-	(6,244)
Total capital assets being depreciated, net	-	11,596	-	11,596
Fiduciary Activities capital assets, net	<u>\$ -</u>	<u>\$ 160,866</u>	<u>\$ -</u>	<u>\$ 160,866</u>

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

30. Successor Agency Trust For Assets of Former Redevelopment Agency: (Continued)

Long Term Debt – On February 1, 2012 the former Salinas Redevelopment Agency transferred \$6,237,014 of long term debt to the successor agency. The following is a summary of governmental activities General Long Term Debt transactions for the fiscal year ended June 30, 2012:

	February 01, 2012	Transfer From Former Redevelopment Agency	Decreases	June 30, 2012	Due Within One Year
Fiduciary-type Activities					
Loans and Notes Payable:					
Homeless Shelter	\$ -	\$ 157,500	\$ -	\$ 157,500	\$ -
Church Purchase Note Payable	-	65,266	-	65,266	42,971
Total Loans & Notes Payable	-	222,766	-	222,766	42,971
Tax Allocation Refunding Bonds:					
Series A-1996	-	3,830,000	-	3,830,000	715,000
Series A-1992	-	2,184,248	-	2,184,248	131,957
Total Bonds Payable	-	6,014,248	-	6,014,248	846,957
Subtotal	-	6,237,014	-	6,237,014	889,928
Unamortized Bond Discount	-	(115,944)	8,919	(107,025)	-
Fiduciary-type Activities	\$ -	\$ 6,121,070	\$ 8,919	\$ 6,129,989	\$ 889,928

The annual requirements to amortize loans and notes and bonds outstanding as of June 30, 2012 by activity are as follows:

Year Ended June 30,	Principal	Interest	Total
2013	\$ 889,928	\$ 566,362	\$ 1,456,290
2014	900,632	534,454	1,435,086
2015	366,513	1,067,214	1,433,727
2016	353,609	1,080,534	1,434,143
2017	341,368	1,090,416	1,431,784
2018-2022	1,571,335	5,582,908	7,154,243
2023-2027	1,656,129	1,169,780	2,825,909
2028-2041	157,500	-	157,500
	<u>\$ 6,237,014</u>	<u>\$ 11,091,668</u>	<u>\$ 17,328,682</u>

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

30. Successor Agency Trust For Assets of Former Redevelopment Agency: (Continued)

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:

Year Ended June 30,	Principal	Interest	Total
2038-2041	\$ 157,500	\$ -	\$ 157,500

Church of the Nazarene Note Payable

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

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 42,971	\$ -	\$ 42,971
2014	22,295	-	22,295
	\$ 65,266	\$ -	\$ 65,266

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

30. Successor Agency Trust For Assets of Former Redevelopment Agency: (Continued)

Tax Allocation Bonds

On August 28, 1996, the former Salinas Redevelopment Agency issued \$11,145,000 of Tax Allocation Bonds Series A-1996. On October 27, 1992, the former Redevelopment 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 were repaid from property taxes levied within the Salinas Redevelopment Agency Central City Revitalization Project through January 31, 2012, the dissolution date. This debt is now being paid with taxes received from the Redevelopment Property Tax Trust Fund in accordance with the Recognized Obligation Payments Schedule submitted by the Successor Agency and approved by the State Department of Finance.

The annual debt service requirements for the bonds at June 30, 2012 are as follows:

Year Ended June 30,	TAB Series A-1996		TAB Series A-1992	
	Principal	Interest	Principal	Interest
2013	\$ 715,000	\$ 190,988	\$ 131,957	\$ 375,374
2014	755,000	150,563	123,337	383,891
2015	90,000	127,325	276,513	939,889
2016	95,000	122,238	258,609	958,296
2017	100,000	116,876	241,368	973,540
2018-2022	580,000	495,004	991,335	5,087,904
2023-2027	1,495,000	115,913	161,129	1,053,867
	<u>\$ 3,830,000</u>	<u>\$ 1,318,907</u>	<u>\$ 2,184,248</u>	<u>\$ 9,772,761</u>

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

Unamortized Bond Discount

The Statement of Net Assets includes an unamortized bond discount of \$115,944 in Debt Payable-Due in More than One Year-Net of Discounts. The bond discount is not reported on the governmental funds because it does not represent available spendable resources. The 1996 Tax Allocation Revenue Bonds were sold at a discount of \$249,729. The discount is being amortized over the life of the bond issue (28 years) at an annual rate of \$8,919.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

30. Successor Agency Trust For Assets of Former Redevelopment Agency: (Continued)

The following is a summary of the 1996 Tax Allocation Revenue Bonds unamortized discount at June 30, 2012:

	February 1, 2012	Increase	Decrease	June 30, 2012
Tax Allocation Bond, Series A-1996	\$ -	\$ 115,944	\$ (8,919)	\$ 107,025

Commitment to Other Taxing Agencies – On June 15, 2010, the Former Redevelopment Agency approved a loan agreement between the Agency and the National Steinbeck Center. The Agency agreed to make five lease payments on behalf of the Steinbeck Center. The lease payments are used to make debt service payments for the City/Agency Certificates of Participation Series A of 2002. The deferred lease payments due March 1, 2009 through March 1, 2011 total \$484,716. The Agency and Steinbeck Center entered into a note for \$484,716, with interest based on the Local Agency Investment Fund, which is variable, not to exceed (1%) per annum. The note and appropriate interest is due in full on July 1, 2018, unless prepaid prior to that date.

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, 435-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.

Subsequent Events

State Controller Review of Redevelopment Agency Asset Transfers to City

On November 7, 2012 the State Controller’s Office (SCO) came to Salinas to review the propriety of the asset transfers that took place on March 8, 2011. On January 28, 2013, the City received a draft report ordering assets the assets transferred to the City be transferred to the Successor Agency, which the City intends to do. The City has ten days to reply. If the properties are returned, the Successor Agency Oversight Board will determine if the properties should be retained by the City for a governmental use or should be sold and the proceeds distributed to the County Auditor-Controller for distribution to taxing agencies. The properties are held by the City as Land Held for Resale in the Special Revenue Fund titled SRA Public Improvement Grant.

CITY OF SALINAS
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

30. Successor Agency Trust For Assets of Former Redevelopment Agency: (Continued)

AB 1484 Due Diligence Review

AB 1484 (enacted on June 27, 2012) requires a review of the available cash assets of the dissolved redevelopment agency with the goal of distributing what are determined to be available cash assets to the taxing entities. The Successor Agency contracted with Gallina, LLP to perform the review in accordance with the State approved methodology. The review was divided into two sections – housing funds and non-housing funds.

On December 15, 2012, after reviewing the Housing Funds Due Diligence Review and holding a Meet and Confer session with the Successor Agency, the State Department of Finance issued a determination that the Successor Agency should return \$52,456 from the former Low and Moderate Income Housing Fund for distribution to the taxing agencies. On December 19, 2012 the Successor Agency transmitted \$52,456 to the County of Monterey Auditor-Controller. These funds were not included in accounts payable at June 30, 2012 due to the receipt of the determination letter after the financial statements were prepared.

The non-housing funds Due Diligence Review is complete and a final determination by the Oversight Board of the Successor Agency was made January 15, 2013 and sent to the State Department of Finance. The State Department of Finance will have until April 1, 2013 to determine it is in agreement with the non-housing funds due diligence review. Based on the non-housing Due Diligence Review submitted on January, 15, 2012, there are no additional funds required to be sent to the County Auditor-Controller for distribution to taxing agencies.

