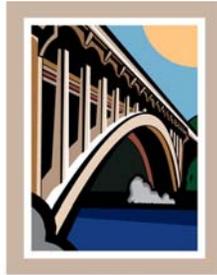


**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

AUDITED COMPONENT UNIT
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2011



CITY OF
FOLSOM
DISTINCTIVE BY NATURE

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**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
Redevelopment Agency of the City of Folsom
Folsom, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Folsom (the Agency), a component unit of the City of Folsom, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements 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 these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Redevelopment Agency of the City of Folsom and do not purport to, and do not, present fairly the financial position of City of Folsom, California, as of June 30, 2011, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 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, 2011, and the respective changes in financial positions, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Agency has adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, effective July 1, 2010.

As described in note 11, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies or continuance of redevelopment agencies under new laws in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the legislation by outside parties including the Redevelopment Agency of the City of Folsom.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2011 on our consideration of the Agency's internal control over financial reporting and on 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.

The management's discussion and analysis on pages 3 through 7 and the required supplementary information on page 36 through 37 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 the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on basic financial statements that collectively comprise the Agency's basic financial statements. The supplementary information on page 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Computation of Low and Moderate Housing Excess/Surplus Funds schedule on page 39 is presented for purposes of additional analysis as required by the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011* issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants and is also not a required part of the basic financial statements of Agency. The supplementary information on page 38 and the Computation of Low and Moderate Housing Excess/Surplus Funds schedule on page 39 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole

Vaurinik, Trine, Day & Co. LLP

Sacramento, California
December 2, 2011

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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, 2011.

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 Agency 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, 2011, the Redevelopment Agency adopted annual appropriated budgets for the special revenue funds and debt service fund. A budgetary comparison statement has been provided for the Central Folsom Redevelopment Project Fund, Low/Moderate Housing Fund and Debt Service Fund.

CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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 - 35 of this report.

COMPLIANCE REPORT

The Report on Compliance and on Internal Control can be found on page 42-53 of this report.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

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

City of Folsom Redevelopment Agency
Net Assets

	Governmental Activities	
	2011	2010
Current and other assets	\$ 44,419,765	\$ 35,598,726
Capital assets, net	5,153,646	5,134,581
Total assets	49,573,411	40,733,307
Long-term liabilities outstanding	67,936,833	47,000,896
Other liabilities	3,411,127	2,251,804
Total liabilities	71,347,960	49,252,700
Invested in capital assets	5,153,646	5,134,581
Restricted	18,833,759	6,856,302
Unrestricted	(45,761,954)	(20,510,276)
Total net assets	\$(21,774,549)	\$ (8,519,393)

Net assets represent the difference between the Agency'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 \$13.3 million this year from \$(8.5) million at June 30, 2010 to \$(21.8) million at June 30, 2011. At June 30, 2011, the largest portion of the agency's net assets, approximately \$18.8 million, is restricted net assets that must be used in accordance with external restrictions. Net assets invested in capital assets in the amount of \$5.2 million represent capital assets which are used by the Agency to provide services to citizens. Additional capital asset information can be found in the Capital Asset and Debt

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Administration section of this 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 and is expected to be relieved by future tax increment.

The agency's total revenues and expenditures were \$8,147,322 and \$21,402,478 respectively for the fiscal year ending June 30, 2011. Of the total revenues, \$6,877,590, or 84%, was from property taxes. Total governmental activities revenues decreased by \$2,821,034, or 26%, from last year. The decrease is mostly attributable to the recognition of \$1,836,325 in loans receivable as revenue in the prior year, in addition to a \$527,793 decrease in Property tax increment revenue and \$568,562 decrease in intergovernmental revenue in the current year. Total governmental activity expenses increased \$9,933,562, mostly due to increased capital outlay expenditures related to the Sutter Street Project in the current year.

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

	Governmental Activities	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 31,021	\$ 1,849,471
Capital grants and contributions	981,438	1,550,000
General revenues:		
Tax increment	6,877,590	7,405,383
Investment earnings	207,098	161,664
Miscellaneous	50,175	1,838
Total revenues	<u>8,147,322</u>	<u>10,968,356</u>
Expenses		
General government	19,329,734	9,568,365
Interest	2,072,744	1,900,551
Total expenses	<u>21,402,478</u>	<u>11,468,916</u>
Decrease in net assets	(13,255,156)	(500,560)
Net assets (deficit), beginning of year	<u>(8,519,393)</u>	<u>(8,018,833)</u>
Net assets (deficit), end of year	<u><u>\$(21,774,549)</u></u>	<u><u>\$(8,519,393)</u></u>

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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. 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 restricted fund balances as of June 30 were \$2,290,603 and \$1,410,304, respectively. Tax increment revenues provide the majority of revenue, with the Low/Moderate Housing fund receiving 20% and the Central Folsom Redevelopment Project Fund receiving the remaining 80%.

As of June 30, 2011, the Agency's governmental funds reported combined ending fund balances of \$38,720,244, an increase of \$7,431,769 in comparison with the prior fiscal year. Increase is mostly attributable to cash received in the Capital projects fund due to debt issuance, offset by the use of cash for the Sutter Street Streetscape project.

Revenues for governmental functions overall (excluding other financing sources) totaled \$8,147,322 in fiscal year 2011, which represents a decrease of \$984,709 in comparison with the prior fiscal year and is primarily due to \$1,550,000 payment from the City's Housing Trust Fund for low and moderate income housing projects in the prior year, offset by \$981k in current year grant revenue and \$528k current year decrease in property tax revenue. Expenditures for governmental functions, totaling \$21,505,837, increased by \$9,274,894 from the prior fiscal year, mainly due to increased spending in the Capital Projects Fund related to the Sutter Street Streetscape project.

BUDEGTARY HIGHLIGHTS

The difference of \$1,413,610 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 Sutter Street Streetscape and Sutter Street Façade projects.

