

DATE: November 13, 2007

TO: Mayor and City Council Members

FROM: Finance Department

SUBJECT: RESOLUTION NO. 276-R - A RESOLUTION ACCEPTING THE REDEVELOPMENT AGENCY'S AUDITED COMPONENT UNIT FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

BACKGROUND/ISSUE

This item is to present the Redevelopment Agency's Audited Component Unit Financial Statements for the Fiscal Year ended June 30, 2007. These financial statements are prepared in accordance with accounting standards generally accepted in the United States of America and contain financial statements that are prepared in accordance with Health and Safety Code Section 33080.1.

The independent financial audit report was prepared by Gilbert Associates, Inc. The Redevelopment Agency of the City of Folsom received an unqualified or "clean" audit opinion. An unqualified or "clean" opinion is one in which the auditor can state, without reservation, that the financial statements are fairly presented in conformity with generally accepted accounting principles.

For Fiscal Year 2006-2007, Gilbert Associates, Inc. has stated that there were no findings of noncompliance that are required to be reported under the Government Auditing Standards and no findings of matters involving the internal control over financial reporting and its operation considered to be material weaknesses. Because the Redevelopment Agency is presented as a blended component unit in the City's Comprehensive Annual Financial Report, this information is presented in the independent auditor's *Management Letter for the City of Folsom* and will be presented with the City's financial report.

POLICY/RULE

1. Section 3.02.160 (f) of the Folsom Municipal Code states, "The annual audit and written evaluation report shall be submitted to the City Council at a regular meeting, shall be open to public inspection in the office of the City Clerk, and shall be acted on by the Finance Director as appropriate and necessary to assure full compliance with generally accepted accounting principles, the City Charter, state law, and this code."

2. Health & Safety Code Section 33080.1 states, in part, that "Every redevelopment agency shall submit the final report of any audit undertaken by any other local, state, or federal government entity to its legislative body within 30 days of receipt of that audit report. In addition, every redevelopment agency shall present an annual report to its legislative body within six months of the end of the agency's fiscal year."

ANALYSIS

The Fiscal Year 2006-2007 Component Unit Financial Statements for the City of Folsom Redevelopment Agency are attached for analysis.

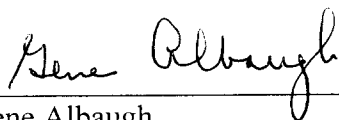
ATTACHMENTS

1. Resolution No. 276-R - A Resolution Accepting the Redevelopment Agency's Audited Component Unit Financial Statements for the Fiscal Year Ended June 30, 2007
2. The City of Folsom, California Redevelopment Agency, Audited Component Unit Financial Statements for the Fiscal Year Ended June 30, 2007

RECOMMENDATION/CITY COUNCIL ACTION

Staff recommends that the City Council adopt Resolution No. 276-R - A Resolution Accepting the Redevelopment Agency's Audited Component Unit Financial Statements for the Fiscal Year Ended June 30, 2007.

Submitted by:



Gene Albaugh
Interim Finance Director

Attachment 1

RESOLUTION NO. 276-R

**A RESOLUTION ACCEPTING THE REDEVELOPMENT AGENCY'S AUDITED
COMPONENT UNIT FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED
JUNE 30, 2007**

WHEREAS, Section 3.02.160 of the Folsom Municipal Code requires that the financial records of the City be audited each fiscal year; and

WHEREAS, this audit for the Fiscal Year 2006-2007 for the Folsom Redevelopment Agency's financial records was completed by the Certified Public Accounting firm of Gilbert Associates, Inc. with an "unqualified" opinion; and

WHEREAS, Gilbert Associates, Inc. stated that the financial statements for the Redevelopment Agency of the City of Folsom present fairly, in all material respects, the financial position as of June 30, 2007, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America; and

WHEREAS, Gilbert and Associates, Inc. did not find any instances of non-compliance that are required to be reported under the Government Auditing Standards and did not find any matters involving internal control that they would consider to be material weaknesses.

NOW, THEREFORE, BE IT RESOLVED by the Redevelopment Agency of the City of Folsom that the Audited Component Unit Financial Statements for the Fiscal Year ended June 30, 2007, be accepted and filed with the City Clerk.

PASSED AND ADOPTED this 13th day of November 2007, by the following roll call vote:

AYES: Board Members:

NOES: Board Members:

ABSENT: Board Members:

ABSTAIN: Board Members:

Andrew Morin, CHAIR

ATTEST:

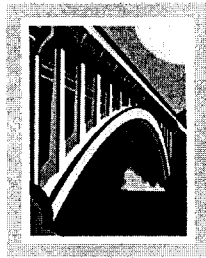
Christa Schmidt, SECRETARY

Attachment 2

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

AUDITED COMPONENT UNIT
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2007



CITY OF
FOLSOM
DISTINCTIVE BY NATURE

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

TABLE OF CONTENTS

	Page
Independent Auditors' Report on Component Unit Financial Statements.....	1 - 2
Management's Discussion and Analysis	3 - 7
 Financial Statements:	
Government-wide Financial Statements	
• Statement of Net Assets	8
• Statement of Activities.....	9
 Fund Financial Statements	
• Balance Sheet – Governmental Funds	10
• Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets	11
• Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – Governmental Funds	12
• Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities	13
• Notes to the Basic Financial Statements	14-26
 Compliance Report	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27 – 28
 Findings and Recommendation Section	
Schedule of Audit Findings and Recommendations	29
 Required Supplementary Information	
Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual	30 - 31



Gilbert Associates, Inc.
CPAs and Advisors

**INDEPENDENT AUDITORS' REPORT
ON COMPONENT UNIT FINANCIAL STATEMENTS**

**Honorable Mayor, City Manager and
Members of the Redevelopment Agency
of the City of Folsom
Folsom, California**

We have audited the accompanying governmental activities and each major fund of the Redevelopment Agency of the City of Folsom, California (the Agency), a component unit of the City of Folsom, California, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on this component unit's financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Redevelopment Agency of the City of Folsom and are not intended to present fairly the financial position and results of operation of the City of Folsom, California, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007 consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 that 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.