Rejection of Items on Recognized Obligation Payment Schedule

On October 9, 2012, the State Department of Finance questioned three items on the Recognized Obligation Payment Schedule for the period January through June, 2013 (ROPS III). Item number 3 on the ROPS III related to the Monterey Street Garage obligation amounting to \$24.3 million was rejected. The successor Agency met and conferred with the State Department of Finance staff on November 30, 2012 and per a final determination letter dated December 18, 2012, the State Department of Finance continued to reject the obligation as valid. The City plans to pursue correction of this decision thru legal means.



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**REQUIRED
SUPPLEMENTARY
INFORMATION**

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Information
Fiscal Year Ended June 30, 2012

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.

CITY OF SALINAS
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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 had an original sunset of ten (10) years that was revised by the voters on November 6, 2012 as discussed in the Subsequent Events section of this report. 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 on the Oversight Committee. The committee has two (2) major responsibilities recommending the specific uses of Measure V funds to the City Council and overseeing the use of Measure V funds to assure consistency with the voter approved tax and the appropriated use of Measure V funds.

BUDGETARY INFORMATION

The adopted FY 2011-12 budget represents the financial and organizational plan by which the policies and programs approved by the City Council will be implemented. It includes: (1) the programs, projects, services and activities to be provided during the fiscal year; (2) estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget for a second fiscal year (2012-13) plan is also presented for planning purpose only. The City's goals and objectives are:

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

On June 21, 2011, 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 adopted FY 2011-12 Annual Operating Budgets on June 21, 2011. An update to the CIP was made during FY 2011-12 for the current fiscal year through fiscal year 2015-16. The Capital Improvement Budget is generally updated every two years.

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

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

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Information
Fiscal Year Ended June 30, 2012

Capital project budget is updated annually with major revisions occurring every two years. Potential investments of \$583,643,022 were identified for the six (6) year period from July 1, 2011, to June 30, 2016. The required investments range from deferred maintenance needs of existing facilities (e.g. fire station repairs) or a new Public Safety Radio System to the construction of long overdue new and expanded facilities (e.g. a new police facility and the expansion of Chavez Library) necessary to continue providing basic services to the residents of Salinas. The CIP projects were funded from a variety of sources, including very modest General Fund investments. Due to the economic downturn and the requirement to balance the two-year General Fund and Measure V Operating Budgets, Capital project investments were reduced to \$898,500 in the General Fund and no funds assigned under the Measure V fund.

GENERAL FUND

The General Fund fund balance decreased \$3,034,292 to \$3,476,083, of which \$1,756,059 is Non-spendable, \$1,489,600 is committed, \$2,325,479 assigned and (\$2,095,055) is unassigned.

General Fund reserves have been set-aside by Council for specific purposes. Under the Reserved fund balance category, the General Fund Non-spendable fund balance of \$1,756,059 includes Inventory (\$16,259), Loans Receivable (\$29,800) and Advances (\$1,710,000). Committed funds balance of \$1,489,600 is designated for future Capital Projects. The General Fund Assigned fund balance of \$2,325,479 includes carryover appropriations, unrealized market value and other purpose uses.

The General Fund negative unassigned fund balance of \$2,095,055 is made of \$223,900 of revenue accruals, \$1,600,000 in Operations Reserve and (\$3,918,955) of future funds required to meet the fund balance reserves at June 30, 2012.

MEASURE V

Measure V is a general tax and is reported as part of the General Fund. The Measure V fund balance decreased \$191,680 to \$4,357,325, of which \$529,300 is committed for Capital Projects, \$342,783 is assigned and \$3,485,242 is unassigned.

Of the \$3,485,242 Measure V unassigned fund balance, \$400,000 is reserved for operations, \$1,884,315 in accruals and \$1,200,927 in unassigned fund balances.

Measure V reserves have been set-aside by Council for specific purposes.

BUDGETARY RESULTS RECONCILED TO GAAP

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

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until the equipment, supplies, or services are received.

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Information
Fiscal Year Ended June 30, 2012

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

BUDGET REVISIONS

The following is a summary of the actions taken after the approval of the fiscal year 2011-12 budget:

- General Fund Budget was balanced through the continuation of employee concessions coupled with higher estimated tax revenues. The General Fund carryover from fiscal year 2010-11 totaled \$2,317,100. Of that, \$1,100,000 was assigned to an Operating Reserve and \$1,142,500 was allocated to enhance different programs and projects like the Police Evidence Room, City-wide Desktop Upgrade, Fire Apparatus Lease, Employee Training, reserve for the Cesar Chavez Library Expansion (\$267,700) and other general purpose programs.
- The new Community Safety Division program was created during the first quarter review with a designation of \$279,500 in funding that coupled with a reduction in budget for Booking Fees (\$300,000) and a reduction in the Fire Hydrant Program and funding of the Silicon Valley Gateway partners totaling \$50,000.
- During the Mid-year review the estimated revenue was revised upward in the amount of \$1,259,300. The estimated revenue in the Sales Tax account was increased by \$480,600 to \$21,640,000; Utility Users Tax was increased \$150,000 while the business license estimated revenue was increased by \$100,000. The Charges for Services revenue was revised by \$541,600 due to higher administrative fees coupled with bond issuance fees from the Sanitary Sewer bond issue. Other revenue accounts were adjusted with a net reduction in estimated revenue of \$12,900. In addition to revenue adjustments the operating budget was increased by \$610,900 to fund additional needs in the Annual Leave Buy-back program (\$72,700); Costs of relocation of staff time between the Salinas Redevelopment Agency to the newly formed Salinas Successor Agency (\$157,600); increase in the Worker's Compensation funding (\$320,600) and other non-departmental costs (\$60,000). Four Capital Projects budgets funded by the General Fund were increased \$135,500.

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Information
Fiscal Year Ended June 30, 2012

- The Measure V carryover of \$929,300 from FY 2010-11 was reserved in FY 2011-12 for 1) Expansion of the Cesar Chavez Library (\$529,300) and for 2) creation of an Operating Reserve (\$400,000).
- The Measure V Fund original budget was increased \$36,500 during the mid-year review to cope with the increase in Worker's Compensation costs. The estimated revenue was also adjusted during the same mid-year review by an increase of \$333,800 to the estimated Transaction and Use Tax.

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

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
General Fund and Measure V
Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2011	\$ 11,059,380	\$ 11,059,380	\$ 11,059,380	\$ -
Resources (inflows):				
Taxes:				
Sales	15,885,100	16,494,200	16,835,577	341,377
In-lieu Sales	5,274,300	5,145,800	5,677,970	532,170
Transactions and Use	9,350,000	9,682,000	9,918,787	236,787
Property	11,560,000	11,610,000	11,753,474	143,474
Property-Vehicle License Fees	9,565,000	9,445,000	9,522,709	77,709
Utility	8,750,000	8,900,000	9,275,944	375,944
Business License	4,100,000	4,200,000	4,227,268	27,268
Franchise	7,445,000	7,500,000	7,586,132	86,132
Other	1,500,000	1,500,000	1,629,154	129,154
Licenses and Permits	999,300	999,300	947,445	(51,855)
Intergovernmental	859,000	741,100	473,851	(267,249)
Charges for Services	3,957,600	4,514,200	4,226,420	(287,780)
Interest	100,000	50,000	67,308	17,308
Fines and Forfeiture	95,500	95,500	62,409	(33,091)
Miscellaneous	178,700	180,500	285,863	105,363
Operating Transfers In	2,510,000	2,510,000	2,762,327	252,327
Total Resources	<u>82,129,500</u>	<u>83,567,600</u>	<u>85,252,638</u>	<u>1,685,038</u>
Charges to Appropriations (outflows):				
General Government	11,098,987	11,839,651	16,832,675	(4,993,024)
Public Safety	50,958,894	50,479,144	49,919,873	559,271
Public Works	11,250,518	11,235,812	10,888,159	347,653
Recreation	1,508,500	1,548,898	1,363,560	185,338
Library	3,752,300	3,708,563	3,439,691	268,872
Capital Outlay	96,500	119,350	73,752	45,598
Transfers Out	6,736,141	9,764,412	5,960,900	3,803,512
Total Charges to Appropriations	<u>85,401,840</u>	<u>88,695,830</u>	<u>88,478,610</u>	<u>217,220</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(3,272,340)</u>	<u>(5,128,230)</u>	<u>(3,225,972)</u>	<u>1,902,258</u>
Fund Balance, June 30, 2012	<u>\$ 7,787,040</u>	<u>\$ 5,931,150</u>	<u>\$ 7,833,408</u>	<u>\$ 1,902,258</u>