Difference between the original budget and the final amended budget for the Low/Moderate Housing Fund totaling \$26,810 reflects addition to budget to support low and moderate housing programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Agency's investment in capital assets for its governmental activities as of June 30, 2011 amounts to \$5,153,646. This investment in capital assets includes land, buildings, improvements and equipment. The total increase in the Agency's capital assets for

CITY OF FOLSOM, CALIFORNIA
 REDEVELOPMENT AGENCY
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

the current fiscal year was .37% 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 Redevelopment Agency
 Changes in Capital Assets, Net of Depreciation**

	Governmental Activities	
	2011	2010
Land	\$ 3,888,457	\$ 3,888,457
Buildings	1,013,207	1,101,449
Improvements	131,849	138,628
Equipment	120,133	6,047
Total	\$ 5,153,646	\$ 5,134,581

Long-term Debt - At the end of the current fiscal year, the Redevelopment Agency had total bonded debt outstanding of \$66,095,000. The Redevelopment Agency also has Owner Participation Agreements totaling \$2,455,122. The change during the fiscal year was issuance of 2011 TABs and 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 Agency continues to face economic challenges with the continued weak regional housing market. The slowed real estate market has led to reduced sales activity and lower property values. As a result, the agency's property tax revenues decreased 7% from the prior year. In addition, the uncertainty regarding the fate of the Agency in relation to State of California AB X1 26 and X1 27 has resulted in the suspension of the commencement of any major projects at this time.

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, Office of Management and Budget, 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, 2011

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments	\$ 6,580,735
Cash with Fiscal Agent	288,083
Receivables, net of allowance for uncollectibles	8,109,694
Due from other governments	972,431
Advances to City of Folsom	450,000
Deferred charges	1,289,554
Land held for resale	774,149
Restricted assets:	
Cash with fiscal agent	25,955,119
Capital assets, net of accumulated depreciation	<u>5,153,646</u>
Total assets	<u>49,573,411</u>
LIABILITIES:	
Accounts payable	2,558,095
Wages payable	15,547
Interest payable	837,485
Long-term liabilities:	
Due within one year	1,781,829
Due in more than one year	<u>66,155,004</u>
Total liabilities	<u>71,347,960</u>
NET ASSETS:	
Invested in capital assets	5,153,646
Restricted for:	
Debt service	5,112,824
Low/moderate income housing	13,720,935
Unrestricted	<u>(45,761,954)</u>
Total net assets (deficit)	<u><u>\$ (21,774,549)</u></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, 2011

	Governmental Activities
EXPENSES:	
Community services	\$ 19,329,734
Interest on long-term debt	2,072,744
	<hr/>
Total program expenses	21,402,478
	<hr/>
PROGRAM REVENUES:	
Charges for services	31,021
Capital grants and contributions	981,438
	<hr/>
NET PROGRAM EXPENSE	(20,390,019)
	<hr/>
GENERAL REVENUES:	
Property tax increment	6,877,590
Investment earnings	207,098
Miscellaneous	50,175
	<hr/>
Total general revenues	7,134,863
	<hr/>
Decrease in net assets	(13,255,156)
	<hr/>
Net assets (deficit), beginning of year	(8,519,393)
	<hr/>
Net assets (deficit), end of year	\$ (21,774,549)
	<hr/> <hr/>

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, 2011

	Major Funds				TOTAL GOVERN- MENTAL FUNDS
	Special Revenue Funds		Debt Service	Capital Projects	
	Central Folsom Redevelopment Project	Low/ Moderate Housing			
ASSETS					
Cash and investments	\$ 4,683,054	\$ 1,454,262	\$ 443,419	\$ -	\$ 6,580,735
Cash with Fiscal Agent	-	-	288,083	-	288,083
Receivables, net of allowance for uncollectibles:					
General accounts	-	-	250	-	250
Accrued interest	14,588	4,500	3,567	-	22,655
Loans	1,607,401	6,479,388	-	-	8,086,789
Due from other funds	139,849	-	-	-	139,849
Due from other governments	93,954	23,489	-	854,988	972,431
Advances to City of Folsom	450,000	-	-	-	450,000
Advances to other funds	-	2,708,094	-	-	2,708,094
Land held for resale	-	774,149	-	-	774,149
Restricted assets:					
Cash with fiscal agent	-	-	5,112,842	20,842,277	25,955,119
TOTAL ASSETS	\$ 6,988,846	\$ 11,443,882	\$ 5,848,161	\$ 21,697,265	\$ 45,978,154
LIABILITIES AND FUND BALANCE					
Accounts payable	\$ 372,319	\$ 66,829	\$ -	\$ 2,118,947	\$ 2,558,095
Wages payable	10,429	5,118	-	-	15,547
Due to other funds	-	-	-	139,849	139,849
Advances from other funds	2,708,094	-	-	-	2,708,094
Deferred revenue	439,320	1,397,005	-	-	1,836,325
TOTAL LIABILITIES	3,530,162	1,468,952	-	2,258,796	7,257,910
FUND BALANCE:					
Nonspendable	1,168,081	8,564,626	-	-	9,732,707
Restricted	2,290,603	1,410,304	5,400,925	19,438,469	28,540,301
Assigned	-	-	447,236	-	447,236
TOTAL FUND BALANCE	3,458,684	9,974,930	5,848,161	19,438,469	38,720,244
TOTAL LIABILITIES AND FUND BALANCE	\$ 6,988,846	\$ 11,443,882	\$ 5,848,161	\$ 21,697,265	\$ 45,978,154

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, 2011

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 38,720,244

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

Capital assets used in governmental activities are not current financial resources
and therefore are not reported in the Governmental Funds' balance sheets 5,153,646

Deferred costs of issuance related to long-term debt used in governmental
activities are not financial resources and, therefore, are not reported in the funds 1,289,554

Other long-term assets are not available to pay for current-period expenditures and,
therefore, are deferred in the funds. 1,836,325

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 (837,485)

Bonds and owner participation agreements (67,936,833)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (21,774,549)

