

**DATE:** November 13, 2007

**TO:** Mayor and City Council Members

**FROM:** Finance Department

**SUBJECT: RESOLUTION NO. 07-053-PFA - A RESOLUTION ACCEPTING THE FOLSOM PUBLIC FINANCING AUTHORITY'S AUDITED COMPONENT UNIT FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**BACKGROUND/ISSUE**

Staff formally presents the Annual Financial Report for the Folsom Public Financing Authority (Authority) for the fiscal year ended June 30, 2007. The Annual Financial Report is prepared in accordance with accounting standards generally accepted in the United States of America.

The Authority received an unqualified or "clean" opinion from Gilbert Associates, Inc. An unqualified 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.

**POLICY/RULE**

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."

**ANALYSIS**

- The assets of the Authority of Folsom exceeded its liabilities at the close of the fiscal year 2007 by \$2,948,665 (*net assets*). Of this amount, \$871,472 is unrestricted net assets which may be used to meet the Authority's ongoing obligations to citizens and creditors, and \$2,077,193 is restricted for debt service.
- The Authority's total net assets decreased \$59,149.

- The Authority's total long-term debt decreased by \$3.3 million compared to the prior year due to regularly scheduled principal payments and early redemptions of \$445,000.

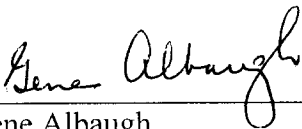
### **ATTACHMENTS**

- 1) Resolution No. 07-053-PFA—A Resolution Accepting the Folsom Public Financing Authority's Audited Component Unit Financial Statements for the Fiscal Year Ended June 30, 2007
- 2) The City of Folsom, California Folsom Public Financing Authority's (A Debt Service Fund) Audited Component Unit Basic Financial Statements for Fiscal Year Ended June 30, 2007

### **RECOMMENDATION/CITY COUNCIL ACTION**

Staff recommends that the Board of Directors adopt Resolution No. 07-053-PFA - A Resolution Accepting the Folsom Public Financing Authority's Audited Component Unit Financial Statements for the Fiscal Year Ended June 30, 2007.

Submitted by:



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Gene Albaugh  
Interim Finance Director

# Attachment 1

**RESOLUTION NO. 07-053-PFA**

**A RESOLUTION ACCEPTING THE FOLSOM PUBLIC FINANCING AUTHORITY'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 Public Financing Authority'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 Folsom Public Financing Authority 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 Folsom Public Financing Authority 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 13<sup>th</sup> 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**  
**FOLSOM PUBLIC FINANCING AUTHORITY**  
**(A DEBT SERVICE FUND)**  
**AUDITED COMPONENT UNIT**  
**BASIC FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDING JUNE 30, 2007**

# CITY OF FOLSOM, CALIFORNIA

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**Gilbert Associates, Inc.**  
CPAs and Advisors

**INDEPENDENT AUDITOR'S REPORT  
ON COMPONENT UNIT FINANCIAL STATEMENTS**

**Honorable Mayor, City Manager and  
Members of the Folsom Public Financing  
Authority of the City of Folsom  
Folsom, California**

We have audited the accompanying governmental activities and each major fund of the Folsom Public Financing Authority (the Authority), 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 Authority'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. 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 Folsom Public Financing Authority of the City of Folsom (a Debt Service Fund) 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, based on our audit, 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 Authority 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.

**Honorable Mayor, City Manager and  
Members of the Folsom Public Financing  
Authority 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, as listed in the accompanying table of contents, is not a required part of the basic financial statements but is 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

## FOLSOM PUBLIC FINANCING AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

### FINANCIAL HIGHLIGHTS

The Authority's annual financial report for the fiscal year ended June 30, 2007 includes government-wide financial statements along with fund financial statements. The primary role of the Statement of Net Assets and the Statement of Activities in the government-wide financial statements is to demonstrate operational accountability, while the primary role of the fund financial statements is to demonstrate fiscal accountability. Operational accountability requires that a government demonstrate the extent to which it has met its operating objective efficiently and effectively, using all resources available for that purpose, and whether it can continue to do so. Fiscal accountability requires that a government demonstrate compliance with public decisions concerning the raising and spending of public monies in the short-term (usually one budgetary cycle or one year). The following are some key financial highlights for the fiscal year:

- The assets of the Authority of Folsom exceeded its liabilities at the close of the fiscal year 2007 by \$2,948,665 (*net assets*). Of this amount, \$871,472 is unrestricted net assets which may be used to meet the Authority's ongoing obligations to citizens and creditors, and \$2,077,193 is restricted for debt service.
- The Authority's total net assets decreased \$59,149.
- The Authority's total long-term debt decreased by \$3.3 million compared to the prior year due to regularly scheduled principal payments and early redemptions of \$445,000.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The *Statement of Net Assets* presents information on all Authority 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 Authority is improving or deteriorating.

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

# CITY OF FOLSOM, CALIFORNIA

## FOLSOM PUBLIC FINANCING AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

*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 Authority. The Authority, 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 Authority's funds.