**Honorable Mayor, City Manager and
Members of the Redevelopment Agency
of the City of Folsom**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Funds, as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC

October 31, 2007

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

As management of the City of Folsom Redevelopment Agency (Agency), we offer readers of the Redevelopment Agency's financial statements this narrative overview and analysis of the financial activities of the City of Folsom Redevelopment Agency for the fiscal year ended June 30, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. These two sets of financial statements provide two different views of the Agency's financial activities and financial position, short and long-term views.

The Government-wide Financial Statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The **Statement of Net Assets** presents information on all Agency assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets and liabilities may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **Statement of Activities** explains the change in net assets for the year in detail, with the emphasis on measuring the net revenues or expenses of each of the Agency's programs.

Fund Financial Statements are designed to report detailed information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives, and focus primarily on the short-term activities of the Agency. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements; however their focus is on near-term inflows and outflows of spendable resources, and the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The Governmental Fund Financial Statements provide detailed information about each of the Redevelopment Agency's funds.

For the fiscal year ended June 30, 2007, the Redevelopment Agency adopted annual appropriated budgets for the special revenue funds. A budgetary comparison statement has been provided for the Central Folsom Redevelopment Project Fund and the Low/Moderate Housing Fund.

CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Notes to the 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. The notes to the financial statements can be found on pages 14 - 26 of this report.

Compliance Report

The Report on Compliance and on Internal Control can be found on page 27 - 28 of this report.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The Government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the financial statements of the City as a whole.

City of Folsom Redevelopment Agency
Net Assets

	Governmental Activities	
	2007	2006
Current and other assets	\$ 33,946,385	\$ 18,618,679
Capital assets	5,413,483	5,508,466
Total assets	<u>39,359,868</u>	<u>24,127,145</u>
Long-term liabilities outstanding	34,176,515	18,593,642
Other liabilities	<u>3,767,739</u>	<u>1,721,158</u>
Total liabilities	<u>37,944,254</u>	<u>20,314,800</u>
Invested in capital assets, net of related debt	2,502,156	1,619,528
Restricted	8,509,901	6,984,537
Unrestricted	<u>(9,596,443)</u>	<u>(4,791,720)</u>
Total net assets	<u>\$ 1,415,614</u>	<u>\$ 3,812,345</u>

Net assets represent the difference between the City's resources and obligations. Over time, net assets may serve as an indication of a government's financial position. Combined net assets of the primary government declined by 62% this year due to the issuance of Tax Allocation Bonds; \$3.8 million at June 30, 2006 to \$1.5 million at June 30, 2007. At June 30, 2007, the largest portion of the agency's net assets, approximately \$8.5 million, are restricted net assets that must be used in accordance with external restrictions. Net assets invested in capital assets, net of related debt in the amount of (\$24.6) million represent capital assets which are used by the Agency to provide services to citizens, net of related debt. Additional capital asset information can be found in the Capital Asset and Debt Administration section of this

CITY OF FOLSOM, CALIFORNIA

**REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

MD&A. The deficit balance of unrestricted governmental activities net assets is primarily due to the issuance of debt. This debt is used for redevelopment and economic development projects in the community but does not result in assets that are capitalized in these financial statements.

The agency's total revenues and expenditures including transfers were \$26,844,606 and \$29,241,337, respectively for the fiscal year ending June 30, 2007. Of the total revenues, \$6,794,919, or 25%, was from property taxes. Total governmental activity revenues increased by \$15,222,312, or 131%, from last year. The increase is attributable to increases in tax increment of \$586,228 and investment earnings of \$478,516 and \$15 million in bond proceeds. Total governmental activity expenses were \$9,450,262, an increase of \$113,413, attributable to increased capital outlay expenditures and additional OPA activity.

**City of Folsom Redevelopment Agency
Changes in Net Assets**

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues:		
Charges for services	\$ 145,995	\$ 75,371
Capital grants and contributions	128,543	-
General revenues:		
Property taxes	6,794,919	6,208,691
Investment earnings	1,031,774	553,258
Miscellaneous	6,965	-
Proceeds from sale of property	77,779	-
Total revenues	<u>8,185,975</u>	<u>6,837,320</u>
Expenses		
General government	8,173,538	8,712,821
Interest	<u>1,276,724</u>	<u>624,028</u>
Total expenses	<u>9,450,262</u>	<u>9,336,849</u>
Other Financing Uses		
Transfers In	18,658,631	4,784,974
Transfers Out	<u>(19,791,075)</u>	<u>(13,998,901)</u>
Total other financing uses	(1,132,444)	(9,213,927)
Increase in net assets	(2,396,731)	(11,713,456)
Net assets, beginning of year	<u>3,812,345</u>	<u>15,525,801</u>
Net assets, end of year	<u>\$ 1,415,614</u>	<u>\$ 3,812,345</u>

CITY OF FOLSOM, CALIFORNIA

**REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the Agency include special revenue, debt service and capital projects funds.

The Agency's special revenue funds consist of the Central Folsom Redevelopment Project Fund and the Low/Moderate Housing Fund. The unreserved fund balances as of June 30 were \$9,898,677 and \$0, respectively. Tax increment revenues provide the majority of revenue. The percentage of tax increment revenue for the Low/Moderate Housing fund has been increased through action by the Redevelopment Agency Board from 20% to 25% with a resultant decrease of 5% to the Central Folsom Redevelopment Project Fund.

As of June 30, 2007, the Agency's governmental funds reported combined ending fund balances of \$30,932,396, an increase of \$13,759,204 in comparison with the prior fiscal year.