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Measure V Fund
Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2011	\$ 4,549,005	\$ 4,549,005	\$ 4,549,005	\$ -
Resources (inflows):				
Taxes:				
Transaction and Use Tax	9,350,000	9,682,000	9,918,787	236,787
Interest	15,000	15,000	14,027	(973)
Miscellaneous	-	1,800	4,427	2,627
Total Resources	<u>9,365,000</u>	<u>9,698,800</u>	<u>9,937,241</u>	<u>238,441</u>
Charges to Appropriations (outflows):				
Administration	263,700	263,700	255,239	8,461
Public Safety	3,258,200	3,281,468	2,712,097	569,371
Public Works	1,161,200	1,165,958	1,132,470	33,488
Recreation	389,700	429,258	392,730	36,528
Library	3,752,300	3,708,563	3,408,984	299,579
Capital Outlay	6,500	19,153	19,076	77
Transfers Out	522,500	2,523,944	2,208,325	315,619
Total Charges to Appropriations	<u>9,354,100</u>	<u>11,392,044</u>	<u>10,128,921</u>	<u>1,263,123</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>10,900</u>	<u>(1,693,244)</u>	<u>(191,680)</u>	<u>1,501,564</u>
Fund Balance, June 30, 2012	<u>\$ 4,559,905</u>	<u>\$ 2,855,761</u>	<u>\$ 4,357,325</u>	<u>\$ 1,501,564</u>

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Housing and Urban Development Fund
Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2011	\$ 2,237,041	\$ 2,237,041	\$ 2,237,041	\$ -
Resources (inflows):				
Intergovernmental	3,816,756	5,208,251	3,565,495	(1,642,756)
Interest	800	800	10	(790)
Miscellaneous	72,500	72,500	150,993	78,493
Total Resources	<u>3,890,056</u>	<u>5,281,551</u>	<u>3,716,498</u>	<u>(1,565,053)</u>
Charges to Appropriations (outflows):				
Administration	6,456,436	7,022,376	3,704,095	3,318,281
Transfers Out	2,359,710	1,734,043	310,320	1,423,723
Total Charges to Appropriations	<u>8,816,146</u>	<u>8,756,419</u>	<u>4,014,415</u>	<u>4,742,004</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(4,926,090)</u>	<u>(3,474,868)</u>	<u>(297,917)</u>	<u>3,176,951</u>
Fund Balance, June 30, 2012	<u>\$ (2,689,049)</u>	<u>\$ (1,237,827)</u>	<u>\$ 1,939,124</u>	<u>\$ 3,176,951</u>

CITY OF SALINAS
Required Supplementary Information
Budgetary Policy and Control
Budgetary Comparison Schedule
Development Fees Fund
Fiscal Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Fund Balance, July 1, 2011	\$ 16,413,148	\$ 16,413,148	\$ 16,413,148	\$ -
Resources (inflows):				
Charges for Services	766,000	448,509	674,548	226,039
Interest	183,000	71,500	53,312	(18,188)
Miscellaneous	-	-	1,509	1,509
Total Resources	<u>949,000</u>	<u>520,009</u>	<u>729,369</u>	<u>209,360</u>
Charges to Appropriations (outflows):				
Capital Outlay	-	-	9,317	(9,317)
Transfers Out	<u>16,000,996</u>	<u>16,021,735</u>	<u>1,858,848</u>	<u>14,162,887</u>
Total Charges to Appropriations	<u>16,000,996</u>	<u>16,021,735</u>	<u>1,868,165</u>	<u>14,153,570</u>
Excess of Resources Over (Under)				
Charges to Appropriations	<u>(15,051,996)</u>	<u>(15,501,726)</u>	<u>(1,138,796)</u>	<u>14,362,930</u>
Fund Balance, June 30, 2012	<u>\$ 1,361,152</u>	<u>\$ 911,422</u>	<u>\$ 15,274,352</u>	<u>\$ 14,362,930</u>

**SCHEDULE OF
FUNDING PROGRESS
RETIREMENT PROGRAMS**

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

ACTUARIAL VALUATION DATE	ENTRY AGE NORMAL ACCRUED LIABILITY	ACTUARIAL ASSET VALUE	UNFUNDED ACTUARIAL ACCRUED LIABILITY	FUNDED RATIO	ANNUAL COVERED PAYROLL	UNFUNDED ACTUARIAL LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
06/30/11						
Safety Fire	* \$ 10,951,745,049	\$ 9,135,654,246	\$ 1,816,090,803	83.4%	\$ 949,833,090	191.2%
Safety Police	198,216,423	154,486,430	43,729,993	77.9%	16,697,755	261.9%
Miscellaneous	69,621,977	52,276,607	17,345,370	75.1%	15,568,113	111.4%
06/30/10						
Safety Fire	* \$ 10,165,475,166	\$ 8,470,235,152	\$ 1,695,240,014	83.3%	\$ 955,980,815	177.3%
Safety Police	183,709,743	146,485,473	37,224,270	79.7%	18,219,995	204.3%
Miscellaneous	62,618,174	47,751,992	14,866,182	76.3%	17,230,982	86.3%
06/30/09						
Safety Fire	* \$ 9,721,675,347	\$ 8,027,158,724	\$ 1,694,516,623	82.6%	\$ 973,814,168	174.0%
Safety Police	176,065,221	139,442,398	36,622,823	79.2%	19,050,606	192.2%
Miscellaneous	57,691,774	31,208,195	26,483,579	54.1%	15,305,551	173.0%

* As of July 1, 2005 the California Public Employees' Retirement System required the City to pool all of its assets and liabilities of the Fire Safety Group into the newly created risk pool for Public Safety. The data shown above reflects the new pooled report format including the assets and liabilities of other agencies required to participate in the risk pool. More specific information can be found on Note #16 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)
09/01/10	\$ 14,204,244	\$ 11,079,164	\$ 7,098,975	\$ 2,205,508	502.3%	321.9%
09/01/09	\$ 15,726,090	\$ 11,443,424	\$ 7,880,347	\$ 2,496,644	458.4%	315.6%
09/01/08	\$ 21,262,681	\$ 11,715,017	\$ 13,996,664	\$ 4,304,535	272.2%	325.2%

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 1, 2005. Effective September 1, 2005 actuarial valuation, the plan uses the entry age normal cost funding method under which the unfunded actuarial 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 plan assets and plan accrued liabilities as of September 1, 2005 and the plan's funding contribution was then calculated based on a 30-year amortization of the redetermined unfunded actuarial accrued liability.

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	(UAAL) Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2011	\$ 266,000	\$ 12,432,000	\$ 12,166,000	2.1%	\$ 39,434,000	30.9%
6/30/2010	241,000	11,698,000	11,457,000	2.1%	38,192,000	30.0%
6/30/2009	-	-	-	-	-	-

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The most recent trend data presented is from the June 30, 2011 valuation date.

SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE 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. This was dissolved on January 31, 2012.