### 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 9-20 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Authority presents its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments*.

As previously noted, net assets may serve as a useful indicator of a government's financial position. At the close of the current fiscal year, the Authority's assets exceeded liabilities by \$2,948,665, a decrease of \$59,149.

#### Folsom Public Financing Authority Net Assets

	<u>2007</u>	<u>2006</u>
Current assets	\$ 50,109,364	\$ 52,555,542
Noncurrent assets	12,390,000	13,340,000
<b>Total assets</b>	<b><u>62,499,364</u></b>	<b><u>65,895,542</u></b>
Long-term liabilities outstanding	55,513,159	58,932,551
Other liabilities	4,037,540	3,955,177
<b>Total liabilities</b>	<b><u>59,550,699</u></b>	<b><u>62,887,728</u></b>
Net assets:		
Restricted	2,077,193	1,966,654
Unrestricted	871,472	1,041,160
<b>Total net assets</b>	<b><u>\$ 2,948,665</u></b>	<b><u>\$ 3,007,814</u></b>

## CITY OF FOLSOM, CALIFORNIA

### FOLSOM PUBLIC FINANCING AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The Authority's total revenues and expenditures were \$3,208,231 and \$3,267,380, respectively, for the fiscal year ending June 30, 2007. The majority of the revenues were intergovernmental revenues.

#### Folsom Public Financing Authority Changes in Net Assets

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
General revenues:		
Intergovernmental	\$ 3,034,158	\$ 3,406,206
Investment	174,073	130,350
Total revenues	<u>3,208,231</u>	<u>3,536,556</u>
<b>Expenses</b>		
Interest	3,171,343	3,280,291
Escrow agent and bond refinance amortization	95,608	95,608
Transfers	429	73,840
Total expenses	<u>3,267,380</u>	<u>3,449,739</u>
Increase (decrease) in net assets	(59,149)	86,817
Net assets, beginning of year	<u>3,007,814</u>	<u>2,920,997</u>
Net assets, end of year	<u>\$ 2,948,665</u>	<u>\$ 3,007,814</u>

#### GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

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

The Authority's governmental debt service fund provides information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Authority'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.

The unreserved fund balances as of June 30, 2007 and 2006 were \$1,322,171 and \$1,528,888 respectively. As of June 30, 2007, and 2006 the Authority's governmental debt service fund reported combined ending fund balance of \$49,159,364 and \$51,630,542 respectively, a decrease of \$2,471,178 in comparison with the prior fiscal year.

Revenues for governmental functions overall totaled \$3,208,231 in fiscal year 2007, which represents a decrease of \$328,325 in comparison with the prior fiscal year. Expenditures and other financing uses for governmental functions totaling \$5,678,980, increased by \$581,219 from the prior fiscal year, due to increased principal payments.

# CITY OF FOLSOM, CALIFORNIA

## FOLSOM PUBLIC FINANCING AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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### **Debt Administration**

As of June 30, 2007 the Authority had \$59,795,000 of outstanding long-term debt related to governmental activities, compared to \$63,180,000 in the prior year.

The Authority's debt service obligations include certificates of participation, revenue bonds, and deferred amounts for issuance discounts.

### **Economic Factors**

The effects of the housing sector downturn continued during Fiscal Year 2007. Job gains slowed to a trickle in June as home sales and construction activity continued to slow.

Overall, the fallout from the housing slump and the sub-prime crisis weighed heavily on new home construction in California during the first half of 2007. June was the slowest month for home construction permitting since March 2000. The pace of new home permitting during the first six months of 2007 was down nearly 32 percent from the same months of 2006. The decline was spread across both the single and multi-family sectors. In Folsom, overall residential building permits issued were down 43% for the fiscal year ending June 30, 2007, with 169 permits issued in the current year versus 298 permits issued in the previous Fiscal Year

Within California, employment has declined slightly and the unemployment rate has increased from 4.9% to 5.2% compared to the same quarter last year. At 2.3%, Folsom's unemployment rate remains significantly below national and state rates.

### **Requests for Information**

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

**FINANCIAL SECTION**

**CITY OF FOLSOM, CALIFORNIA**  
**PUBLIC FINANCING AUTHORITY**  
**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET**  
**JUNE 30, 2007**