Revenues for governmental functions overall totaled \$8,108,196 in fiscal year 2007, which represents an increase of \$1,270,876 in comparison with the prior fiscal year and is primarily due to an increase in tax increment revenue and interest revenue. Expenditures for governmental functions, totaling \$10,239,327, increased by \$2,075,607 from the prior fiscal year, mainly due to increased spending in the Capital Projects Fund and costs related to the issuance of the 2006 TAB's.

BUDEGTARY HIGHLIGHTS

The difference of \$127,310 between the original budget and the final amended budget for the Central Folsom Redevelopment Project Fund reflects additional amounts to fund AB1290 programs such as Downtown Revitalization, Commercial Rehabilitation, Capital Improvement, and Murer House restoration.

Differences between the original budget and the final amended budget for the Low/Moderate Housing Fund totaling \$820 reflect the City's intent to increase funding for urban redevelopment contracts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Agency's investment in capital assets for its governmental activities as of June 30, 2007 amounts to \$5,413,483. This investment in capital assets includes land, buildings, improvements and equipment. The total decrease in the Agency's capital assets for the current fiscal year was 1.7% as shown in the table below. Additional information on the Agency's capital assets can be found in Note 3 of this report.

CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

City of Folsom Redevelopment Agency
Changes in Capital Assets, Net of Depreciation

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 3,888,457	\$ 3,888,457
Buildings	1,366,061	1,454,264
Improvements	<u>158,965</u>	<u>165,745</u>
Total	<u>\$ 5,413,483</u>	<u>\$ 5,508,466</u>

Long-term Debt - At the end of the current fiscal year, the Redevelopment Agency had total bonded debt outstanding of \$31,085,000. The Redevelopment Agency also has Owner Participation Agreements totaling \$4,130,188. The other change during the fiscal year was payments on the bonds and owner participation agreements. Additional information on the Agency's long-term debt can be found in Note 4 of this report.

Economic Factors

The slowing real estate market is having significant impact on property tax revenues, as the rate of growth is smaller than in recent years. In the last year and a half, there have been significant reductions in the sale of new homes and the resale of existing homes. The market value of residential properties has also declined.

Requests for Information

This component unit financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the City of Folsom Redevelopment Agency finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City of Folsom Finance Department, 50 Natoma Street, Folsom, California 95630, (916) 355-7200 or visit the City's web site at www.folsom.ca.us.

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Net Assets</u>
ASSETS:	
Cash and investments	\$ 12,175,897
Cash with Fiscal Agent	11,576,741
Receivables, net of allowance for uncollectibles	5,614,261
Due from other governments	393,407
Due from City of Folsom	360,352
Advances to City of Folsom	160,000
Land held for resale	774,149
Restricted assets - cash and investments	2,891,578
Capital assets, net of accumulated depreciation	<u>5,413,483</u>
Total assets	<u>39,359,868</u>
LIABILITIES:	
Accounts payable	1,357,603
Wages payable	24,700
Due to City of Folsom	20,981
Interest payable	753,750
Deferred revenue	1,610,705
Long-term liabilities	
Due within one year	3,087,089
Due in more than one year	<u>31,089,426</u>
Total liabilities	<u>37,944,254</u>
NET ASSETS:	
Invested in capital assets, net of related debt	2,502,156
Restricted for:	
Debt service	2,891,578
Low/moderate income housing	5,618,323
Unrestricted	<u>(9,596,443)</u>
Total net assets	<u>\$ 1,415,614</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

	<u>Governmental Activities</u>
OPERATING EXPENSES:	
General government	\$ 8,173,538
Interest on long-term debt	<u>1,276,724</u>
Total operating expenditures	<u>9,450,262</u>
PROGRAM REVENUES:	
Charges for services	145,995
Capital grants and contributions	<u>128,543</u>
NET EXPENSES	<u>(9,175,724)</u>
GENERAL REVENUES:	
Tax increment	6,794,919
Investment earnings	1,031,774
Miscellaneous	6,965
Proceeds from sale of property	<u>77,779</u>
Total general revenues	<u>7,911,437</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES:	<u>(1,264,287)</u>
OTHER FINANCING SOURCES/(USES):	
Transfers In	18,658,631
Transfers Out	<u>(19,791,075)</u>
Total other financing sources/(uses)	(1,132,444)
Change in net assets	(2,396,731)
Net assets, beginning of year	<u>3,812,345</u>
Net assets, end of year	<u><u>\$ 1,415,614</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA
 REDEVELOPMENT AGENCY
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Major Funds				TOTAL GOVERN- MENTAL FUNDS
	Special Revenue Funds		Debt Service	Capital Projects	
	Central Folsom Redevelopment Project	Low/ Moderate Housing			
ASSETS					
Cash and investments	\$ 10,100,154	\$ 2,038,657	\$ -	\$ 37,086	\$ 12,175,897
Cash with Fiscal Agent	-	-	461,205	11,115,536	11,576,741
Receivables, net of allowance for uncollectibles:					
Accrued interest	54,785	11,053	-	218	66,056
Loans	1,657,551	3,890,654	-	-	5,548,205
Due from City of Folsom	360,352	-	-	-	360,352
Due from other governments	232,180	58,045	-	103,182	393,407
Advances to City of Folsom	160,000	-	-	-	160,000
Land held for resale	-	774,149	-	-	774,149
Restricted assets:					
Cash with fiscal agent	-	-	2,891,578	-	2,891,578
TOTAL ASSETS	\$ 12,565,022	\$ 6,772,558	\$ 3,352,783	\$ 11,256,022	\$ 33,946,385
LIABILITIES AND FUND BALANCE					
Accounts payable	\$ 296,962	\$ 7,882	\$ -	\$ 1,052,759	\$ 1,357,603
Wages payable	7,126	17,574	-	-	24,700
Due to City of Folsom	-	-	20,981	-	20,981
Deferred revenue	481,926	1,128,779	-	-	1,610,705
TOTAL LIABILITIES	786,014	1,154,235	20,981	1,052,759	3,013,989
FUND BALANCE:					
Reserved for:					
Loans receivable	1,657,551	3,890,654	-	-	5,548,205
Encumbrances	105,614	535	-	9,093,951	9,200,100
Advances to City	160,000	-	-	-	160,000
Debt service	-	-	2,891,578	-	2,891,578
Land held for resale	-	774,149	-	-	774,149
Low and moderate income housing	-	952,985	-	-	952,985
Unreserved:					
Undesignated	9,855,843	-	440,224	1,109,312	11,405,379
TOTAL FUND BALANCE/(DEFICIT)	11,779,008	5,618,323	3,331,802	10,203,263	30,932,396
TOTAL LIABILITIES AND FUND BALANCE/(DEFICIT)	\$ 12,565,022	\$ 6,772,558	\$ 3,352,783	\$ 11,256,022	\$ 33,946,385