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, 2011

	Major Funds				TOTAL GOVERN- MENTAL FUNDS
	Special Revenue Funds		Debt Service	Capital Projects	
	Central Folsom Redevelopment Project	Low/ Moderate Housing			
REVENUES:					
Tax increment revenues	\$ 5,502,072	\$ 1,375,518	\$ -	\$ -	\$ 6,877,590
Intergovernmental	91,636	-	-	889,802	981,438
Charges for services	25,330	5,691	-	-	31,021
Interest revenue	82,225	76,591	12,219	36,063	207,098
Other revenue	49,175	1,000	-	-	50,175
TOTAL REVENUES	5,750,438	1,458,800	12,219	925,865	8,147,322
EXPENDITURES:					
Current:					
General government	3,952,586	481,630	10,074	-	4,444,290
Capital Outlay	1,193,283	-	-	12,640,418	13,833,701
Debt service:					
Principal payments	360,136	-	515,000	-	875,136
Interest and fiscal charges	-	-	2,032,010	-	2,032,010
Cost of issuance	-	-	320,700	-	320,700
TOTAL EXPENDITURES	5,506,005	481,630	2,877,784	12,640,418	21,505,837
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	244,433	977,170	(2,865,565)	(11,714,553)	(13,358,515)
OTHER FINANCING SOURCES (USES):					
Proceeds of Tax Allocation Bonds	-	-	21,380,000	-	21,380,000
Bond discount	-	-	(589,716)	-	(589,716)
Transfers in	-	-	2,547,688	18,945,336	21,493,024
Transfers out	(3,377,468)	-	(18,115,556)	-	(21,493,024)
TOTAL OTHER FINANCING SOURCES/(USES)	(3,377,468)	-	5,222,416	18,945,336	20,790,284
NET CHANGE IN FUND BALANCE	(3,133,035)	977,170	2,356,851	7,230,783	7,431,769
FUND BALANCE, JULY 1	6,591,719	8,997,760	3,491,310	12,207,686	31,288,475
FUND BALANCE, JUNE 30	\$ 3,458,684	\$ 9,974,930	\$ 5,848,161	\$ 19,438,469	\$ 38,720,244

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, 2011

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 7,431,769

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation expense. Capital outlays and depreciation expense are as follows:

Capitalized capital outlays	119,497
Depreciation expense	(100,432)

Governmental funds report debt issuance costs (deferred charges) as part of debt service expenditures, whereas these costs are deferred and amortized in the Government-Wide Statement of Activities. (47,171)

Premiums, discounts, and other charges related to long-term debt are expended in the year of issuance by governmental funds. However, these costs are deferred and amortized in the statement of activities. This amount reflects the amortization of premiums, discounts, and other deferred charges. (1,070,808)

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	\$ 515,000
Owner participation agreements	360,136
Issuance of long-term debt	(21,380,000)
Bond discount	589,716
Issuance costs	320,700
	<hr/>
	(19,594,448)

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	<hr/>
	6,437

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (13,255,156)

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, 2011

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, 2011

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 Capital grants and contributions.

General revenues include:

- Taxes, investment earnings and other items not properly included among program 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*. Under this method, revenues are recognized when measurable and available. Interest, certain state and federal grants, and charges for services are accrued when the receipt occurs within three hundred sixty five days of the end of the accounting period so as to be both measurable and available. Other revenues are considered to be measurable and available only when cash is received by the City. Property taxes are accrued when their receipt occurs within sixty days of the end of the accounting 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. Proceeds of general long-term debt are reported as other financing sources.

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

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. The Redevelopment Agency does not purport to represent a complete presentation the CAFR of the City of Folsom, California.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

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.

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 that is restricted for expenditures related to redevelopment project costs and administrative expenses in the project area.

Low/Moderate Housing Special Revenue Fund - The Low/Moderate Housing Fund accounts for tax increment income that is restricted for expenditures 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 Agency reports the following major governmental fund types:

Debt Service Fund – A Debt Service Fund is established for the project area to account for 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.

The effect of interfund activity has been eliminated from the government-wide financial statements.

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.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

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. Encumbrances are reported as assigned fund balance since they do not constitute expenditures or liabilities.

Cash and Investments – The cash of the Agency is kept in the City of Folsom investment pool along with the other funds of the City of Folsom for the purpose of increasing interest earnings through combined investment activities. Investments are stated at fair value.

Cash with Fiscal Agent - The cash and investments of the Agency that are maintained by a fiscal agent.

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 available.

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.

Deferred Charges – Represent bond issuance costs and are amortized over the term of the related debt.

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 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, 2011

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

	Years
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 Equity – In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. With the implementation of GASB 54 in FY 2010-2011, the Agency established the following classifications and definitions of fund balance for the year ended June 30, 2011:

Nonspendable – Resources that cannot be spent because they are not in an expendable form (e.g. prepaid asset, inventory) or must be maintained intact (e.g. endowment principal).

Restricted – Resources that are constrained to specific purposes by an external provider (e.g. grantors, contributors, governmental laws and regulations) or by constitutional provisions or enabling legislation.

Committed – Resources with self-imposed limitations, evidenced by the City’s formal action (ordinance), and require both the approval of the highest level of decision making authority (Board) and the same formal action to remove or modify the limitations. Includes legally enforceable multi-year contracts not yet spent, specific agreements approved but not yet executed.

Assigned – Resources with self-imposed limitations but do not require approval by the highest level of decision making authority or the same level of formal action to remove or modify limitations. This responsibility has been delegated to the Finance Director/CFO by the Board.

Unassigned – Resources that cannot be reported in any other classification.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

The Agency's spending priority is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance.

Refer to Note 9 for additional details regarding the GASB 54 classification of fund balance.

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 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 the 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 Agency has elected to receive the property taxes from the County under the Teeter Plan. Under this program, the Agency 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, Chief Financial Officer, and City Manager for the purpose of reviewing and prioritizing the budget requests.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

- (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. The comprehensive annual financial report of the City of Folsom, California is available at the Office of Management and Budget.