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. This was dissolved on January 31, 2012.

DEBT SERVICE FUNDS

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

NON-MAJOR GOVERNMENTAL FUNDS

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. This was dissolved on January 31, 2012.

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. This was dissolved on January 31, 2012.

CAPITAL PROJECTS FUNDS

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 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.

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.

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

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

Central City Project Fund - This fund accounts for financial resources for Central City Project Area Redevelopment Agency projects. This was dissolved on January 31, 2012.

Sunset Avenue Merged Project Fund - This fund accounts for financial resources for Sunset Avenue Merged Project Area Redevelopment Agency projects. This was dissolved on January 31, 2012.

CITY OF SALINAS
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 2012

	Emergency Medical Services	Asset Seizure	Lighting, Landscape and Maintenance District	Local Public Safety	Gas Tax	Traffic Safety	Vehicle Abatement	Recreation Parks	Housing Trust	Cable	Grants	SRA Accounts Transferred To City	SRA Public Impvt Grant	Redevelopment Agency Central City Housing	Sunset Avenue Merged Housing	Affordable Housing Central City Housing	Sunset Avenue Merged Housing	Total
ASSETS																		
Cash and investments	\$ 728,425	\$ 24,242	\$ 3,639,719	\$ 378,066	\$ 2,132,573	\$ -	\$ 75,917	\$ 173,795	\$ 115,539	\$ 161,781	\$ 112,268	\$ -	\$ 1,499,863	\$ -	\$ -	\$ 440,704	\$ 735,049	\$ 10,217,941
Receivables, net:																		
Accrued interest	443	17	2,355	-	1,421	-	-	-	-	-	-	-	-	-	-	347,186	562,097	913,519
Due from other agencies	-	-	-	770,702	414,314	78,575	-	-	-	46,213	946,566	-	-	-	-	-	-	2,256,370
Advances to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	450,000	490,000	940,000
Loans receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,743,745	4,240,500	9,984,245
Land and properties held for resale	-	-	-	-	-	-	-	-	-	-	-	-	874,446	-	-	500,431	1,157,122	2,531,999
Total assets	<u>\$ 728,868</u>	<u>\$ 24,259</u>	<u>\$ 3,642,074</u>	<u>\$ 1,148,768</u>	<u>\$ 2,548,308</u>	<u>\$ 78,575</u>	<u>\$ 75,917</u>	<u>\$ 173,795</u>	<u>\$ 115,539</u>	<u>\$ 207,994</u>	<u>\$ 1,058,834</u>	<u>\$ -</u>	<u>\$ 2,374,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,482,066</u>	<u>\$ 7,184,768</u>	<u>\$ 26,844,074</u>
LIABILITIES																		
Accounts payable	\$ 28,297	\$ 4,227	\$ 41,380	\$ 62,849	\$ -	\$ -	\$ 4,594	\$ 3,715	\$ -	\$ -	\$ 227,422	\$ -	\$ -	\$ -	\$ -	\$ 107,723	\$ -	\$ 480,207
Due to other funds	19,018	-	27,519	483,696	68,474	1,637	-	1,223	-	-	728,803	-	-	-	-	-	-	1,330,370
Deferred revenues	-	-	-	-	-	-	-	-	-	-	102,609	-	-	-	-	796,949	1,051,684	1,951,242
Total liabilities	<u>47,315</u>	<u>4,227</u>	<u>68,899</u>	<u>546,545</u>	<u>68,474</u>	<u>1,637</u>	<u>4,594</u>	<u>4,938</u>	<u>-</u>	<u>-</u>	<u>1,058,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>904,672</u>	<u>1,051,684</u>	<u>3,761,819</u>
FUND BALANCE																		
Nonspendable	-	-	-	-	-	-	-	-	-	-	-	-	874,446	-	-	6,244,176	5,397,622	12,516,244
Restricted	681,553	20,032	3,573,175	892,098	2,479,834	76,938	71,323	168,857	115,539	207,994	337,080	-	-	-	-	218,200	-	8,842,623
Assigned	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	796,424	-	796,424
Unassigned	-	-	-	(289,875)	-	-	-	-	-	-	(337,080)	-	1,499,863	-	-	(681,406)	735,462	926,964
Total fund balances	<u>681,553</u>	<u>20,032</u>	<u>3,573,175</u>	<u>602,223</u>	<u>2,479,834</u>	<u>76,938</u>	<u>71,323</u>	<u>168,857</u>	<u>115,539</u>	<u>207,994</u>	<u>-</u>	<u>-</u>	<u>2,374,309</u>	<u>-</u>	<u>-</u>	<u>6,577,394</u>	<u>6,133,084</u>	<u>23,082,255</u>
Total liabilities and fund balances	<u>\$ 728,868</u>	<u>\$ 24,259</u>	<u>\$ 3,642,074</u>	<u>\$ 1,148,768</u>	<u>\$ 2,548,308</u>	<u>\$ 78,575</u>	<u>\$ 75,917</u>	<u>\$ 173,795</u>	<u>\$ 115,539</u>	<u>\$ 207,994</u>	<u>\$ 1,058,834</u>	<u>\$ -</u>	<u>\$ 2,374,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,482,066</u>	<u>\$ 7,184,768</u>	<u>\$ 26,844,074</u>

CITY OF SALINAS, CALIFORNIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Emergency Medical Services	Asset Seizure	Lighting, Landscape and Maintenance District	Local Public Safety	Gas Tax	Traffic Safety	Vehicle Abatement	Recreation Parks	Housing Trust	Cable	Grants	SRA Accounts Transferred To City	SRA Public Improvement Grant	Redevelopment Agency		Affordable Housing		Total	
														Central City Housing	Sunset Avenue Merged Housing	Central City Housing	Sunset Avenue Merged Housing		
REVENUES																			
Taxes	\$ -	\$ -	\$ -	\$ 390,752	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 193,068	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 583,820
Taxes - special assessment	-	-	1,484,475	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,484,475
Intergovernmental	115,923	30,763	900	1,736,934	4,175,083	-	96,392	-	31,963	-	2,751,084	-	-	-	-	-	-	8,939,042	
Charges for services	-	-	60,714	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	60,714
Interest	1,833	109	11,632	(21)	7,312	-	-	-	-	-	-	-	-	-	511	-	959	1,563	23,898
Rental income	-	-	-	-	148,934	-	-	35,913	-	-	-	-	-	-	-	-	-	-	184,847
Fines and forfeits	-	-	-	-	-	592,304	-	-	-	-	-	-	-	-	-	-	-	-	592,304
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,978	-	17,978
Total Revenues	117,756	30,872	1,557,721	2,127,665	4,331,329	592,304	96,392	35,913	31,963	193,068	2,751,084	-	-	-	511	-	18,937	1,563	11,887,078
EXPENDITURES																			
Current:																			
General government	-	-	-	-	-	-	-	-	116,158	120,000	81,180	-	-	3,700	-	283,667	-	-	604,705
Public safety	572,655	19,965	-	1,667,103	-	-	159,084	-	-	-	2,394,270	-	-	-	-	-	-	-	4,813,077
Recreation	-	-	1,242,308	-	-	-	-	47,089	-	-	-	-	-	-	-	-	-	-	1,289,397
Library	-	-	-	-	-	-	-	-	-	-	285,007	-	-	-	-	-	-	-	285,007
Total expenditures	572,655	19,965	1,242,308	1,667,103	-	-	159,084	47,089	116,158	120,000	2,760,457	-	-	3,700	-	283,667	-	-	6,992,186
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(454,899)	10,907	315,413	460,562	4,331,329	592,304	(62,692)	(11,176)	(84,195)	73,068	(9,373)	-	-	(3,700)	511	(264,730)	1,563	-	4,894,892
OTHER FINANCING SOURCES (USES)																			
Loan proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans receivable forgiven	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(18,000)	-	(18,000)
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-	-	-	583,032	-	-	-	-	-	583,032
Operating transfers in	522,500	-	-	11,723	-	-	50,000	-	-	-	106	-	1,791,277	-	314,124	243,465	6,860,124	6,131,521	15,924,840
Operating transfers out	(321,543)	-	(276,395)	-	(3,699,019)	(611,700)	-	(28,327)	-	-	(3,047)	(3,213,330)	-	(5,943,983)	(5,745,609)	-	-	(19,842,953)	
Total other financing sources (uses)	200,957	-	(276,395)	11,723	(3,699,019)	(611,700)	50,000	(28,327)	-	-	(2,941)	(3,213,330)	2,374,309	(5,629,859)	(5,502,144)	6,842,124	6,131,521	(3,353,081)	
NET CHANGE IN FUND BALANCES	(253,942)	10,907	39,018	472,285	632,310	(19,396)	(12,692)	(39,503)	(84,195)	73,068	(12,314)	(3,213,330)	2,374,309	(5,633,559)	(5,501,633)	6,577,394	6,133,084	-	1,541,811
FUND BALANCES, BEGINNING OF YEAR	935,495	9,125	3,534,157	129,938	1,847,524	96,334	84,015	208,360	199,734	134,926	12,314	3,213,330	-	5,633,559	5,501,633	-	-	-	21,540,444
FUND BALANCES, END OF YEAR	\$ 681,553	\$ 20,032	\$ 3,573,175	\$ 602,223	\$ 2,479,834	\$ 76,938	\$ 71,323	\$ 168,857	\$ 115,539	\$ 207,994	\$ -	\$ -	\$ 2,374,309	\$ -	\$ -	\$ 6,577,394	\$ 6,133,084	\$ -	\$ 23,082,255