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA

**REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS' BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007**

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 30,932,396
<i>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds' balance sheets	5,413,483
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds' balance sheets:	
Interest payable accrued on long-term liabilities	(753,750)
Bonds and owner participation agreements	(35,215,188)
Deferred Issuance Costs	<u>1,038,673</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,415,614</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Major Funds				TOTAL GOVERN- MENTAL FUNDS
	Special Revenue Funds				
	Central Folsom Redevelopment Project	Low/ Moderate Housing	Debt Service	Capital Projects	
REVENUES:					
Tax increment revenues	\$ 5,435,935	\$ 1,358,984	\$ -	\$ -	\$ 6,794,919
Intergovernmental	25,361	-	-	103,182	128,543
Charges for services	145,823	172	-	-	145,995
Interest revenue	404,776	89,114	143,727	394,157	1,031,774
Other revenue	-	-	-	6,965	6,965
TOTAL REVENUES	6,011,895	1,448,270	143,727	504,304	8,108,196
EXPENDITURES:					
Current operating:					
General government	934,699	1,149,948	-	-	2,084,647
Public Way & Facilities	-	-	-	5,993,908	5,993,908
Debt service:					
Principal payments	384,517	-	455,000	-	839,517
Interest and fiscal charges	-	-	1,321,255	-	1,321,255
TOTAL EXPENDITURES	1,319,216	1,149,948	1,776,255	5,993,908	10,239,327
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,692,679	298,322	(1,632,528)	(5,489,604)	(2,131,131)
OTHER FINANCING SOURCES (USES):					
Proceeds of Refunding Bonds	-	-	16,945,000	-	16,945,000
Proceeds from Sale of Property	-	77,779	-	-	77,779
Transfers in	-	179,843	669,370	17,809,418	18,658,631
Transfers out	(3,986,950)	(406,449)	(15,034,126)	(363,550)	(19,791,075)
TOTAL OTHER FINANCING SOURCES/(USES)	(3,986,950)	(148,827)	2,580,244	17,445,868	15,890,335
NET CHANGE IN FUND BALANCE	705,729	149,495	947,716	11,956,264	13,759,204
FUND BALANCE, JULY 1	11,073,279	5,468,828	2,384,086	(1,753,001)	17,173,192
FUND BALANCE, JUNE 30	\$ 11,779,008	\$ 5,618,323	\$ 3,331,802	\$ 10,203,263	\$ 30,932,396

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS **\$ 13,759,204**

*Amounts reported for Governmental Activities in the
Statement of Activities are different because:*

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net assets.
Proceeds from tax allocation bonds (16,945,000)

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (94,983)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Tax allocation bonds payable	\$ 455,000	
Owner participation agreements	384,517	
Issuance Costs	<u>522,610</u>	1,362,127

Other expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the governmental funds
Change in accrued interest (478,079)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (2,396,731)**

The accompanying notes to the basic financial statements are an integral part of this statement.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - The basic financial statements of the Redevelopment Agency of the City of Folsom (Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government funds. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity - The Redevelopment Agency of the City of Folsom was established on August 1, 1983, as set forth in the Health and Safety Code of the State of California. The primary purpose of the Agency is to prepare and carry out plans for improvement, rehabilitation, and redevelopment of blighted areas within the City of Folsom. The council members of the City of Folsom serve as the governing board of the Agency. The City of Folsom performs all accounting and administration functions.

The Agency has established one redevelopment project area, known as the Central Folsom Redevelopment Project.

The Agency's primary source of revenue, other than loans and advances from the City, comes from property taxes, referred to in the accompanying financial statements as "tax increment revenue." Property taxes allocated to the Agency are computed in the following manner:

- The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.
- Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts.

The Agency meets the criteria set forth under the Governmental Accounting Standards Board (GASB) Statement 14, as amended by Statement 39, for inclusion as a blended component unit within the City of Folsom reporting entity based on the City's oversight responsibility in selection of the governing board. In addition, all of the Agency's activities are conducted within the geographic boundaries of the City.

Government-wide and Fund Financial Statements - The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. The Agency uses only governmental activities, which normally are supported by taxes.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2007

Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and Taxes and other items not properly included among program revenues are reported instead as general revenues.

The accounts of the Agency are organized on the basis of funds. A fund is a separate self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds. Under the criteria defined by GASB No. 34, all of the Agency funds are considered to be major individual governmental funds and are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation - The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

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 be used 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 and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Redevelopment Agency of the City of Folsom is a component unit of the City of Folsom and, as such, is included in combined financial statements of the City by fund classification.

Governmental Funds

Governmental Fund Types - Governmental funds are used to account for the Agency's expendable financial resources and related liabilities. The following are the Agency's governmental fund types:

Special Revenue Funds - Special Revenue Funds are used to account for specific revenues that are restricted by law or administrative action to expenditures for particular purposes.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2007

These funds are used to account for advances to property owners to provide construction of housing for eligible low and moderate income families.