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, 2011 was \$6,580,735 and \$26,243,202, respectively. The City's Comprehensive Annual Financial Report contains further details regarding cash and investments and can be obtained from the City's Office of Management and Budget located at 50 Natoma Street, Folsom, CA 95630 or visit the City's website at www.folsom.ca.us

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

Total Agency deposits and investments at fair value as of June 30, 2011 were as follows:

	<u>Fair Value</u>
Cash pooled with the City Treasury Investments	
Local Agency Investment Fund	\$ 6,580,735
Total funds in City Treasury Investments	<u>6,580,735</u>
Cash and investments with fiscal agents	
Money market mutual funds	6,036,039
CAMP	2,726,740
Commercial Paper	7,480,423
Federal Home Loan Bank (FHLB)	8,000,000
Federal Farm Credit Bank (FFCB)	<u>2,000,000</u>
Total cash and investments with fiscal agents	<u>26,243,202</u>
Total cash and investments	<u>\$ 32,823,937</u>

Investments

The table on the following page 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.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of portfolio *	Maximum Investment in One issuer
Local Agency Investment Fund (LAIF)	N/A	100%	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%	25%
Bankers Acceptances	180 days	40%	30%
Commercial Paper *1	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	20%	10%
Repurchase agreements	1 year	30%	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
Shares of Beneficiary Interest issued by a JPA	N/A	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 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 provisions of the California Government Code or the Agency's investment policy. The table on the following page 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.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of portfolio	Maximum Investment in One issuer	2005 RDA	2006 RDA	2009 RDA	2010 RDA Non-housing	2010 RDA Housing
U.S. Treasury Obligations	None	None	None	x	x	x	x	x
U.S. Treasury Obligations	5 years	None	None	n/a	n/a	n/a	n/a	n/a
U.S. Agency Securities	None	None	None	x	x	x	x	x
Banker's Acceptances	360 days	None	None	n/a	n/a	n/a	x	x
Commercial paper	270 days	None	None	x	x	x	x	x
Commercial paper	180 days	30%	10%	n/a	n/a	n/a	n/a	n/a
Corporate bonds, notes, debentures	N/A	None	None	n/a	n/a	n/a	n/a	n/a
Money market mutual funds	N/A	None	None	x	x	x	x	x
Municipal obligations	None	None	None	x	x	x	x	x
State obligations	None	None	None	x	x	x	x	x
Investment agreements - *	None	None	None	x	x	x	n/a	n/a
California Asset Management Program (CAMP)	None	None	None	x	x	x	x	x
Local Agency Investment Fund (LAIF)	None	None	None	n/a	n/a	n/a	n/a	n/a
Other *1	None	None	None	x	x	x	n/a	n/a
City's investment policy *2	N/A	N/A	N/A	n/a	n/a	n/a	n/a	n/a
Interest bearing accounts	None	None	None	n/a	n/a	n/a	n/a	n/a
Shares in California Common law trust	None	None	None	n/a	n/a	n/a	n/a	n/a
Cash (insured at all times by FDIC)	None	None	None	n/a	n/a	n/a	n/a	n/a
Deposit Accounts (FDIC Insured) *3	None	None	None	x	x	x	x	x
CD's, time deposits and bankers acceptances	30 days	None	None	x	x	x	n/a	n/a
Certificates of deposit	None	None	None	n/a	n/a	n/a	n/a	n/a

x-indicates allowable investment type

* 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 be invested for longer than one year.

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

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

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

(including investments held by bond trustee) to market interest 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 Years)			
		Less than 1 year	1 to 2	2 to 3	3 to 4
Investment Pool - LAIF	\$ 6,580,735	\$ 6,580,735	\$ -	\$ -	\$ -
Money market	6,036,039	6,036,039	-	-	-
Investment Pool - CAMP	2,726,740	2,726,740	-	-	-
Commercial Paper	7,480,423	7,480,423	-	-	-
Federal Home Loan Bank (FHLB)	8,000,000	-	6,000,000	2,000,000	-
Federal Farm Credit Bank (FFCB)	2,000,000	-	-	-	2,000,000
Total	\$ 32,823,937	\$ 22,823,937	\$ 6,000,000	\$ 2,000,000	\$ 2,000,000

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 Agency'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, 2011, the Agency's credit risks, expressed on a percentage basis, are as follows:

<u>Credit Quality Distribution for Securities with Credit Exposure as Percentage of Total Investments</u>			
Investment Type/Issuer	Credit Quality Rating		% of Investments
	Moody's	S & P	
Cash pooled with the City Treasury Investments			
Local Agency Investment Fund	Not Rated	Not Rated	20.05%
Total funds in City Treasury Investments			
Cash and investments with fiscal agents			
Money market mutual funds	Not Rated	Not Rated	18.39%
CAMP	Not rated	AAAm	8.31%
Commercial Paper/Union Bank	P1	A1	22.79%
Federal Home Loan Bank (FHLB)	Aaa	AAA	24.37%
Federal Farm Credit Bank (FFCB)	Aaa	AAA	6.09%
			<u>100.00%</u>

Concentration of Credit Risk – The California Government Code and the investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. To mitigate credit risk in the investment portfolio, the Agency diversifies investments by security type and issuer. With the exception of U.S. Treasury securities, the Local Agency Investment Fund and bonds issued by the City of Folsom, no more than 50% of the Agency's total investment portfolio can be invested in a single security type or with a single issuer.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

As of June 30, 2011, investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total entity investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
Union Bank	Commercial Paper	\$ 7,480,423
Federal Home Loan Bank	Federal Agency Securities	8,000,000
Federal Farm Credit Bank	Federal Agency Securities	2,000,000

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Agency will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code has provisions for financial institutions that limit custodial credit risk for deposits. Financial institutions are required to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Agency's financial institutions also have insurance through the Federal Depository Insurance Corporation (FDIC). The Agency's investment policy has no additional provisions for limiting custodial credit risk for deposits. At June 30, 2011, the Agency had \$0 exposed to custodial credit risk and there was no securities lending.

Additional disclosure related to LAIF and Money market accounts is included in the City's Comprehensive Annual Financial Report.