CITY OF SALINAS
 COMBINING BALANCE SHEET
 DEBT SERVICE FUNDS
 JUNE 30, 2012

	Assessment District Reserve	Assessment District Administration	Certificates of Participation (2005 B)	Certificates of Participation (1999)	Certificates of Participation (2002)	Redevelopment Agency		Totals
						Central City Debt Service	Sunset Avenue Merged Debt Service	
ASSETS								
Cash and investments	\$ 3,118,184	\$ 19,486	\$ 3,602	\$ -	\$ -	\$ -	\$ -	\$ 3,141,272
Receivables:								
Accrued interest	1,429	-	-	-	-	-	-	1,429
Restricted cash and investments	-	-	803,305	147,539	188,855	-	-	1,139,699
Total assets	<u>\$ 3,119,613</u>	<u>\$ 19,486</u>	<u>\$ 806,907</u>	<u>\$ 147,539</u>	<u>\$ 188,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,282,400</u>
LIABILITIES								
Accounts payable	\$ -	\$ 1,819	\$ -	\$ -	\$ 4,982	\$ -	\$ -	\$ 6,801
Due to other funds	-	-	-	48,745	9,382	-	-	58,127
Total liabilities	<u>-</u>	<u>1,819</u>	<u>-</u>	<u>48,745</u>	<u>14,364</u>	<u>-</u>	<u>-</u>	<u>64,928</u>
FUND BALANCE								
Restricted	<u>3,119,613</u>	<u>17,667</u>	<u>806,907</u>	<u>98,794</u>	<u>174,491</u>	<u>-</u>	<u>-</u>	<u>4,217,472</u>
Total fund balance	<u>3,119,613</u>	<u>17,667</u>	<u>806,907</u>	<u>98,794</u>	<u>174,491</u>	<u>-</u>	<u>-</u>	<u>4,217,472</u>
Total liabilities and fund balance	<u>\$ 3,119,613</u>	<u>\$ 19,486</u>	<u>\$ 806,907</u>	<u>\$ 147,539</u>	<u>\$ 188,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,282,400</u>

CITY OF SALINAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Assessment District Reserve	Assessment District Administration	Certificates of Participation (2005 B)	Certificates of Participation (1999)	Certificates of Participation (2002)	Redevelopment Agency		Totals
						Central City Debt Service	Sunset Avenue Merged Debt Service	
REVENUES								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,570,619	\$ 1,217,325	\$ 2,787,944
Charges for services	-	34,641	-	-	-	-	-	34,641
Interest	5,390	-	84	15	181,438	4,077	(698)	190,306
Total Revenues	5,390	34,641	84	15	181,438	1,574,696	1,216,627	3,012,891
EXPENDITURES								
Current:								
Debt service:								
Principal retirement	-	-	395,000	45,000	70,000	1,018,131	453,734	1,981,865
Interest and fiscal charges	-	67,499	390,052	45,026	121,541	498,015	-	1,122,133
Parking structure debt	-	-	-	-	-	544,250	-	544,250
Pass through tax	-	-	-	-	-	-	134,002	134,002
Total expenditures	-	67,499	785,052	90,026	191,541	2,060,396	587,736	3,782,250
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,390	(32,858)	(784,968)	(90,011)	(10,103)	(485,700)	628,891	(769,359)
OTHER FINANCING SOURCES (USES)								
Operating transfers in	-	-	780,097	84,000	-	120,000	-	984,097
Operating transfers out	-	-	-	-	-	(314,124)	(243,465)	(557,589)
Total other financing sources (uses)	-	-	780,097	84,000	-	(194,124)	(243,465)	426,508
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY GAIN/(LOSS)	5,390	(32,858)	(4,871)	(6,011)	(10,103)	(679,824)	385,426	(342,851)
Extraordinary gain/(loss) - Note 30	-	-	-	-	-	(1,798,720)	5,658	(1,793,062)
NET CHANGE IN FUND BALANCES	5,390	(32,858)	(4,871)	(6,011)	(10,103)	(2,478,544)	391,084	(2,135,913)
FUND BALANCES, BEGINNING OF YEAR	3,114,223	50,525	811,778	104,805	184,594	2,478,544	(391,084)	6,353,385
FUND BALANCES, END OF YEAR	\$ 3,119,613	\$ 17,667	\$ 806,907	\$ 98,794	\$ 174,491	\$ -	\$ -	\$ 4,217,472

**CITY OF SALINAS
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
JUNE 30, 2012**

	Special Aviation	Special Construction Assistance	Capital Project	Assessment District Project	Redevelopment Agency		Totals
					Central City Project	Sunset Avenue Merged Project	
ASSETS							
Cash and investments	\$ 2,116,105	\$ 655,082	\$ 2,000,000	\$ 383,899	\$ -	\$ -	\$ 5,155,086
Receivables, net							
Accrued interest	1,270	-	-	242	-	-	1,512
Due from other agencies	21,879	604,933	-	-	-	-	626,812
Due from other funds	-	-	1,197,672	-	-	-	1,197,672
	<u>-</u>	<u>-</u>	<u>1,197,672</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,197,672</u>
Total assets	<u>\$ 2,139,254</u>	<u>\$ 1,260,015</u>	<u>\$ 3,197,672</u>	<u>\$ 384,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,981,082</u>
LIABILITIES							
Accounts payable	\$ 22,312	\$ 486,276	\$ 1,197,672	\$ -	\$ -	\$ -	\$ 1,706,260
Due to other funds	-	131,951	-	-	-	-	131,951
Deferred revenue	-	663,341	-	-	-	-	663,341
	<u>-</u>	<u>663,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>663,341</u>
Total liabilities	<u>22,312</u>	<u>1,281,568</u>	<u>1,197,672</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,501,552</u>
FUND BALANCE							
Restricted	2,116,709	-	-	-	-	-	2,116,709
Committed	-	-	2,000,000	-	-	-	2,000,000
Assigned	233	1,494,746	-	384,141	-	-	1,879,120
Unassigned	-	(1,516,299)	-	-	-	-	(1,516,299)
	<u>-</u>	<u>(1,516,299)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,516,299)</u>
Total fund balance	<u>2,116,942</u>	<u>(21,553)</u>	<u>2,000,000</u>	<u>384,141</u>	<u>-</u>	<u>-</u>	<u>4,479,530</u>
Total liabilities and fund balances	<u>\$ 2,139,254</u>	<u>\$ 1,260,015</u>	<u>\$ 3,197,672</u>	<u>\$ 384,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,981,082</u>