The Agency reports the following major special revenue governmental funds:

Central Folsom Redevelopment Project Special Revenue Fund - Central Folsom Redevelopment Project accounts for tax increment income and advances from the City of Folsom. Expenditures from this fund are primarily used for administrative expenses and redevelopment project costs.

Low/Moderate Housing Special Revenue Fund - The Low/Moderate Housing Fund accounts for tax increment income which will be used by the Agency for the purposes of increasing and improving the City's supply of housing for persons and families of very low or moderate income.

Additionally, the City reports the following major governmental fund types:

Debt Service Fund - A Debt Service Fund is established for the project area to account for tax increment revenues, bond proceeds, amounts set aside for future debt service, and related interest income. The funds are used to repay principal and interest on indebtedness of the Agency.

Capital Projects Fund - Capital Projects Fund accounts for the construction proceeds of the Redevelopment Agency Refunding Tax Allocation Bonds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Tax Increment Financing - Tax increment financing has been established pursuant to the California Community Redevelopment Law. It is defined as the excess of taxes levied and collected each year in a redevelopment project area over and above the amount which would have been produced, at current rates, by the assessed value shown on the assessment roll last equalized prior to the effective date of the ordinance of the City establishing the redevelopment project area. Such funds are restricted to pay the principal and interest on loans, monies advanced to, or indebtedness incurred by, the Agency to finance or refinance a redevelopment project and are available to the Agency only after indebtedness, which is certified by the State of California, is incurred.

When the Agency's loans, advances and indebtedness, if any, together with interest thereon have been paid, all monies thereafter received from taxes upon the taxable property in such redevelopment project shall be paid into the funds of the respective taxing agencies.

Encumbrances - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Open encumbrances at

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2007

year end are reported as reservations of fund balance. Encumbrances do not constitute expenditures or liabilities. All appropriations remaining at year-end lapse.

Cash – The cash of the Agency is kept in a pool along with the other funds of the City of Folsom for the purpose of increasing interest earnings through combined investment activities.

Investments - Investments are stated at fair value.

Receivables and Payables - Property taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year end. The amount recognized as revenue under the modified accrual basis is limited to the amount that is deemed measurable and collectible.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a reservation of fund balance for noncurrent assets in governmental funds to indicate they do not constitute resources available for appropriation.

Land held for resale – Represents land acquired by the Agency that is intended to be held for sale at a future date.

Restricted Assets - Certain proceeds of debt issuances, 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.

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 fund column in the government-wide financial statements. The Agency defines capital assets, as assets with an initial, individual cost of more than \$5,000. Capital assets are recorded at the lower of actual historical cost or fair market value (as of the date donated for contributed assets) although for certain older assets estimated historical costs are used.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized.

Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale.

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007**

Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings, facilities and improvements	10-40
Computer and office equipment	3-7

Deferred Revenue - Deferred revenue in governmental funds consists of long-term loans receivable whose terms include forgiveness at the end of the loan period.

Owner Participation Agreements - The Agency has entered into Owner Participation Agreements with property owners in Folsom to encourage the development and improvement of the land. These Agreements provide for reimbursement by the Agency to the property owner for certain costs and improvements incurred. They are typically paid based on a percentage of the tax increment revenue received after the development has been completed and is paid over a fixed term, generally ten years. The Agency reports a liability for these payments based on a percentage of projected tax increment revenue estimated to be received over the life of the agreement.

Fund Balances - Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The following is a descriptive list of the reserves and designations used by the Agency.

- *Reserved for loans receivable* - used to indicate that the long-term portion of loans receivable do not represent available, spendable resources even though they are a component of assets.
- *Reserved for encumbrances* - used to represent that portion of fund balance committed for materials and services on purchase orders and contracts, not completed at year end.
- *Reserved for advances to city* - used to indicate that the advances to the City of Folsom do not represent available, spendable resources even though they are a component of assets.
- *Reserved for debt service* - used to represent that portion of fund balance/retained earnings segregated for service of long-term indebtedness.
- *Land held for resale* - Reflects non-current resources not considered as current available funds.
- *Low-moderate income housing* - Set aside for eligible low and moderate income family housing.

Property Taxes - Article XIII of the California Constitution (Proposition 13) limits ad valorem taxes on real property to one percent of value plus taxes necessary to pay indebtedness approved by voters prior to July 1, 1978. The Article also established the 1975/76 assessed valuation as the base and limits annual increases to the cost of living, not to exceed two

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2007

percent, for each year thereafter. Property may also be reassessed to full market value after sale, transfer of ownership, or completion of new construction. The State is prohibited under the Article from imposing new ad valorem, sales, or transactions taxes on real property. Local government may impose special taxes (except on real property) with the approval of two-thirds of the qualified electors. Property taxes are receivable and recorded in the fiscal year for which the tax is levied. Revenue is recognized when measurable and available. Property taxes collected in advance are recorded as deferred revenue and recognized in the year they become available. The County of Sacramento levies, bills and collects property taxes for the Agency. Incremental tax increment revenues represent property taxes arising from increased assessed valuations over base valuation established at the inception of the project area. Incremental property taxes from each project area accrue to the Agency until all liabilities and commitments of the project area have been repaid (including cumulative funds provided or committed by the Agency). After all such indebtedness has been repaid; all property taxes from the project area revert back to the various taxing authorities.

Secured and unsecured property taxes are levied based on the assessed value as of March 1, the lien date, of the preceding fiscal year. Secured property tax is levied on September 30 and due in two installments, on November 1 and February 1. Collection dates are December 10 and April 10, which are also the delinquent dates.

The City has elected to receive the property taxes from the County under the Teeter Bill. Under this program, the City receives 100% of the levied property taxes in periodic payments with the County assuming responsibility for the delinquencies.