	<b>Debt Service Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b><u>ASSETS:</u></b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 1,314,798		\$ 1,314,798
Interest receivable	7,373		7,373
Investments held in trust	45,760,000		45,760,000
Restricted assets:			
Cash with fiscal agents	2,077,193		2,077,193
Leases receivable from the City of Folsom, due within one year	-	\$ 950,000	950,000
<b>TOTAL CURRENT ASSETS</b>	<b>49,159,364</b>	<b>950,000</b>	<b>50,109,364</b>
<b>NONCURRENT ASSETS:</b>			
Leases receivable from the City of Folsom, due after one year	-	12,390,000	12,390,000
<b>TOTAL ASSETS</b>	<b>\$ 49,159,364</b>	<b>\$ 13,340,000</b>	<b>62,499,364</b>
<b><u>LIABILITIES:</u></b>			
<b>CURRENT LIABILITIES:</b>			
Interest payable	\$ -	\$ 967,540	967,540
Long-term debt, due within one year	-	3,070,000	3,070,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>-</b>	<b>4,037,540</b>	<b>4,037,540</b>
<b>NONCURRENT LIABILITIES:</b>			
Long-term debt, due after one year, net of loss on refunding and bond costs of \$1,211,841	-	55,513,159	55,513,159
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>59,550,699</b>	<b>59,550,699</b>
<b><u>FUND BALANCES /NET ASSETS:</u></b>			
Fund balances:			
Reserved for debt service	2,077,193	(2,077,193)	-
Reserved for investments held in trust for debt service	45,760,000	(45,760,000)	-
Unreserved:			
Designated for debt service	1,322,171	(1,322,171)	-
<b>TOTAL FUND BALANCES</b>	<b>49,159,364</b>	<b>(49,159,364)</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 49,159,364</b>	<b>\$ 10,391,335</b>	<b>59,550,699</b>
<b>Net assets:</b>			
Restricted for debt service		2,077,193	2,077,193
Unrestricted		871,472	871,472
<b>TOTAL NET ASSETS</b>		<b>\$ 2,948,665</b>	<b>\$ 2,948,665</b>

**CITY OF FOLSOM, CALIFORNIA**  
**PUBLIC FINANCING AUTHORITY**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Debt Service Fund</u>	<u>Adjustments</u>	<u>Statement of Net Activities</u>
<b>EXPENDITURES:</b>			
Debt service:			
Principal payments	\$ 2,450,000	\$ (2,450,000)	\$ -
Interest	3,228,980	(57,637)	3,171,343
Amortization of deferred charges	-	49,503	49,503
	<u>5,678,980</u>	<u>(2,458,134)</u>	<u>3,220,846</u>
<b>TOTAL EXPENDITURES/NET PROGRAM EXPENSE</b>			
<b>GENERAL REVENUES:</b>			
Intergovernmental revenues	3,034,158	-	3,034,158
Investment earnings	174,073	-	174,073
	<u>3,208,231</u>	<u>-</u>	<u>3,208,231</u>
<b>TOTAL GENERAL REVENUES</b>			
<b>(DEFICIENCY)/EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(2,470,749)</u>	<u>2,458,134</u>	<u>(12,615)</u>
<b>OTHER FINANCING USES:</b>			
Amortized loss on prior year bond refinance	-	(46,105)	(46,105)
Transfers out	(429)	-	(429)
	<u>(429)</u>	<u>(46,105)</u>	<u>(46,534)</u>
<b>TOTAL OTHER FINANCING USES</b>			
<b>CHANGE IN NET ASSETS</b>	<u>(2,471,178)</u>	<u>2,412,029</u>	<u>(59,149)</u>
<b>FUND BALANCE/NET ASSETS:</b>			
Beginning of the year	<u>51,630,542</u>	<u>(54,837,662)</u>	<u>3,007,814</u>
<b>END OF THE YEAR</b>	<u>\$ 49,159,364</u>	<u>\$ (52,425,633)</u>	<u>\$ 2,948,665</u>

**CITY OF FOLSOM, CALIFORNIA  
FOLSOM PUBLIC FINANCING AUTHORITY  
(A DEBT SERVICE FUND)**

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

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**1. Summary of Significant Accounting Policies**

On September 19, 1988, pursuant to Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, the City of Folsom authorized the formation of a joint powers authority with the Folsom Redevelopment Agency to be known as the Folsom Public Financing Authority (Authority). The primary purpose of the Authority is to provide financing to other City funds and agencies on a cost reimbursement basis proving a financial benefit. The Authority's financial data are presented as a debt service fund. Interfund long-term debt between the City and the Authority is reported on the Statement of Net Assets. Amounts held for repayment of local obligations are reported as investments held in trust of the Authority.

The Authority is a component unit of the City of Folsom, California (as defined by the Governmental Accounting Standards Board) and, as such, is included in the Comprehensive Annual Financial Report of the City. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Although a legally separate entity, it is reported on a discreet basis as part of the primary government (the City) because a voting majority of the Authority's governing board is appointed by the City Council and they are, in substance part of the City's operations. The following is a summary of the significant accounting policies of the Authority:

**The Financial Reporting Entity** – The accounts of the Authority are organized and operated on a fund basis. A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Authority is presented as a debt service fund in the governmental funds. The debt service fund is used to account for the accumulation of resources for, and the payment of, principal and interest and other charges on the bonds issued.

**Basis of Accounting** – The Authority maintains its accounting records on the modified accrual basis of accounting. Under 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 are recorded only when payment is due.

Investment earnings 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.

**CITY OF FOLSOM, CALIFORNIA**  
**FOLSOM PUBLIC FINANCING AUTHORITY**  
**(A DEBT SERVICE FUND)**

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

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**Annual Financial Statements** - These financial statements are intended to reflect the financial position, results of operation and net assets of the Folsom Public Financing Authority (a debt service fund). They do not present fairly the financial position and results of operations of the City of Folsom, California, in conformity with accounting principles generally accepted in the United States of America.