CITY OF SALINAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Redevelopment Agency</u>						Totals
	Special Aviation	Special Construction Assistance	Capital Project	Assessment District Project	Central City Project	Sunset Avenue Merged Project	
REVENUES							
Intergovernmental	\$ 386,205	\$ 2,040,844	\$ -	\$ -	\$ -	\$ -	\$ 2,427,049
Charges for services	-	284,933	-	-	-	-	284,933
Interest	7,008	-	-	1,303	(822)	-	7,489
Rental income	-	-	-	-	-	10,764	10,764
Miscellaneous	131	3,494	-	-	(1,025)	-	2,600
Total Revenues	<u>393,344</u>	<u>2,329,271</u>	<u>-</u>	<u>1,303</u>	<u>(1,847)</u>	<u>10,764</u>	<u>2,732,835</u>
EXPENDITURES							
Current:							
General government	-	-	-	-	349,583	-	349,583
Contribution to other agency	-	-	-	-	38,790	50,000	88,790
Capital outlay	370,095	2,162,791	7,862,651	-	-	329,098	10,724,635
Debt service:							
Principal retirement	-	-	-	-	-	87,369	87,369
Interest and fiscal charges	-	-	-	-	-	9,347	9,347
Total expenditures	<u>370,095</u>	<u>2,162,791</u>	<u>7,862,651</u>	<u>-</u>	<u>388,373</u>	<u>475,814</u>	<u>11,259,724</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>23,249</u>	<u>166,480</u>	<u>(7,862,651)</u>	<u>1,303</u>	<u>(390,220)</u>	<u>(465,050)</u>	<u>(8,526,889)</u>
OTHER FINANCING SOURCES (USES)							
Loan proceeds	-	-	-	-	196,892	453,733	650,625
Operating transfers in	-	294,349	7,862,651	-	-	-	8,157,000
Operating transfers out	(48,370)	(345)	-	-	-	-	(48,715)
Total other financing sources (uses)	<u>(48,370)</u>	<u>294,004</u>	<u>7,862,651</u>	<u>-</u>	<u>196,892</u>	<u>453,733</u>	<u>8,758,910</u>
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY GAIN/(LOSS)	<u>(25,121)</u>	<u>460,484</u>	<u>-</u>	<u>1,303</u>	<u>(193,328)</u>	<u>(11,317)</u>	<u>232,021</u>
Extraordinary gain/(loss) - Note 30	-	-	-	-	(183,900)	(30,674)	(214,574)
NET CHANGE IN FUND BALANCES	<u>(25,121)</u>	<u>460,484</u>	<u>-</u>	<u>1,303</u>	<u>(377,228)</u>	<u>(41,991)</u>	<u>17,447</u>
FUND BALANCES, BEGINNING OF YEAR	<u>2,142,063</u>	<u>(482,037)</u>	<u>2,000,000</u>	<u>382,838</u>	<u>377,228</u>	<u>41,991</u>	<u>4,462,083</u>
FUND BALANCES, END OF YEAR	<u>\$ 2,116,942</u>	<u>\$ (21,553)</u>	<u>\$ 2,000,000</u>	<u>\$ 384,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,479,530</u>

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 FUND NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2012

	<u>Risk Management</u>	<u>General Insurance</u>	<u>Workers Compensation</u>	<u>General Liability</u>	<u>Total</u>
ASSETS					
Current Assets:					
Cash and investments	\$ 108,830	\$ 681,474	\$ 3,595,299	\$ 2,452,875	\$ 6,838,478
Receivables					
Accounts	-	30	-	-	30
Accrued interest	-	-	2,364	2,217	4,581
Due from general fund	-	-	11,466,660	-	11,466,660
Total current assets	<u>108,830</u>	<u>681,504</u>	<u>15,064,323</u>	<u>2,455,092</u>	<u>18,309,749</u>
Noncurrent Assets:					
Restricted cash and investments	-	-	248,374	-	248,374
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>248,374</u>	<u>-</u>	<u>248,374</u>
Total assets	<u>108,830</u>	<u>681,504</u>	<u>15,312,697</u>	<u>2,455,092</u>	<u>18,558,123</u>
LIABILITIES					
Current liabilities:					
Accounts payable	6,280	4,109	54,089	3,500	67,978
Insurance claims payable	-	-	15,258,608	1,410,771	16,669,379
Long term debt - due within one year	485	-	-	-	485
Total current liabilities	<u>6,765</u>	<u>4,109</u>	<u>15,312,697</u>	<u>1,414,271</u>	<u>16,737,842</u>
Noncurrent liabilities:					
Long term debt - due in more than one year	1,941	-	-	-	1,941
Total noncurrent liabilities	<u>1,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,941</u>
Total liabilities	<u>8,706</u>	<u>4,109</u>	<u>15,312,697</u>	<u>1,414,271</u>	<u>16,739,783</u>
NET ASSETS					
Restricted	-	-	248,374	-	248,374
Unrestricted	100,124	677,395	(248,374)	1,040,821	1,569,966
Total net assets	<u>\$ 100,124</u>	<u>\$ 677,395</u>	<u>\$ -</u>	<u>\$ 1,040,821</u>	<u>\$ 1,818,340</u>

CITY OF SALINAS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Risk Management</u>	<u>General Insurance</u>	<u>Workers Compensation</u>	<u>General Liability</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$ 388,805	\$ 964,389	\$ 9,160,387	\$ 900,435	\$ 11,414,016
Total operating revenues	<u>388,805</u>	<u>964,389</u>	<u>9,160,387</u>	<u>900,435</u>	<u>11,414,016</u>
OPERATING EXPENSES					
Personnel services	284,410	-	-	-	284,410
Contractual services	41	73,193	292,754	50,655	416,643
Supplies	1,832	-	-	-	1,832
Insurance	-	295,854	127,789	300,098	723,741
Insurance claims	-	99,401	8,753,295	1,509,636	10,362,332
Other	272	-	-	-	272
Total operating expenses	<u>286,555</u>	<u>468,448</u>	<u>9,173,838</u>	<u>1,860,389</u>	<u>11,789,230</u>
OPERATING INCOME (LOSS)	<u>102,250</u>	<u>495,941</u>	<u>(13,451)</u>	<u>(959,954)</u>	<u>(375,214)</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	-	-	13,451	10,120	23,571
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>13,451</u>	<u>10,120</u>	<u>23,571</u>
CHANGE IN NET ASSETS	102,250	495,941	-	(949,834)	(351,643)
NET ASSETS, BEGINNING OF YEAR	<u>(2,126)</u>	<u>181,454</u>	<u>-</u>	<u>1,990,655</u>	<u>2,169,983</u>
NET ASSETS, END OF YEAR	<u>\$ 100,124</u>	<u>\$ 677,395</u>	<u>\$ -</u>	<u>\$ 1,040,821</u>	<u>\$ 1,818,340</u>