Budgetary Data - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except capital projects and debt service funds, which adopt multi-year length budgets. The level of control (i.e. the level at which expenditures may not legally exceed appropriations) is at the fund level. All appropriations remaining at year-end lapse, except for purchases in progress which are carried forward to the following year and reserved by encumbrances. The following procedures are used to establish the budgetary data reflected in the financial statements:

- (A) Department Heads prepare a budget request based upon the previous year's expenditures.
- (B) Meetings are held between the Department Heads, Finance Director, and City Manager for the purpose of reviewing and prioritizing the budget requests.
- (C) The City Manager submits the proposed city budget to the City Council, who makes decisions regarding department budgets.
- (D) Transfers between funds and changes in the total budget must be approved by the City Council.

Annual Financial Statements - These financial statements are intended to reflect the financial position, results of operations and compliance of the Redevelopment Agency of the

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2007

City of Folsom. The comprehensive annual financial report of the City of Folsom, California is available at the Finance department.

Interfund Transfers - Transfers report the nonreciprocal contribution of resources from one fund to another. Since the Agency is a component unit of the City of Folsom, California, various interfund transfers were made to finance expenditures, and service debt.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

2 CASH AND INVESTMENTS

The City pools cash resources from all funds in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments held in the City's cash and investments pool are available on demand and are stated at fair value. The value of pool shares that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

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.

The Agency's share of the City's pooled cash and investments and cash with fiscal agent at June 30, 2007 was \$12,175,897 and \$14,468,319, respectively. The City's Comprehensive Annual Financial Report contains further details regarding cash and investments and can be obtained from the City's Finance Department located at 50 Natoma Street, Folsom, CA 95630 or visit the City's website at www.folsom.ca.us

Total Agency deposits and investments at fair value as of June 30, 2007 were as follows:

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007**

	Credit Quality Rating		Fair Value
	Moody's	S & P	
Cash pooled with the City Treasury Investments			
Local Agency Investment Fund	Not Rated	Not Rated	\$ 12,175,897
Total funds in City Treasury Investments			<u>12,175,897</u>
Cash and investments with fiscal agents			
California Asset Management Program	Not Rated	Not Rated	3,160,333
Money market mutual funds	Aaa	AAA	11,115,536
US Treasury Obligations	Aaa	AAA	192,450
Total cash and investments with fiscal agents			<u>14,468,319</u>
Total cash and investments			<u>\$ 26,644,216</u>

Investments

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of portfolio *	Maximum Investment in One issuer
Local Agency Investment Fund (LAIF)	N/A	80%	None
Bonds Issued by the City	5 years	80%	None
U.S. Treasury Bills, Notes and Bonds	5 years	80%	None
Registered State Warrants, Treasury Notes or Bonds of the State	5 years	20%	None
Bonds, Notes or Warrants of any Local Agency within the State	5 years	20%	None
Federal Agency Securities or U.S. Government Sponsored Enterprise Obligations	5 years	50%	20%
Bankers Acceptances	180 days	40%	10%
Commercial Paper *1	270 days	15%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase agreements	1 year	20%	None
Reverse Repurchase agreements	92 days	20%	None
Medium Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Notes, Bonds or Obligations for Purpose of Securing Local Agency Deposits	5 years	None	None
Mortgaged Backed or Consumer Pass-through Securities	5 years	20%	None

* Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions.

*1 An additional 15%, or a total of 30%, may be invested in commercial paper if the dollar weighted dollar average of the entire amount does not exceed 31 days.

Investments Authorized by Debt Agreements - Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007**

provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of portfolio	Maximum Investment in One issuer	1997 RDA	2005 RDA	2006 RDA
U.S. Treasury Obligations	None	None	None	x	x	x
U.S. Agency Securities	None	None	None	x	x	x
Banker's Acceptances	360 days	None	None	n/a	n/a	n/a
Commercial paper	270 days	None	None	x	x	x
Commercial paper	180 days	30%	10%	n/a	n/a	n/a
Corporate bonds, notes, debentures	N/A	None	None	n/a	n/a	n/a
Money market mutual funds	N/A	None	None	x	x	x
Municipal obligations	None	None	None	x	x	x
State obligations	None	None	None	x	x	x
Investment agreements - *	None	None	None	x	x	x
California Asset Management Program (CAMP)	None	None	None	x	x	x
Local Agency Investment Fund (LAIF)	None	None	None	n/a	n/a	n/a
Other * *1	None	None	None	x	x	x
City's investment policy *2	N/A	N/A	N/A	n/a	n/a	n/a
Interest bearing accounts	None	None	None	n/a	n/a	n/a
Shares in California Common law trust	None	None	None	n/a	n/a	n/a
Cash (insured at all times by FDIC)	None	None	None	n/a	n/a	n/a
Deposit Accounts (FDIC Insured) *3	None	None	None	x	x	x
CD's, time deposits and bankers acceptances	30 days	None	None	x	x	x

* With notice to Standard & Poor's and/or approved in writing by the Bond Insurer and supported by opinions of counsel.

*1 including repurchase agreements

*2 No securities may be purchased on margin, adequate monies to meet cash flow requirements, and no more than 50% of City's total cash may be invested for longer than one year.

*3 In Banks which have capital and surplus of at least \$5,000,000.