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 3,888,457	\$ -	\$ -	\$ 3,888,457
Total capital assets, not being depreciated	<u>3,888,457</u>	-	-	<u>3,888,457</u>
Capital assets, being depreciated:				
Buildings	2,646,128	-	-	2,646,128
Improvements	217,273	-	-	217,273
Equipment	26,061	119,497	(12,238)	133,320
Total capital assets, being depreciated	<u>2,889,462</u>	<u>119,497</u>	<u>(12,238)</u>	<u>2,996,721</u>
Less accumulated depreciation for:				
Buildings	(1,544,679)	(88,205)	-	(1,632,884)
Improvements	(78,645)	(6,779)	-	(85,424)
Equipment	(20,014)	(5,448)	12,238	(13,224)
Total accumulated depreciation	<u>(1,643,338)</u>	<u>(100,432)</u>	<u>12,238</u>	<u>(1,731,532)</u>
Governmental activities capital assets, net	<u>\$ 5,134,581</u>	<u>\$ 19,065</u>	<u>\$ -</u>	<u>\$ 5,153,646</u>

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

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, 2011:

Governmental Activities	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amount Due within one year
Tax allocation bonds					
2005 RDA Library TAB	\$ 10,190,000	\$ -	\$ -	\$ 10,190,000	\$ -
2006 RDA RR Block TAB	16,945,000	-	-	16,945,000	-
2009 RDA Streetscape TAB	18,095,000	-	(515,000)	17,580,000	880,000
2011 RDA Non-housing TAB	-	10,115,000	-	10,115,000	250,000
2011 RDA Housing TAB	-	11,265,000	-	11,265,000	255,000
Total Tax allocation bonds	45,230,000	21,380,000	(515,000)	66,095,000	1,385,000
Owner participation agreements:					
Kikkoman Food, Inc.	646,183	973,618	(223,801)	1,396,000	223,000
McCarthy/Cook	1,195,457	-	(136,335)	1,059,122	221,000
Total owner participation agreements	1,841,640	973,618	(360,136)	2,455,122	444,000
Less: Deferred amounts on refunding and issuance discounts/premiums	(70,744)	(589,716)	47,171	(613,289)	(47,171)
Governmental activities long-term liabilities	\$ 47,000,896	\$ 21,763,902	\$ (827,965)	\$ 67,936,833	\$ 1,781,829

Tax Allocation Bonds

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 and pay associated costs of issuance.

In August 2006, the Agency 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 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.

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

In October 2009, the Agency issued Redevelopment Agency Tax Allocation Bonds, Series 2009 for \$18,095,000 with interest rates ranging from 3.0% to 4.75% for the serial bonds and 5.125% to 5.5% for the term bonds. The bonds were issued to provide funds to finance redevelopment activities within the Project Area (including the Streetscape Project), pay a portion of the costs of refunding the Series 1997 Bonds, make a deposit to a reserve account, pay capitalized interest and certain costs of issuance of the Series 2009 Bonds.

In March 2011, the City issued Redevelopment Agency Tax Allocation Bonds, Series 2011A for \$10,115,000 with interest rates ranging from 3.13% to 8.00% for the serial bonds and 9.00% to 9.38% for the term bonds. The bonds were issued to provide funds to finance future redevelopment activities within the Project Area (Non-housing projects referred to in the Agency's most recent Project Area Implementation Plan), make a deposit to a reserve account, and pay certain costs of issuance of the Series 2011A Bonds.

In March 2011, the City issued Redevelopment Agency Tax Allocation Bonds, Series 2011B for \$11,265,000 with interest rates ranging from 3.13% to 7.50% for the serial bonds and 8.75% to 9.50% for the term bonds. The bonds were issued to provide funds to finance low and moderate income housing activities within the Project Area, make a deposit to a reserve account, and pay certain costs of issuance of the Series 2011B Bonds.

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

Year Ending June 30	Tax Allocation Bonds	
	Principal	Interest
2012	\$ 1,385,000	\$ 3,713,213
2013	1,330,000	3,766,538
2014	1,380,000	3,717,607
2015	1,440,000	3,658,576
2016	1,505,000	3,594,301
2017-2021	8,650,000	16,824,441
2022-2026	11,270,000	14,205,202
2027-2031	15,215,000	10,254,082
2032-2036	21,045,000	4,427,556
2037	2,875,000	70,138
Total	\$ 66,095,000	\$ 64,231,654

Owner Participation Agreements

In January 1997, the Agency entered into an owner participation agreement with Kikkoman, Inc. with an estimated value of \$1,500,000 depending on the increase of assessed value on the property. In September 2006, the OPA agreement was extended to include the building expansion of the Kikkoman property. In FY 2011, the building expansion project resulted in an increased property valuation, therefore triggering OPA payments from the RDA related to

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

this expansion. The City is scheduled to pay \$216,470 annually. The agreement will extend for 18 years from the first payment related to the expansion.

In January 1997, the Agency entered into an owner participation agreement with McCarthy Cook (formerly Spieker Properties, L.P.) with an estimated value of \$854,819 depending on the increase of assessed value on the property. The City is currently paying \$215,000 annually. During FY 07-08, the City extended this agreement for an additional 8 1/2 years, increasing the estimated value by \$1.8 million.

The annual requirements to amortize the Owner Participation Agreements as of June 30, 2010, are as follows:

Owner Participation Agreements

Year Ending		
2012	\$	444,000
2013		444,000
2014		271,000
2015		446,122
2016		50,000
2017-2021		250,000
2022-2026		250,000
2027-2031		250,000
2032		50,000
		<u>50,000</u>
	\$	<u>2,455,122</u>

5 TRANSFERS

Transfers report the nonreciprocal contribution from one fund to another. The following is a summary of transfers for the year ended June 30, 2011:

	Transfers in		
	Folsom Redevelopment Agency Debt Service Fund	Folsom Redevelopment Agency Capital Projects Fund	Total
Transfers out			
Central Folsom Redevelopment Project	\$ 2,547,688	\$ 829,780	\$ 3,377,468
Folsom RDA Debt Service	-	18,115,556	18,115,556
		<u>18,115,556</u>	<u>18,115,556</u>
Total	\$ 2,547,688	\$ 18,945,336	\$ 21,493,024
		<u>18,945,336</u>	<u>21,493,024</u>

During the year interfund transfers listed above were made to finance expenditures for capital projects and to service debt.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

6 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.

7 NEW PRONOUNCEMENTS

GASB Statement No. 54 – In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Agency has implemented this statement for the fiscal year ended June 30, 2011.

GASB Statement No. 57 – In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement addresses the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements. This statement is effective in June 30, 2012. The Agency has determined that this statement is not applicable.

GASB Statement No. 59 – In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The Agency has implemented this statement for the fiscal year ended June 30, 2011.

GASB Statement No. 60 – In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement is to improve financial reporting by addressing issues related to service concession arrangements. This statement is not effective until June 30, 2013. The Agency has determined that this statement is not applicable.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

GASB Statement No. 61 – In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. This statement is to results in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This statement is not effective until June 30, 2013. The Agency has not determined the effect of this statement.