**Restricted Assets - Cash with Fiscal Agents** – 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 used is limited by applicable bond covenants.

**Long-Term Obligations** – In the basic financial statements long-term debt is reported as a liability in the applicable governmental activities. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the related debt.

For fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received are reported as debt service expenditures.

**Fund Balance/Net Assets** – In the basic financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The following is a descriptive list of the reserves and designation used by the City:

**Reserved/Restricted for Debt Service** – Used to segregate that portion of fund balance for the debt service resources legally restricted as the reserve balance as required by the bond indenture.

**Investments Held in Trust** – Represents investments held for future special assessment debt service.

**Designated for Debt Service** – Used to represent a portion of fund balance designated for the debt service resources for the payment of long-term debt principal and interest amounts maturing in future years.

**CITY OF FOLSOM, CALIFORNIA  
FOLSOM PUBLIC FINANCING AUTHORITY  
(A DEBT SERVICE FUND)**

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

**2. Cash, Cash Equivalents and Investments**

The Authority had the following cash, cash equivalents and investments at June 30, 2007:

	<u>Amortized Cost</u>
Cash pooled with the City of Folsom	\$ 1,314,798
<b>Total funds in City Treasury</b>	<b>1,314,798</b>
<b>Cash and investments with fiscal agents</b>	
Blackrock Institutional Funds	2,077,193
<b>Total cash and investments with fiscal agents</b>	<b>2,077,193</b>
<b>Authority investments held in trust</b>	
Investments held in trust for repayment of assessment debt	45,760,000
<b>Total cash, investments and investments held in trust</b>	<b>\$ 49,151,991</b>

The Authority pools its cash and investments of all funds with the City of Folsom, California to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. The pool is managed by the City Treasurer for investing, except for certain restricted funds and investments held in trust, which are held and invested by outside custodians through contractual agreements. These restricted funds include cash with fiscal agents.

Investments held in the City of Folsom's cash and investments pool are available on demand. Information regarding the City's cash and investment pools is described in the City's Comprehensive Annual Financial Report.

Under the California Government Code, a financial institution is required to secure deposits in excess of \$100,000 made by state or local governmental units by pledging securities held in the form of undivided collateral pool. The market value of pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of those deposits. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent, in the Authority's name.

**Investments** – As permitted by the California Government Code, bond indentures, and contracts and agreements, the Authority is permitted to invest in the City's cash and investment pool, and other investments authorized by its outstanding debt agreements.

The Authority maintains all of its unrestricted investments in the City's cash and investment pool. It is not possible to disclose relevant information about the Authority's separate portion of the investment pool. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2007 basic financial statements. A copy of that report may be

**CITY OF FOLSOM, CALIFORNIA**  
**FOLSOM PUBLIC FINANCING AUTHORITY**  
**(A DEBT SERVICE FUND)**

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

obtained by contacting the City's Finance Department, 50 Natoma Street, Folsom, CA 95630 or can be found at the City's website www.folsom.ca.us

**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 provisions of the California Government Code or the Entity'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	Revenue Bonds					
				Governmental					
				1997 FPFA Series A&B	1998 LARB (Hannaford)	1999 FPFA (Legends, et al.)	2002 City Hall & Comm. Ctr.	2003 FPFA	2004 FPFA Series A&B
U.S. Treasury Obligations	None	None	None	x	n/a	n/a	x	x	x
U.S. Treasury Obligations	5 years	None	None	n/a	x	x	n/a	n/a	n/a
U.S. Agency Securities	None	None	None	x	n/a	n/a	x	x	x
Banker's Acceptances	360 days	None	None	n/a	n/a	n/a	x	n/a	x
Commercial paper	270 days	None	None	n/a	n/a	n/a	n/a	n/a	x
Commercial paper	180 days	30%	10%	n/a	n/a	n/a	x	n/a	n/a
Corporate bonds, notes, debentures	N/A	None	None	n/a	n/a	n/a	x	n/a	n/a
Money market mutual funds	N/A	None	None	x	n/a	n/a	x	x	x
Municipal obligations	None	None	None	n/a	n/a	n/a	x	x	x
State obligations	None	None	None	n/a	n/a	n/a	x	x	x
Investment agreements - *	None	None	None	x	n/a	n/a	x	x	x
California Asset Management Program (CAMP)	None	None	None	n/a	n/a	n/a	n/a	n/a	n/a
Local Agency Investment Fund (LAIF)	None	None	None	x	n/a	n/a	x	x	x
Other *1	None	None	None	x	n/a	n/a	x	x	x
City's investment policy *2	N/A	N/A	N/A	n/a	n/a	n/a	n/a	n/a	n/a
Interest bearing accounts	None	None	None	x	n/a	n/a	x	x	n/a
Shares in California Common law trust	None	None	None	x	n/a	n/a	x	x	n/a
Cash (insured at all times by FDIC)	None	None	None	x	x	x	n/a	x	x
Deposit Accounts (FDIC Insured) *3	None	None	None	x	x	x	n/a	x	n/a
CD's, time deposits and bankers acceptances	30 days	None	None	n/a	n/a	n/a	n/a	n/a	n/a
Certificates of deposit	None	None	None	x	n/a	n/a	n/a	x	n/a

\* 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.