Disclosures Relating to Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations and debt service. Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007**

rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	Fair Value	Investment Maturities (In Less than 1 year)
CAMP	\$ 3,160,333	\$ 3,160,333
LAIF	12,175,897	12,175,897
Money market	11,115,536	11,115,536
US Treasury	192,450	192,450
Total	\$ 26,644,216	\$ 26,644,216

3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 3,888,457	\$ -	\$ -	\$ 3,888,457
Total capital assets, not being depreciated	3,888,457	-	-	3,888,457
Capital assets, being depreciated:				
Buildings	2,646,128	-	-	2,646,128
Improvements	217,273	-	-	217,273
Equipment	12,238	-	-	12,238
Total capital assets, being depreciated	2,875,639	-	-	2,875,639
Less accumulated depreciation for:				
Buildings	(1,191,864)	(88,203)	-	(1,280,067)
Improvements	(51,528)	(6,780)	-	(58,308)
Equipment	(12,238)	-	-	(12,238)
Total accumulated depreciation	(1,255,630)	(94,983)	-	(1,350,613)
Governmental activities capital assets, net	\$ 5,508,466	\$ (94,983)	\$ -	\$ 5,413,483

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007**

4 CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Agency for the fiscal year ended June 30, 2007:

Governmental Activities	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due within one year
Tax allocation bonds					
1997 RDA Refunding TAB	\$ 4,405,000	\$ -	\$ (455,000)	\$ 3,950,000	\$ 490,000
2005 RDA Library TAB	10,190,000	-	-	10,190,000	-
2006 RDA RR Block TAB	-	16,945,000	-	16,945,000	-
Total Tax allocation bonds	14,595,000	16,945,000	(455,000)	31,085,000	490,000
Owner participation agreements:					
Gaslight Properties	88,000	-	(23,000)	65,000	23,000
Kikkoman Food, Inc.	1,524,204	-	(206,883)	1,317,321	216,470
Spieker Properties, LP	742,500	-	(154,633)	587,867	160,000
Sutter Street Development	2,160,000	-	-	2,160,000	2,160,000
Total owner participation agreements	4,514,704	-	(384,516)	4,130,188	2,559,470
Less: Deferred amounts for issuance cost, discounts/premiums	(516,062)	(558,678)	36,067	(1,038,673)	37,619
Governmental activities long-term liabilities	\$ 18,593,642	\$ 16,386,322	\$ (803,449)	\$ 34,176,515	\$ 3,087,089

Tax Allocation Bonds

In July 1997, the Agency issued the Redevelopment Agency Refunding Tax Allocation Bonds, Series 1997 for \$7,000,000 with interest rates of 3.8% to 5.25%. The bonds mature beginning August 1, 1998 through 2013. The bonds were issued to refund the 1987 Limited Obligation Series A and 1991 Redevelopment Bond issues, to fund a reserve, and to pay associated issue costs.

In August 2005, the Agency issued the Redevelopment Agency Tax Allocation Bonds, Series 2005 for \$10,190,000 with interest rates ranging from 4.0% to 4.25% for the serial bonds and 4.5% for the term bonds. The bonds were issued to provide funds to pay a portion of the costs of constructing a new library facility, an adjacent baseball field and related improvements and infrastructure, to make a deposit to a reserve account in an amount equal to the Series 2005 Reserve Account Requirement (as defined in the Indenture), and fund the interest due on the Series 2005 Bonds through August 1, 2007, and pay the costs of issuance of the Series 2005 Bonds.

In August 2006, the City issued Redevelopment Agency Tax Allocation Bonds, Series 2006 for \$16,945,000 with interest rates ranging from 4.0% to 4.5% for the serial bonds and

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007**

4.25% to 4.375% for the term bonds. The bonds were issued to provide funds to pay for a portion of the costs of constructing the Railroad Block Parking Structure and the Folsom Railroad Block Public Plaza and related improvements and infrastructure, to make a deposit to a reserve account for the Series 2006 Bonds (as defined in the Indenture) and to pay the costs of issuance of the 2006 Bonds.

Annual debt service requirements to maturity for the tax allocation bonds are as follows:

Year Ending June 30	Tax Allocation Bonds	
	Principal	Interest
2008	\$ 490,000	\$ 1,354,571
2009	525,000	1,330,456
2010	580,000	1,303,646
2011	620,000	1,273,936
2012	665,000	1,241,396
2013 - 2017	3,645,000	5,704,430
2018 - 2022	4,355,000	4,892,930
2023 - 2027	5,360,000	3,867,724
2028 - 2032	6,630,000	2,565,802
2033 - 2034	8,215,000	941,245
Total	\$ 31,085,000	\$ 24,476,136

Owner Participation Agreements

In August 1995, the Agency entered into an owner participation agreement with Gaslight Properties, Inc. for \$272,000 to be paid in eleven annual installments of \$23,000 with one remaining payment of \$19,000. The agreement provides for reimbursement of fees and costs associated with the construction of a building on Sutter Street to be paid from property tax increment.

In January 1997, the Agency entered into an owner participation agreement with Kikkoman, Inc. with an estimated value of \$1,500,000 contingent on the increase of assessed value on the property. The agreement is for a period of ten years.

In January 1997, the Agency entered into an owner participation agreement with Spieker Properties, L.P. with an estimated value of \$854,819 contingent on the increase of assessed value on the property. The agreement is for a period of ten years.

In April 2006, the Agency entered into an owner participation agreement with Sutter Street Development Partners, LLC. With an estimated value of \$2.16 million. The Agency will purchase covenants on 54 parking spaces to be constructed on the site. Payment for the parking covenants will occur when the project is completed, which will likely occur in fiscal year 2007-08.

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007**

The annual requirements to amortize the Owner Participation Agreements as of June 30, 2007, are as follows:

Owner Participation Agreements

Year Ending June 30	Principal
2008	2,559,470
2009	404,470
2010	320,470
2011	303,970
2012	306,470
2013	235,337
Total	<u>4,130,187</u>

5 RISK MANAGEMENT

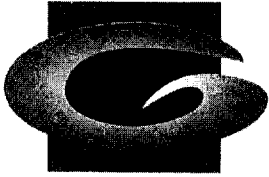
The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Agency as a component unit of the City has joined together with other Cities in the State of California to participate in Northern California Cities Self Insurance Fund (NCCSIF), a joint powers agency which provides the City with a shared risk layer of coverage above the self insured \$100,000 retention for liability and workers' compensation. In addition, NCCSIF provides claims servicing to the City for the banking layer, which represents the City's self insurance. The NCCSIF is composed of 20 member cities and is governed by a board of directors appointed by the member cities. The governing board has authority over budgeting and financing. The workers' compensation and general liability programs are administered by third-party administrators. Condensed financial information for NCCSIF is included in the City's Comprehensive Annual Financial Report.