GASB Statement No. 62 – In June 2011, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with our contradict GASB pronouncements. This statement is not effective until June 30, 2013. The Agency has not determined the effect of this statement.

GASB Statement No. 63 – In June 2011, GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position. This statement is not effective until June 30, 2013. The Agency has not determined the effect of this statement.

GASB Statement No. 64 – In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement is not effective until June 30, 2012. The Agency has not determined the effect of this statement.

8 PLEDGE OF FUTURE REVENUES

The Redevelopment Agency of the City of Folsom Tax Allocation Bonds, Series 2005, Series 2006, and Series 2009 are limited obligations of the Redevelopment Agency payable solely from and secured solely by a pledge of tax revenues on a parity basis. The pledge of tax revenues in each bond year will be in an amount equal to the annual debt service payable on the bonds. Tax revenues are defined as the taxes eligible for allocation to the Agency pursuant to the Redevelopment Law exclusive of (i) amounts, if any, not exceeding 20 percent of certain such taxes which may be required by law to be set aside for certain housing purposes; (ii) amounts, if any, received pursuant to Section 16111 of the Government Code; and (iii) amounts, if any, payable pursuant to Sections 33607.5 and 33607.7 of the Redevelopment Law. \$45,320,000 in bonds were issued in three series to refund prior bonds, finance a Library project, finance a Parking Structure, and finance the Streetscape Project, all within the agency. The total principal and interest remaining to be paid on all the bonds is \$79,631,755 through fiscal year 2037. Principal and interest paid for the current year and tax revenues were \$2,096,386 and \$5,924,306 respectively. Annual

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

principal and interest payments on the bonds are expected to require approximately 53 percent of the available revenues.

The Redevelopment Agency of the City of Folsom Tax Allocation Bonds, Taxable Series 2011A are secured by and are payable from an exclusive pledge of subordinate non-housing pledged tax revenues. The payment of debt service on the Series 2011A Bonds are subordinate to the payment of debt service on the Agency's Senior Non-Housing Bonds (Series 2005, 2006, and 2009), as well as to certain pass-through payments. The Agency has requested and the City has approved subordination of the City's pass-through payments; none of the Agency's other pass-through payments have been subordinated. \$10,115,000 in bonds were issued to fund various projects to be determined within the Project Area. The total principal and interest to be paid on the bonds is \$25,121,947 through fiscal year 2036. There was no payment of principal or interest in the current fiscal year. Annual principal and interest payments on the bonds are expected to require approximately 48% percent of the available revenues after debt service payments on the Senior Bonds and pass-through payments.

The Redevelopment Agency of the City of Folsom Tax Allocation Bonds, Taxable Series 2011B are secured by and are payable from an exclusive pledge of housing pledged tax revenues received by the Agency pursuant to Section 16111 of the Government Code. \$11,265,000 in bonds were issued to fund certain low and moderate income housing activities within the Project Area. The total principal and interest to be paid on the bonds is \$28,105,640 through fiscal year 2036. There was no payment of principal or interest in the current fiscal year. Annual principal and interest payments on the bonds are expected to require approximately 82% of the available housing revenues.

9 CLASSIFICATION OF NET ASSETS/FUND BALANCE

In the Government-wide Financial Statements, net assets are classified in the following categories.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Assets – This category represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Investments held in trust represent assets held for future special assessment debt service.

Unrestricted Net Assets – This category represents the net assets of the City, which are not restricted for any project or other purpose.

In the Fund Financial Statements, Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (see Note 1 for a

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

description of these categories). A detailed schedule of fund balances at June 30, 2011 is as follows:

	Central Folsom Redevelopment Project Fund	Low/Moderate Housing Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Nonspendable:					
Long-term loans receivable	\$ 1,168,081	\$ 7,790,477	\$ -	\$ -	\$ 8,958,558
Land held for resale	-	774,149	-	-	774,149
Total nonspendable fund balance	<u>1,168,081</u>	<u>8,564,626</u>	<u>-</u>	<u>-</u>	<u>9,732,707</u>
Restricted for:					
Debt Service	-	-	5,400,925	9,835,932	15,236,857
Redevelopment projects	2,290,603	-	-	-	2,290,603
Low and Moderate Income Housing	-	1,410,304	-	9,602,537	11,012,841
Total restricted fund balance	<u>2,290,603</u>	<u>1,410,304</u>	<u>5,400,925</u>	<u>19,438,469</u>	<u>28,540,301</u>
Assigned to:					
Purpose of fund	-	-	447,236	-	447,236
Total assigned fund balance	<u>-</u>	<u>-</u>	<u>447,236</u>	<u>-</u>	<u>447,236</u>
 Total fund balances	 <u>\$ 3,458,684</u>	 <u>\$ 9,974,930</u>	 <u>\$ 5,848,161</u>	 <u>\$ 19,438,469</u>	 <u>\$ 38,720,244</u>

10 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2011, expenditures exceeded appropriations in the Folsom Redevelopment debt service fund by \$327,951. These over expenditures were funded by bond proceeds.

11 CONTINGENCIES

Recent Changes in Legislation Affecting California Redevelopment Agencies - On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 27 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that “the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012.” A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligation Payment Schedule (“EOPS”) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (“ROPS”) by September 30, 2011.

Since the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule (EOPS) and draft Recognized Obligation Payment Schedule (ROPS) prior to September 30, 2011, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in ABX1 26.

12 SUBSEQUENT EVENTS

Redevelopment Agency - On July 26, 2011, City Emergency Ordinance No. 1151 was adopted, indicating that the City Council of the City of Folsom, California, Agrees, Under Protest, to Comply with the Provisions of the Alternative Voluntary Redevelopment Program Pursuant to ABX1 27. The initial payment by the City is estimated to be \$1.95 million. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in the tax increment. Additionally, an increased amount would be due to schools if any “new debt” is incurred. This ordinance also requires the Agency to transfer annual portions of its tax increment to the City in amounts not to exceed the annual community remittance payments to enable the City, directly or indirectly, to make the annual remittance payments. Assembly Bill X1 27 allows a one-year

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2011

reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding. If the Supreme Court determines that ABX1 26 is valid, but ABX1 27 is not valid, the Agency will continue to be subject to the suspension provisions of Part 1.8 and then would be dissolved in accordance with the provisions of Part 1.85.