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**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 Authority 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.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	Fair Value	Investment Maturities (In Years)								
		Less than 1	1 to 2	2 to 3	3 to 4	4 to 5	6 to 10	10 to 15	15 to 20	
<b>Cash with fiscal agents</b>										
Blackrock Institutional Funds	\$ 2,077,193	\$ 2,077,193	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total cash with fiscal agents</b>	<b>2,077,193</b>	<b>2,077,193</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Investments held in trust - carried at cost</b>										
Ltd. Obligation Improvement Bonds. AD 92-2	12,730,000	485,000	540,000	605,000	-	-	11,100,000	-	-	-
Hannaford Cross AD	1,910,000	85,000	90,000	100,000	105,000	110,000	700,000	720,000	-	-
Ltd. Obligation Improvement Bonds. AD 93-2	485,000	30,000	30,000	35,000	35,000	35,000	215,000	105,000	-	-
Ltd. Obligation Improvement Bonds. AD 94-3	1,395,000	75,000	80,000	85,000	90,000	90,000	560,000	415,000	-	-
Ltd. Obligation Improvement Bonds. AD 95-1	1,395,000	65,000	70,000	75,000	80,000	80,000	520,000	505,000	-	-
Ltd. Obligation Improvement Bonds. AD 95-2	1,010,000	45,000	45,000	50,000	55,000	60,000	380,000	375,000	-	-
Ltd. Obligation Improvement Bonds. AD 89-1	6,295,000	275,000	310,000	350,000	385,000	435,000	2,930,000	1,610,000	-	-
2004 Tax Revenue Bonds, Series A & B	20,540,000	995,000	1,040,000	1,085,000	1,140,000	1,180,000	6,755,000	8,345,000	-	-
<b>Total Investments held in trust</b>	<b>45,760,000</b>	<b>2,055,000</b>	<b>2,205,000</b>	<b>2,385,000</b>	<b>1,890,000</b>	<b>1,990,000</b>	<b>23,160,000</b>	<b>12,075,000</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$ 47,837,193</b>	<b>\$ 4,132,193</b>	<b>\$ 2,205,000</b>	<b>\$ 2,385,000</b>	<b>\$ 1,890,000</b>	<b>\$ 1,990,000</b>	<b>\$ 23,160,000</b>	<b>\$ 12,075,000</b>	<b>\$ -</b>	<b>\$ -</b>

**Disclosures Relating to Credit Risk** - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSRO's). It is in the Authority's policy to limit its investments in these investment types to an "A" rating or higher issued by NRSRO's, including raters Standard & Poor's, and Moody's Investors Services. At June 30, 2007, the Authority's credit risks, expressed on a percentage basis, are as follows:

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Credit Quality Distribution for Securities with Credit Exposure as Percentage of Total Investments

Investment Type	Moody's Credit Rating	S & P's Rating	% of Investments
Blackrock Institutional Funds	Aaa	AAA	4.34%
Ltd. Obligation Improvement Bonds. AD 92-2	Aaa	AAA	26.61%
Hannaford Cross AD	Aaa	AAA	3.99%
Ltd. Obligation Improvement Bonds. AD 93-2	Aaa	AAA	1.01%
Ltd. Obligation Improvement Bonds. AD 94-3	Aaa	AAA	2.92%
Ltd. Obligation Improvement Bonds. AD 95-1	Aaa	AAA	2.92%
Ltd. Obligation Improvement Bonds. AD 95-2	Aaa	AAA	2.11%
Ltd. Obligation Improvement Bonds. AD 89-1	Aaa	AAA	13.16%
2004 Tax Revenue Bonds, Series A & B	Aaa	AAA	42.94%
			100.00%

**Restricted Assets - Cash with Fiscal Agents** – In accordance with bond ordinances, funds have been deposited into trust accounts at June 30, 2007 as follows:

Issue	
1988 Local Agency Revenue Bonds	\$ 752,118
1992 Local Agency Revenue Bonds	3,948
1997 Special Assmt Revenue Bonds - Series A	13,841
1997 Special Assmt Revenue Bonds - Series B	72,926
1998 Local Agency Revenue Bonds	234,875
1998 Special Assmt Revenue Bonds	70,262
1999 Local Agency Revenue Bonds	482,208
1999 Recreation Facility Certificates of Participation	81,805
1999 Special Assmt Revenue Bonds	192,304
2003 Auto Plaza	172,387
2004 Series A&B Spec Rev Tax Bonds	519
Required reserve balance: at fair value	\$ 2,077,193

**3. Investments Held in Trust**

The investments held in trust of the Authority are carried at cost. These investments are held in trust for repayment of special assessment debt. Investments at June 30, 2007 consisted of the following debt securities of Special assessment districts within the City of Folsom:

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	Cost
Limited Obligation Improvement Bonds, Assessment District No. 92-2 (Prairie Oaks Ranch Assessment District) dated June 24, 1997 with the serial bonds maturing in varying annual installments through September 2, 2009 and the term bonds maturing on September 2, 2019 plus interest ranging from 6.445% to 7.26%	\$ 12,730,000
Hannaford Cross Special Assessment Revenue Bonds dated March 19, 1998 with the serial bonds maturing in varying annual installments through September 2, 2012 and the term bonds maturing on September 2, 2020 plus interest ranging from 5.556% to 10.777%.	1,910,000
Limited Obligation Improvement Bonds Assessment District No. 93-2 (Legends Assessment District) dated June 22, 1993 with the serial bonds maturing in varying annual installments through September 2, 2003 and the term bonds maturing on September 2, 2018 plus interest ranging from 4.377% to 12%.	485,000
Limited Obligations Improvement Bonds Assessment District No. 94-3 (Cobble Hill Ridge Assessment District) dated September 29, 1994 with the serial bonds maturing in varying annual installments through September 2, 2009 and the term bonds maturing on September 2, 2019 plus interest ranging from 4.961% to 12%.	1,395,000
Limited Obligation Improvement Bonds Assessment District No. 95-1 (Ridgeview Assessment District) dated August 10, 1995 with the serial bonds maturing in varying annual installments through September 2, 2005 and the term bonds maturing on September 2, 2020 plus interest ranging from 4.649% to 12%.	1,395,000
Limited Obligations Improvement Bonds Assessment District No. 95-2 (Cresleigh Natoma Assessment District) dated August 10, 1995 with the serial bonds maturing in varying annual installments through September 2, 2009 and the term bonds maturing on September 2, 2019 plus interest ranging from 4.75% to 7.70%.	1,010,000
Limited Obligations Improvement Bonds Assessment District No. 89-1, dated December 2003 with the serial bonds maturing in varying installments through October 1, 2018 with an interest rate of 5.65%.	6,295,000

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Special Tax Revenue Bonds, Senior Series A (\$14,685,000) with interest rates of 2.106% to 5.312% and Subordinate Series B (\$7,800,000) with interest rates of 2% to 5%. The Serial bonds mature beginning September 1, 2005 through September 1, 2021 with payments ranging from \$705,000 to \$1,475,000. Term bond sinking fund requirements begin September 1, 2017 through September 1, 2021, with payments ranging from \$1,020,000 to 1,235,000. Series A Bonds may be called on any September 1, or March 1 beginning September 1, 2012 at 102% and declining to 100% after September 1, 2014. Series B Bonds may be called on any September 1, or March 1 beginning September 1, 2009 at 102% and declining to 100% after September 1, 2011.

	<u>20,540,000</u>
Total Investments	<u>\$ 45,760,000</u>

**4. Leases Receivable**

The City of Folsom leases certain municipal facilities from the Authority that financed the construction of a recreation facility and the city hall. The proceeds from the lease payments are used to service the outstanding bonds and are directly offset against principal payments made in the debt service fund. At June 30, 2007, the lease payments were as follows:

Fiscal Year Ended	1999 Certificates of Participation		2002 Lease Refunding Lease Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 10,000	\$ 47,713	\$ 940,000	\$ 536,669	\$ 950,000	\$ 584,382
2009	10,000	47,138	975,000	500,719	985,000	547,857
2010	10,000	46,563	1,010,000	461,019	1,020,000	507,582
2011	10,000	45,988	1,050,000	419,819	1,060,000	465,807
2012	15,000	45,413	1,095,000	377,603	1,110,000	423,016
2013 - 2017	115,000	210,388	6,190,000	1,116,069	6,305,000	1,326,457
2018 - 2022	185,000	170,151	1,275,000	31,875	1,460,000	202,026
2023 - 2027	295,000	102,300	-	-	295,000	102,300
2028 - 2030	155,000	14,100	-	-	155,000	14,100
	<u>\$ 805,000</u>	<u>\$ 729,754</u>	<u>\$ 12,535,000</u>	<u>\$ 3,443,773</u>	<u>\$ 13,340,000</u>	<u>\$ 4,173,527</u>

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**5. Long-Term Debt**

The following is a summary of long-term liabilities for the year ended June 30, 2007:

Local Agency Revenue Bonds	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due Within One Year
1997	\$ 13,570,000	\$ -	\$ (605,000)	\$ 12,965,000	\$ 505,000
1998	2,170,000	-	(110,000)	2,060,000	95,000
1999	4,830,000	-	(215,000)	4,615,000	220,000
2003	6,565,000	-	(290,000)	6,275,000	305,000
2004	21,780,000	-	(1,240,000)	20,540,000	995,000
1999 Certificate of Participation	815,000	-	(10,000)	805,000	10,000
2002 Refunding Lease Revenue Bonds	13,450,000	-	(915,000)	12,535,000	940,000
Less: Deferred amounts for issuance costs, discounts/premiums	(1,307,449)	-	95,608	(1,211,841)	
	<u>\$ 61,872,551</u>	<u>\$ -</u>	<u>\$ (3,289,392)</u>	<u>\$ 58,583,159</u>	<u>\$ 3,070,000</u>