COMPLIANCE REPORT



CITY OF
FOLSOM
DISTINCTIVE BY NATURE



Gilbert Associates, Inc.
CPAs and Advisors

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

**Honorable Mayor, Agency Manager and
Members of the Redevelopment Agency
of the Agency of Folsom
Folsom, California**

We have audited the component unit financial statements of the Redevelopment Agency of the Agency of Folsom (the Agency) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

**Honorable Mayor, Agency Manager and
Members of the Redevelopment Agency
of the Agency of Folsom
Folsom, California**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Those provisions include laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the California State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Agency's Board, management, and the California State Controller. However, this report is a matter of public record and its distribution is not limited.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

October 31, 2007

**REDEVELOPMENT AGENCY OF THE AGENCY OF FOLSOM
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2007**

STATUS OF PRIOR YEAR FINDINGS:

STATE COMPLIANCE:

05-02 EXPENDITURES FROM PETTY CASH AND CREDIT CARDS

Finding:

In our testing of expenditures charged to the 20% Housing Fund, we found in 4 of the 10 items selected for sampling, credit cards were used to purchase home improvement and repair supplies. Although receipts are attached for credit card purchases no further documentation is included to show the location in which the supplies are being used. Because expenditures from the 20% Housing Fund must meet certain compliance requirements to be eligible for expenditure under this Fund, without documentation supporting the location where the supplies are used we are unable to determine if the costs are allowable.

Status:

Partial implemented. The location where supplies were used for expenditures charged to the 20% Housing Fund were documented on supporting documentation. However, a form or work order was not implemented to document the citizen received the supplies. During the current year, Neighborhood Services department will implement procedures to document the location where supplies were used in order to facilitate allowable cost concerns including obtaining the signature from the citizen who received the supplies as third-party verification. Also, the Finance Department will begin conducting random audits during future years of Redevelopment Staff Credit Card expenditures to determine compliance.

REQUIRED SUPPLEMENTARY INFORMATION



CITY OF
FOLSOM
DISTINCTIVE BY NATURE

000038

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Central Folsom Redevelopment Project			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
REVENUES:				
Taxes	\$ 3,162,306	\$ 3,162,306	\$ 5,435,935	\$ 2,273,629
Intergovernmental	-	-	25,361	25,361
Charges for current services	50,000	50,000	145,823	95,823
Interest revenue	345,209	345,209	404,776	59,567
Miscellaneous	-	-	-	-
TOTAL REVENUES	3,557,515	3,557,515	6,011,895	2,454,380
EXPENDITURES:				
Current operating:				
General government	1,971,184	2,098,494	934,699	1,163,795
Debt Service:				
Principal Payments	-	-	384,517	(384,517)
TOTAL EXPENDITURES	1,971,184	2,098,494	1,319,216	779,278
EXCESS REVENUES AND OTHER SOURCES OVER EXPENDITURES	1,586,331	1,459,021	4,692,679	3,233,658
OTHER FINANCING USES:				
Transfers in	-	-	-	-
Transfers out	(1,586,331)	(1,586,331)	(3,986,950)	(2,400,619)
Proceeds from sale of property	-	-	-	-
TOTAL OTHER FINANCING USES	(1,586,331)	(1,586,331)	(3,986,950)	(2,400,619)
NET CHANGE IN FUND BALANCE	-	(127,310)	705,729	833,039
FUND BALANCE, JULY 1	11,073,279	11,073,279	11,073,279	-
FUND BALANCE, JUNE 30	\$ 11,073,279	\$ 10,945,969	\$ 11,779,008	\$ 833,039

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL SPECIAL REVENUE FUND TYPE FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Low/Moderate Housing Fund			
Budget		Actual	Variance with Final Budget Positive (Negative)
Original	Final		
\$ 1,352,901	\$ 1,352,901	\$ 1,358,984	\$ 6,083
-	-	-	-
-	-	172	172
73,402	73,402	89,114	15,712
4,279,166	4,279,166	-	(4,279,166)
<u>5,705,469</u>	<u>5,705,469</u>	<u>1,448,270</u>	<u>(4,257,199)</u>
5,550,516	5,551,336	1,149,948	4,401,388
-	-	-	-
<u>5,550,516</u>	<u>5,551,336</u>	<u>1,149,948</u>	<u>4,401,388</u>
154,953	154,133	298,322	144,189
-	-	179,843	179,843
(154,953)	(154,953)	(406,449)	(251,496)
-	-	77,779	77,779
<u>(154,953)</u>	<u>(154,953)</u>	<u>(148,827)</u>	<u>6,126</u>
-	(820)	149,495	150,315
5,468,828	5,468,828	5,468,828	-
<u>\$ 5,468,828</u>	<u>\$ 5,468,008</u>	<u>\$ 5,618,323</u>	<u>\$ 150,315</u>

REVENUES:

Taxes
Intergovernmental
Charges for current services
Interest revenue
Miscellaneous

TOTAL REVENUES

EXPENDITURES:

Current operating:
General government
Debt Service:
Principal Payments

TOTAL EXPENDITURES

**EXCESS REVENUES AND OTHER
SOURCES OVER EXPENDITURES**

OTHER FINANCING USES:

Transfers in
Transfers out
Transfer to other City funds

**TOTAL OTHER
FINANCING USES**

NET CHANGE IN FUND BALANCE

FUND BALANCE, JULY 1

FUND BALANCE, JUNE 30