On August 23, 2011, the Redevelopment Agency adopted the Enforceable Obligation payment Schedule (EOPS), and on September 30, 2011, the Recognized Obligation Payment Schedule (ROPS) was submitted to the City of Folsom by the Agency.

REQUIRED SUPPLEMENTARY INFORMATION



CITY OF
FOLSOM
DISTINCTIVE BY NATURE

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Central Folsom Redevelopment Project Special Revenue Fund			
	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 6,200,000	\$ 6,200,000	\$ 5,502,072	\$ (697,928)
Intergovernmental	-	-	91,636	91,636
Charges for current services	50,000	50,000	25,330	(24,670)
Interest revenue	70,000	70,000	82,225	12,225
Miscellaneous	1,169,933	1,169,933	49,175	(1,120,758)
	7,489,933	7,489,933	5,750,438	(1,739,495)
TOTAL REVENUES				
EXPENDITURES:				
Current operating:				
General government	3,853,492	4,073,819	3,952,586	121,233
Capital outlay	-	1,193,283	1,193,283	-
Debt Service:				
Principal Payments	360,136	360,136	360,136	-
	4,213,628	5,627,238	5,506,005	121,233
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	3,276,305	1,862,695	244,433	(1,618,262)
OTHER FINANCING SOURCES (USES):				
Transfers out	(3,276,305)	(3,276,305)	(3,377,468)	(101,163)
	(3,276,305)	(3,276,305)	(3,377,468)	(101,163)
TOTAL OTHER FINANCING SOURCES (USES)				
NET CHANGE IN FUND BALANCE	-	(1,413,610)	(3,133,035)	(1,719,425)
FUND BALANCE, JULY 1	6,591,719	6,591,719	6,591,719	-
FUND BALANCE, JUNE 30	\$ 6,591,719	\$ 5,178,109	\$ 3,458,684	\$ (1,719,425)

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
 SCHEDULE OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Low/Moderate Housing Special Revenue Fund			
Budget		Actual	Variance with Final Budget Positive (Negative)
Original	Final		
\$ 1,545,000	\$ 1,545,000	\$ 1,375,518	\$ (169,482)
-	-	5,691	5,691
25,000	25,000	76,591	51,591
1,193,707	1,193,707	1,000	(1,192,707)
<u>2,763,707</u>	<u>2,763,707</u>	<u>1,458,800</u>	<u>(1,304,907)</u>
<u>2,640,884</u>	<u>2,667,694</u>	<u>481,630</u>	<u>2,186,064</u>
<u>2,640,884</u>	<u>2,667,694</u>	<u>481,630</u>	<u>2,186,064</u>
<u>122,823</u>	<u>96,013</u>	<u>977,170</u>	<u>881,157</u>
<u>(122,823)</u>	<u>(122,823)</u>	<u>-</u>	<u>122,823</u>
<u>(122,823)</u>	<u>(122,823)</u>	<u>-</u>	<u>122,823</u>
-	(26,810)	977,170	1,003,980
<u>8,997,760</u>	<u>8,997,760</u>	<u>8,997,760</u>	<u>-</u>
<u>\$ 8,997,760</u>	<u>\$ 8,970,950</u>	<u>\$ 9,974,930</u>	<u>\$ 1,003,980</u>

REVENUES:
 Taxes
 Charges for current services
 Interest revenue
 Miscellaneous

TOTAL REVENUES

EXPENDITURES:
 Current operating:
 General government

TOTAL EXPENDITURES

**EXCESS REVENUES AND OTHER
 SOURCES OVER EXPENDITURES**

OTHER FINANCING SOURCES (USES):

Transfers out

**TOTAL OTHER
 FINANCING SOURCES (USES)**

NET CHANGE IN FUND BALANCE

FUND BALANCE, JULY 1

FUND BALANCE, JUNE 30

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Folsom Redevelopment Agency Debt Service Fund			
	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Interest revenue	\$ 10,074	\$ 10,074	\$ 12,219	\$ 2,145
TOTAL REVENUES	10,074	10,074	12,219	2,145
EXPENDITURES:				
Current Operating:				
General government	-	-	10,074	(10,074)
Debt Service:				
Principal Payments	515,000	515,000	515,000	-
Interest and fiscal charges	2,032,688	2,032,688	2,032,010	678
Cost of issuance	-	-	320,700	(320,700)
TOTAL EXPENDITURES	2,547,688	2,547,688	2,877,784	(330,096)
EXCESS REVENUES AND OTHER SOURCES OVER EXPENDITURES	(2,537,614)	(2,537,614)	(2,865,565)	(327,951)
OTHER FINANCING SOURCES (USES):				
Tax allocation bonds	-	-	21,380,000	21,380,000
Bond discount	-	-	(589,716)	(589,716)
Transfers in	2,547,688	2,547,688	2,547,688	-
Transfers out	(10,074)	(10,074)	(18,115,556)	(18,105,482)
TOTAL OTHER FINANCING SOURCES (USES)	2,537,614	2,537,614	5,222,416	2,684,802
NET CHANGE IN FUND BALANCE	-	-	2,356,851	2,356,851
FUND BALANCE, JULY 1	3,478,332	3,478,332	3,491,310	12,978
FUND BALANCE, JUNE 30	\$ 3,478,332	\$ 3,478,332	\$ 5,848,161	\$ 2,369,829

Folsom Redevelopment Agency
Computation of Low and Moderate Housing Excess/Surplus Funds
For the Fiscal Year Ended June 30, 2011
Supplementary Information