**1997 Local Agency Revenue Bonds**

On July 1, 1997 the Folsom Public financing Authority issued \$13,640,000 Series A and \$2,685,000 subordinated Series B bonds in full conformity with the Constitution and Laws of the State of California, including the Marks-Roos Local Bond Pooling Act of 1985. The bonds are being issued for the purpose of refunding, by purchase for cancellation, the City's Limited Obligation Improvement Bonds, Assessment District No. 92-2 to fund a reserve and to pay cost of issuance of assessments bonds.

**Series A** – Serial bonds were issued for the amount of \$3,600,000 with maturity commencing September 2, 1999 through 2009 with interest rates from 5.00% to 6.40%. Term bonds of \$10,040,000 are due September 2, 2019 with an interest rate of 6.875%.

**Series B** – Serial bonds were issued for the amount of \$675,000 with maturity commencing September 2, 1999 through 2009 with interest rates from 5.25% to 6.60%. Terms bonds of \$2,010,000 are due September 2, 2019 with an interest rate of 6.875%.

**1998 Local Agency Revenue Bonds**

On March 19, 1998 the Folsom Public Financing Authority issued bonds of \$2,860,000 in full conformity with the Constitution and Laws of the State of California including the Marks-Roos Local Bond Pooling Act of 1985. The bonds were issued for the purpose of purchasing \$2,625,125 of aggregate principal of the City of Folsom Limited Obligation Refunding Improvement Bonds, Hannaford Cross Assessment District 1990-1 and to fund a reserve.

Serial bonds were issued for the amount of \$1,410,000 with maturity commencing September 2, 1998 through 2012 with interest rates from 3.75% to 5.50%. Term bonds of \$1,450,000 are due September 2, 2020 with an interest rate of 5.625%.

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**1999 Local Agency Revenue Bonds**

On March 18, 1999 the Folsom Public Financing Authority issued bonds of \$6,125,000 in full conformity with the Constitution and Laws of the State of California including the Marks-Roos Local Bond Pooling Act of 1985. The bonds were issued for the purpose of purchasing the City's four separate issues of Limited Obligation Improvement Bonds, Assessment District No. 92-2 to fund a reserve and pay cost of issuance of the assessment bonds.

Serial bonds were issued for the amount of \$2,995,000 with maturity commencing September 2, 1999 through 2012 with interest rates from 3.50% to 5.20%. Term bonds of \$3,130,000 are due September 2, 2020 with an interest rate of 5.40%.

**2003 Local Agency Revenue Bonds**

In December 2003, the Folsom Public Financing Authority issued Reassessment Revenue bonds, with interest rates of 2.00% to 5.50%. The bonds mature beginning October 1, 2004 through October 1, 2018 with payments ranging from \$270,000 to \$830,000. The bonds were issued to refund the Public Financing Authority's 1988 Local Agency Revenue Bonds, by the purchase and cancellation of the City's Limited Obligation Improvement Bonds Assessment District 1989-1, which secure the refunded authority bonds, fund a reserve fund and pay certain costs of issuance. The bonds are subject to optional redemption by the Authority prior to their respective maturity dates as a whole or in part with a redemption premium equal to the following percentages of such principal amount of Bonds to be redeemed, 3% on or prior to April 1, 2010 and 0% on or after October 1, 2010.

**2004 Local Agency Revenue Bonds**

In June 2004 the Folsom Public Financing Authority issued Special Tax Revenue Bonds, Senior Series A (\$14,685,000) with interest rates of 2.00% to 5.00% and Subordinate Series B (\$7,800,000) with interest rates of 2.25% to 5.70%. The Serial bonds mature beginning September 1, 2005 through September 1, 2021, with payments ranging from \$705,000 to \$1,475,000. Term bond sinking fund requirements begin September 1, 2017 through September 1, 2021 with payments ranging from \$1,020,000 to \$1,235,000. The bonds were issued to finance and purchase two separate issues of special tax refunding bonds of an existing community facilities district and pay certain costs associated with issuance. Series A Bonds may be called on any September 1 or March 1 beginning September 1, 2012 at 102% and declining to 100% after September 1, 2014. Series B Bonds may be called on any September 1 or March 1 beginning September 1, 2009 at 102% and declining to 100% after September 1, 2011.

**1999 Certificates of Participation**

On September 9, 1999 the Folsom Public Financing Authority issued Certificates of Participation for \$825,000 with interest rates of 5.75% and 6.00%. The Certificates were issued to provide funds to acquire and construct a recreation facility located within the City of Folsom, to fund a reserve for the Certificates, and to pay associated Certificate issue costs. The Folsom Public Financing Authority will lease the facility to the City and the City will make rental payments to a trustee on behalf of the Authority which will represent principal and interest payments for the Certificates. The Certificates mature on June 30, 2019 and June 30, 2029.