CITY OF SALINAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Risk Management Fund	General Insurance Fund	Workers Compensation Fund	General Liability Fund	Totals
Cash Flows from Operating Activities:					
Receipts from customers and users	\$ 1,655	\$ 30,239	\$ 456,984	\$ 435	\$ 489,313
Receipts from interfund services provided	387,150	934,285	3,581,553	900,000	5,802,988
Payments to suppliers	(2,320)	(369,863)	(420,544)	(343,753)	(1,136,480)
Payments to employees	(282,634)	-	-	-	(282,634)
Payments to claimants	-	(111,575)	(4,344,919)	(856,437)	(5,312,931)
Net Cash Provided (Used) by Operating Activities	<u>103,851</u>	<u>483,086</u>	<u>(726,926)</u>	<u>(299,755)</u>	<u>(439,744)</u>
Cash Flows from Investing Activities:					
Interest received	-	-	15,914	9,879	25,793
(Decrease) in fair value of investments	-	-	(1,502)	119	(1,383)
Transfer (to) from restricted cash	-	-	60,656	110,010	170,666
Net Cash Provided by (Used for) Investing Activities	<u>-</u>	<u>-</u>	<u>75,068</u>	<u>120,008</u>	<u>195,076</u>
Net Increase(Decrease) in Cash and Cash Equivalents	103,851	483,086	(651,858)	(179,747)	(244,668)
Cash and Cash Equivalents - Beginning of Year	<u>4,979</u>	<u>198,388</u>	<u>4,247,157</u>	<u>2,632,622</u>	<u>7,083,146</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 108,830</u></u>	<u><u>\$ 681,474</u></u>	<u><u>\$ 3,595,299</u></u>	<u><u>\$ 2,452,875</u></u>	<u><u>\$ 6,838,478</u></u>

Private-Purpose Trust Funds

The private-purpose trust funds accounts for assets and activities of the dissolved Redevelopment Agency, which is accounted for in the Successor Agency Trust, and other trust arrangement not properly reported in a pension trust.

Successor Agency -

Central City Debt Service RORF - This fund accounts for all the financial activities of the Redevelopment Obligation Retirement Fund (RORF) related to the former Central City Redevelopment Project Area in accordance with AB 1x26 (enacted June 28, 2011) and AB 1484 (enacted on June 27, 2012) which unwind the Redevelopment Agency of the City Salinas.

Sunset Avenue Debt Service RORF – This fund accounts for all the financial activities of the Redevelopment Obligation Retirement Fund (RORF) related to the former Sunset Avenue Merged Redevelopment Project Area in accordance with AB 1x26 (enacted June 28, 2011) and AB 1484 (enacted on June 27, 2012) which unwind the Redevelopment Agency of the City Salinas.

Central City Capital Project – This fund accounts for the financial activities of the former Central City Redevelopment Project Fund which was dissolved on February 1, 2012 in accordance with AB 1x26 (enacted June 28, 2011) and AB 1484 (enacted on June 27, 2012) which unwind the Redevelopment Agency of the City Salinas.

Sunset Avenue Capital Project – This fund accounts for the financial activities of the former Sunset Avenue Merged Redevelopment Project Fund which was dissolved on February 1, 2012 in accordance with AB 1x26 (enacted June 28, 2011) and AB 1484 (enacted on June 27, 2012) which unwind the Redevelopment Agency of the City Salinas.

Administration – This fund accounts for the administrative activities of the Successor Agency to the former Salinas Redevelopment Agency which was dissolved on February 1, 2012 in accordance with AB 1x26 (enacted June 28, 2011).

Other Private Purpose Trust Funds – These funds are used to account for other 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, Monterey Regional Water Pollution Control Agency (MRWPCA) Fees, Sales Tax, Payroll Taxes, Developer Deposits, Evidence Room, Construction Bonds, Monterey County Tourism Improvement District, Leadership Salinas, and miscellaneous.

CITY OF SALINAS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
JUNE 30, 2012

	Successor Agency Trust for the Assets of the Former Redevelopment Agency					Total Successor Agency	Other Private Purpose Trust	Total
	Central City Debt Service RORF	Sunset Avenue Debt Service RORF	Central City Capital Project	Sunset Avenue Capital Project	Administration			
ASSETS								
Cash and investments	\$ 566,297	\$ 818,592	\$ 327	\$ -	\$ -	\$ 1,385,216	\$ 1,406,587	\$ 2,791,803
Receivables								
Taxes	100,862	-	-	-	-	100,862	-	100,862
Accounts	-	-	-	3,328	-	3,328	26,680	30,008
Interest	4,624	504	224	-	-	5,352	-	5,352
Loans and notes receivable	484,716	-	183,900	30,674	-	699,290	-	699,290
Total current assets	<u>1,156,499</u>	<u>819,096</u>	<u>184,451</u>	<u>34,002</u>	<u>-</u>	<u>2,194,048</u>	<u>1,433,267</u>	<u>3,627,315</u>
Noncurrent assets								
Cash and investments restricted	1,582,036	-	-	-	-	1,582,036	10,868	1,592,904
Deferred charges	298,269	-	-	-	-	298,269	-	298,269
Capital assets, net	160,866	-	-	-	-	160,866	-	160,866
Total noncurrent assets	<u>2,041,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,041,171</u>	<u>10,868</u>	<u>2,052,039</u>
Total assets	<u>3,197,670</u>	<u>819,096</u>	<u>184,451</u>	<u>34,002</u>	<u>-</u>	<u>4,235,219</u>	<u>1,444,135</u>	<u>5,679,354</u>
LIABILITIES								
Current liabilities								
Accounts payable	479,316	264,739	1,703	1,888	25,394	773,040	956,213	1,729,253
Due to outside agencies	-	-	-	-	-	-	27,909	27,909
Due to other funds	-	-	-	-	-	-	3,559	3,559
Advance from other funds	450,000	490,000	-	-	-	940,000	-	940,000
Deferred revenues	4,624	-	-	-	-	4,624	-	4,624
Interest payable	270,703	-	-	-	-	270,703	-	270,703
Long term debt - due within one year	846,957	42,971	-	-	-	889,928	-	889,928
Total current liabilities	<u>2,051,600</u>	<u>797,710</u>	<u>1,703</u>	<u>1,888</u>	<u>25,394</u>	<u>2,878,295</u>	<u>987,681</u>	<u>3,865,976</u>
Long-term liabilities								
Long term debt - due in more than one year	5,217,766	22,295	-	-	-	5,240,061	-	5,240,061
Total long-term liabilities	<u>5,217,766</u>	<u>22,295</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,240,061</u>	<u>-</u>	<u>5,240,061</u>
Total liabilities	<u>7,269,366</u>	<u>820,005</u>	<u>1,703</u>	<u>1,888</u>	<u>25,394</u>	<u>8,118,356</u>	<u>987,681</u>	<u>9,106,037</u>
NET ASSETS								
Held in trust for benefits and other purposes	<u>\$ (4,071,696)</u>	<u>\$ (909)</u>	<u>\$ 182,748</u>	<u>\$ 32,114</u>	<u>\$ (25,394)</u>	<u>\$ (3,883,137)</u>	<u>\$ 456,454</u>	<u>\$ (3,426,683)</u>

The accompanying notes are an integral part of this statement.