	Central Folsom Project
	Area Low/Moderate Housing
Fund Balance - Beginning of Year	\$ 8,997,760
Less Unavailable Funds - Included in beginning fund balance:	
Land held for resale	(774,149)
Loans receivable	(4,328,248)
SERAF receivable	(2,692,257)
Total Unavailable Funds	\$ (7,794,654)
Available Fund Balance - Beginning of Year	\$ 1,203,106
Current Year Proceeds/Uses(Actual plus changes in unavailable)	
Proceeds	2,005,397
Uses	(1,028,227)
Changes in Unavailable Amounts	(769,972)
Available Fund Balance - End of Year	1,410,304
Encumbrances	-
Available Fund Balance - For Excess/Surplus	\$ 1,410,304
Does Available Fund Balance for Excess/Surplus exceed the \$1,000,000? If so, enter Available Fund Balance and evaluate that amount against tax increment. If less enter zero.	\$ 1,410,304
Does Available Fund Balance for Excess/Surplus exceed the greater of prior four years set-aside deposits or \$1,000,000?	
Tax Increment Set-Aside Amounts	
Fiscal Year 2009-10	\$ 1,481,077
Fiscal Year 2008-09	1,561,414
Fiscal Year 2007-08	1,461,637
Fiscal Year 2006-07	1,358,984
Total Set-Aside Deposited into Fund	\$ 5,863,112
Greater of Tax Increment Deposits or \$1,000,000	\$ 5,863,112
Excess/Surplus Funds (Available Fund Balance, less Set Aside Amounts. If negative, enter 0)	\$ -
Reconciliation to Ending Fund Balance	
Ending GAAP Fund Balance	\$ 9,974,930
Available Fund Balance - End of Year Above	\$ 1,410,304
Add Unavailable Funds - End of Year	
Land held for resale	\$ 774,149
Loans receivable	5,082,383
SERAF receivable	2,708,094
Total Unavailable Funds	\$ 8,564,626
Computed Ending Fund Balance	\$ 9,974,930



**INDEPENDENT AUDITORS' 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**

To the Honorable Mayor and
Members of the City Council
Redevelopment Agency of the City of Folsom
Folsom, California

We have audited the financial statements of the 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, 2011, and have issued our report thereon dated December 2, 2011. Our report included an explanatory paragraph stating that the financial statements present only the Agency and do not purport to, and do not, present fairly the financial position of the City of Folsom, California as of June 30, 2011, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our report refers to the Agency's adoption of the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010. Additionally, our report refers to Note 11, relating to the impact of recent legislation for California Redevelopment Agencies. 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

Management of the Agency is responsible for establishing and maintaining effective 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 an 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Agency's Board, management, and the California State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Varrinick, Trine, Day & Co. LLP

Sacramento, California
December 2, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON CALIFORNIA REDEVELOPMENT
AGENCIES, AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE
GUIDELINES FOR COMPLIANCE AUDITS OF CALIFORNIA REDEVELOPMENT AGENCIES AS
INTERPRETED IN THE SUGGESTED AUDITING PROCEDURES FOR ACCOMPLISHING
COMPLIANCE AUDITS OF CALIFORNIA REDEVELOPMENT AGENCIES**

To the Honorable Mayor and City Council
Redevelopment Agency of the City of Folsom
Folsom, California

Compliance

We have audited the Redevelopment Agency of the City of Folsom's (the Agency) compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011* issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011. However, the results of our tests disclosed instances of noncompliance or other matters that are required to be reported under the *Guidelines for Compliance Audits of California Redevelopment Agencies* which is described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

The Agency's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of Board members, management of the Redevelopment Agency and the State Controller and is not intended to be and should not be used by anyone other than these parties.

Vavrinick, Trine, Day & Co. LLP

Sacramento, California
December 2, 2011

**REDEVELOPMENT AGENCY OF THE
CITY OF FOLSOM, CALIFORNIA**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

FINDING 2011-1

Compliance Requirement:

FINANCIAL DISCLOSURE AND REPORTING

Criteria or specific requirement:

Per the *June 2011 Guidelines for Compliance Audits of California Redevelopment Agencies* and Health and Safety Code the Agency is required *present an annual report to its legislative body within six months of the end of the agency's fiscal year.*

Condition Found:

We noted the Agency had their annual Financial Transactions and HCD Reports approved after the 6 month requirement pursuant to the Health and Safety Code section 33080.1.

Context:

The Agency is required *present an annual report to its legislative body within six months of the end of the agency's fiscal year.*

Effect:

The Agency did not comply with Health and Safety Code section 33080.1

Cause:

The Agency did not submit its annual reports to the City Council within six months after June 30.

Recommendation:

We recommend the Agency implement procedures to ensure compliance with the requirements of section 33080.1

View of responsible officials and planned corrective actions:

Management will submit all applicable reports to the City Council within six months of the end of the Agency's fiscal year. The reports are submitted to the Council at the same time the RDA financial report is submitted.

**REDEVELOPMENT AGENCY OF THE
CITY OF FOLSOM, CALIFORNIA**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

FINDING 2011-2

Compliance Requirement:

HOUSING FUND - LAND HELD FOR RESALE

Criteria or specific requirement:

The *June 2011 Guidelines for Compliance Audits of California Redevelopment Agencies* and Health & Safety Code section 33334.16 requires that all properties held five years or longer and purchased with Housing Fund monies must either 1) obtain a one-time extension by resolution or 2) sell the property and deposit the proceeds less and selling costs of the sale back into the Housing Fund.

Condition Found:

It was noted that there were two properties over the five-year threshold for which the Agency did not obtain a one-time extension or sell the property. It was further noted that there are currently no measures in place to either sell the properties or obtain the necessary extension through a resolution.

Context:

The Agency's Housing Fund currently owns two properties that are designated for future low and moderate income housing development.

Effect:

The effect of noncompliance with Health & Safety Code section 33334.16 may require the Agency to sell the properties and deposit the proceeds less and selling costs of the sale back into the Housing Fund.

Cause:

The Agency did not have procedures in place to monitor compliance with Health & Safety Code section 33334.16.

Recommendation:

We recommend the agency implement procedures to ensure compliance with the requirements of section 33334.16

View of responsible officials and planned corrective actions:

Management is aware of the requirement and has taken action in fiscal year 2011/2012 to be in compliance with the requirements of section 33334.16.

**REDEVELOPMENT AGENCY OF THE
CITY OF FOLSOM, CALIFORNIA**

**SUMMARY OF PRIOR YEARD FINDINGS
JUNE 30, 2011**

Summarized below is the current status of all compliance findings reported in the prior year.

Finding No.	Compliance Requirement	Status
2010-1	Housing Fund Properties	Implemented
2010-2	Annual Reporting	Not implemented, see finding 2011-01
2010-3	Housing Fund- Land Held for Resale	Not implemented, see finding 2011-02
2010-4	Housing Fund- Reporting	Implemented