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**2002 Refunding Lease Revenue Bonds**

In June 2002, the Folsom Public Financing Authority issued refunding lease revenue bonds for \$16,950,000 with interest rates of 1.40% and 5.00% payable on April 1 and October 1. The Certificates were issued to provide funds to refund the Authority's outstanding Revenue Bonds, Series 1992. The bonds mature beginning on October 1, 2002 through October 1, 2017, with remaining installments ranging from \$875,000 to \$1,275,000.

The annual requirements to amortize the bonds payable as of June 30, 2007 are as follows:

Year Ending June 30	1997 PFA Series A Governmental activities		1998 LARB - Hannaford Governmental activities		1999 LARB - Legends, etc. Governmental activities		2003 PFA Rev. Reass. Governmental activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 505,000	\$ 873,060	\$ 95,000	\$ 111,360	\$ 220,000	\$ 238,060	\$ 305,000	\$ 298,619
2009	565,000	839,100	100,000	106,386	225,000	227,379	335,000	288,181
2010	625,000	800,990	110,000	100,924	245,000	215,859	365,000	275,019
2011	700,000	756,633	115,000	94,960	260,000	203,230	395,000	259,325
2012	765,000	705,883	120,000	88,614	270,000	189,713	440,000	240,481
2013 - 2017	5,180,000	2,575,154	750,000	328,141	1,580,000	711,705	2,880,000	820,334
2018 - 2021	4,625,000	499,359	770,000	88,875	1,815,000	209,115	1,555,000	87,125
<b>Total</b>	<b>\$ 12,965,000</b>	<b>\$ 7,050,179</b>	<b>\$ 2,060,000</b>	<b>\$ 919,260</b>	<b>\$ 4,615,000</b>	<b>\$ 1,995,061</b>	<b>\$ 6,275,000</b>	<b>\$ 2,269,084</b>

Year Ending June 30	2004 PFA Spec. Tax Governmental activities		1999 Rec. COP's Governmental activities		2002 City Hall Rev. Governmental activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 995,000	\$ 947,593	\$ 10,000	\$ 47,713	\$ 940,000	\$ 536,669
2009	1,040,000	913,058	10,000	47,138	975,000	500,719
2010	1,085,000	873,305	10,000	46,563	1,010,000	461,019
2011	1,140,000	828,983	10,000	45,988	1,050,000	419,819
2012	1,180,000	779,903	15,000	45,413	1,095,000	377,603
2013 - 2017	6,755,000	3,007,851	115,000	210,388	6,190,000	1,116,069
2017 - 2022	8,345,000	1,096,028	185,000	170,151	1,275,000	31,875
2023 - 2027	-	-	295,000	102,300	-	-
2028 - 2030	-	-	155,000	14,100	-	-
<b>Total</b>	<b>\$ 20,540,000</b>	<b>\$ 8,446,721</b>	<b>\$ 805,000</b>	<b>\$ 729,754</b>	<b>\$ 12,535,000</b>	<b>\$ 3,443,773</b>

**6. Contingent Liabilities**

The Authority had cash pooled with the City of Folsom of \$1,314,798 as of June 30, 2007. Under the arbitrage and rebate rules of the Tax Reform Act of 1986 any arbitrage earnings for bonds issued after August 31, 1986, may be subject to rebate to the federal government. Since the unrestricted amounts are insignificant management believes the liability, if any, would not be material.

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**7. Adjustments to Government-Wide Statements**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

<b>TOTAL FUND BALANCES - DEBT SERVICE FUND</b>	<b>\$ 49,159,364</b>
<p>Long-term assets are not due and receivable in the current period and therefore are not reported in the Governmental Funds' balance sheet.</p>	
Leases receivable from the City of Folsom, due within one year	950,000
Leases receivable from the City of Folsom, due after one year	12,390,000
<p>Various long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:</p>	
Bonds payable, due within one year	(3,070,000)
Bonds payable, due after one year	(56,725,000)
Unamortized loss on refunding and issuance costs	1,211,841
Accrued interest	<u>(967,540)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 2,948,665</u></b>
<b>NET CHANGE IN FUND BALANCE - DEBT SERVICE FUND</b>	<b>\$ (2,471,178)</b>
<p>Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>	
Change in accrued interest	47,637
Current year amortization of costs of issuance and loss on refunding	(95,608)
Payments collected on long-term receivable	(925,000)
Principal repayments on long term debt	<u>3,385,000</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ (59,149)</u></b>

**8. SUBSEQUENT EVENT**

In July 2007, the Folsom Public Financing Authority issued \$45,540,000 Special Tax Revenue Bonds Series 2007A and \$24,885,000 Special Tax Revenue Bonds Subordinated Series 2007B. The net proceeds will be used to provide funds to finance the purchase of four separate issues of special tax refunding bonds (collectively, the "CFD Bonds"), each issued by the City of Folsom for the benefit of separate, individual existing community facility districts and to pay certain costs of issuance of the Bonds.