CITY OF SALINAS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Successor Agency Trust for the Assets of the Former Redevelopment Agency					Total Successor Agency	Other Private Purpose Trust	Total
	Central City Debt Service RORF	Sunset Avenue Debt Service RORF	Central City Capital Project	Sunset Avenue Capital Project	Administration			
ADDITIONS								
Taxes	\$ 1,197,927	\$ 691,845	\$ -	\$ -	\$ -	\$ 1,889,772	\$ -	\$ 1,889,772
Rental income	-	-	-	15,818	-	15,818	-	15,818
Miscellaneous	-	-	-	6,916	-	6,916	-	6,916
Contributions								
Private donations	-	-	-	-	-	-	728,783	728,783
Total contributions	1,197,927	691,845	-	22,734	-	1,912,506	728,783	2,641,289
Investment earnings								
Interest	59,520	2,070	1,011	-	-	62,601	45	62,646
Net investment earnings	59,520	2,070	1,011	-	-	62,601	45	62,646
Transfer In	-	-	32,454	4,830	119,881	157,165	4,522	161,687
Total additions	1,257,447	693,915	33,465	27,564	119,881	2,132,272	733,350	2,865,622
DEDUCTIONS								
Payments on behalf of trustees	1,392,723	499,189	34,617	26,124	145,275	2,097,928	1,251,013	3,348,941
Transfer out	32,454	124,711	-	-	-	157,165	3,411	160,576
Total deductions	1,425,177	623,900	34,617	26,124	145,275	2,255,093	1,254,424	3,509,517
Additions over(under) deductions before extraordinary loss	(167,730)	70,015	(1,152)	1,440	(25,394)	(122,821)	(521,074)	(643,895)
Extraordinary loss	(3,903,966)	(70,924)	183,900	30,674	-	(3,760,316)	-	(3,760,316)
CHANGE IN NET ASSETS	(4,071,696)	(909)	182,748	32,114	(25,394)	(3,883,137)	(521,074)	(4,404,211)
NET ASSETS								
BEGINNING OF THE YEAR	-	-	-	-	-	-	977,528	977,528
END OF YEAR	\$ (4,071,696)	\$ (909)	\$ 182,748	\$ 32,114	\$ (25,394)	\$ (3,883,137)	\$ 456,454	\$ (3,426,683)

The accompanying notes are an integral part of this statement.

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.

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.

Economic Development - This fund is used to account for the activities related to enhancing economic development in the City with the purpose of increasing employment opportunities, better paying employment, assisting local businesses to remain competitive and attracting new, desirable business and promoting expansion of tourism industry while enhancing revenue stream for the City.

Salinas Valley Enterprise Zone - This fund is used to account for activities related to the Enterprise Zone created by the City of Salinas, County of Monterey, City of Soledad, City of Greenfield, City of Gonzales and the City of King. The Salinas Valley Enterprise Zone will remain in force for a period of fifteen years with an effective date of January 30, 2009, through January 29, 2024. The enterprise zone offers incentives to local businesses, both existing and newly locating firms, to qualify for California Income Tax Credits. The use of Income Tax Credits and other tax related benefits of being an enterprise zone are focused on encouraging new investment and job creation. Significant sources of revenue include municipality contributions and application fees for each hiring credit voucher requested.

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, 2012

	<u>Sunrise House</u>	<u>Economic Development</u>	<u>Salinas Valley Enterprise Zone</u>	<u>Second Chance Youth Program</u>	<u>Cafeteria Plan</u>	<u>Retiree Health Insurance</u>	<u>Business Improvement District</u>	<u>Totals</u>
ASSETS								
Cash and investments	\$ 322,849	\$ -	\$ 260,196	\$ 141,160	\$ 102,002	\$ 1	\$ 84,378	\$ 910,586
Receivables								
Accounts	-	-	32,825	-	92,264	-	-	125,089
Accrued interest	198	-	-	-	-	-	-	198
Due from other agencies	6,494	-	-	77,129	-	-	-	83,623
Total assets	<u>329,541</u>	<u>-</u>	<u>293,021</u>	<u>218,289</u>	<u>194,266</u>	<u>1</u>	<u>84,378</u>	<u>1,119,496</u>
LIABILITIES								
Accounts payable	34,821	3,030	47,436	41,354	116,244	165	-	243,050
Accrued leave	6,224	10,378	34,494	15,809	-	-	-	66,905
Deferred revenues	-	-	-	-	(23,979)	-	-	(23,979)
Total liabilities	<u>41,045</u>	<u>13,408</u>	<u>81,930</u>	<u>57,163</u>	<u>92,265</u>	<u>165</u>	<u>-</u>	<u>285,976</u>
NET ASSETS								
Held in trust for pension benefits and other purposes	<u>\$ 288,496</u>	<u>\$ (13,408)</u>	<u>\$ 211,091</u>	<u>\$ 161,126</u>	<u>\$ 102,001</u>	<u>\$ (164)</u>	<u>\$ 84,378</u>	<u>\$ 833,520</u>

**GENERAL
and
MEASURE V FUNDS**

CITY OF SALINAS
COMBINING BALANCE SHEET
GENERAL AND MEASURE V FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Measure V</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 9,603,835	\$ 3,895,655	\$ 13,499,490
Receivables, net:			
Taxes	7,310,195	1,882,348	9,192,543
Accounts	65,654	1,967	67,621
Accrued interest	13,710	2,588	16,298
Due from other agencies	-	-	-
Due from other funds	1,894,822	-	1,894,822
Advances to other funds	1,710,000	-	1,710,000
Restricted cash and investments	-	-	-
Loans receivable	29,800	-	29,800
Inventory	16,259	-	16,259
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 20,644,275</u>	<u>\$ 5,782,558</u>	<u>\$ 26,426,833</u>
LIABILITIES			
Accounts payable	\$ 5,617,260	\$ 489,282	\$ 6,106,542
Due to other funds	11,550,932	935,951	12,486,883
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>17,168,192</u>	<u>1,425,233</u>	<u>18,593,425</u>
FUND BALANCE			
Nonspendable	1,756,059	-	1,756,059
Committed	1,489,600	529,300	2,018,900
Assigned	2,325,479	342,783	2,668,262
Unassigned	(2,095,055)	3,485,242	1,390,187
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>3,476,083</u>	<u>4,357,325</u>	<u>7,833,408</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 20,644,275</u>	<u>\$ 5,782,558</u>	<u>\$ 26,426,833</u>

CITY OF SALINAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL AND MEASURE V FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Measure V</u>	<u>Total</u>
REVENUES			
Taxes	\$ 66,508,228	\$ 9,918,787	\$ 76,427,015
Licenses and permits	947,445	-	947,445
Intergovernmental	473,851	-	473,851
Charges for services	4,226,420	-	4,226,420
Interest	53,281	14,027	67,308
Rental income	88,366	-	88,366
Fines and forfeits	62,409	-	62,409
Miscellaneous	193,070	4,427	197,497
Total revenues	<u>72,553,070</u>	<u>9,937,241</u>	<u>82,490,311</u>
EXPENDITURES			
Current:			
General government	16,577,436	255,239	16,832,675
Public safety	47,207,776	2,712,097	49,919,873
Public works	9,755,689	1,132,470	10,888,159
Recreation	970,830	392,730	1,363,560
Library	30,707	3,408,984	3,439,691
Capital outlay	54,676	19,076	73,752
Total expenditures	<u>74,597,114</u>	<u>7,920,596</u>	<u>82,517,710</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,044,044)</u>	<u>2,016,645</u>	<u>(27,399)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	2,762,327	-	2,762,327
Operating transfers out	(3,752,575)	(2,208,325)	(5,960,900)
Total other financing sources (uses)	<u>(990,248)</u>	<u>(2,208,325)</u>	<u>(3,198,573)</u>
NET CHANGE IN FUND BALANCES	(3,034,292)	(191,680)	(3,225,972)
FUND BALANCES, BEGINNING OF YEAR	<u>6,510,375</u>	<u>4,549,005</u>	<u>11,059,380</u>
FUND BALANCES, END OF YEAR	<u>\$ 3,476,083</u>	<u>\$ 4,357,325</u>	<u>\$ 7,833,408</u>



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