

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

AUDITED COMPONENT UNIT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2009



CITY OF
FOLSOM
DISTINCTIVE BY NATURE

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT ON COMPONENT UNIT FINANCIAL STATEMENTS

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

We have audited the accompanying governmental activities and each major fund of the Redevelopment Agency of the City of Folsom, California (the Agency), a component unit of the City of Folsom, California, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on this component unit's financial statements based on our audit.

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

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

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2009 consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC
Sacramento, California**

December 17, 2009

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

For the fiscal year ended June 30, 2009, the Redevelopment Agency adopted annual appropriated budgets for the special revenue funds. A budgetary comparison statement has been provided for the Central Folsom Redevelopment Project Fund and the Low/Moderate Housing Fund.

CITY OF FOLSOM, CALIFORNIA

**REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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 - 27 of this report.

Compliance Report

The Report on Compliance and on Internal Control can be found on page 28 - 29 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	
	2009	2008
Current and other assets	\$ 23,017,394	\$ 26,811,445
Capital assets	5,233,020	5,331,459
Total assets	28,250,414	32,142,904
Long-term liabilities outstanding	32,313,348	34,932,063
Other liabilities	3,955,899	3,061,459
Total liabilities	36,269,247	37,993,522
Invested in capital assets, net of related debt	2,298,020	2,872,513
Restricted	9,357,442	10,927,765
Unrestricted	(19,674,295)	(19,650,896)
Total net assets	\$ (8,018,833)	\$ (5,850,618)

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 \$2.2 million this year from \$(5.9) million at June 30, 2008 to \$(8.0) million at June 30, 2009. At June 30, 2009, the largest portion of the agency's net assets, approximately \$9.4 million, is restricted net assets that must be used in accordance with external restrictions. Net assets invested in capital assets, net of related debt in the amount of \$2.3 million represent capital assets which are used by the Agency to provide services to citizens, net of related debt. Additional capital asset information can be found in the Capital Asset and Debt Administration section of this MD&A. The deficit balance of unrestricted

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

The agency's total revenues and expenditures were \$8,340,126 and \$10,508,341 respectively for the fiscal year ending June 30, 2009. Of the total revenues, \$7,807,072, or 63%, was from property taxes. Total governmental activity revenues decreased by \$404,044, or 4.6%, from last year. The decrease is attributable to decreases in capital grants and contributions of \$302,703 and a decrease in investment earnings of \$688,500. This decrease is partially offset by an increase in property tax revenue of \$498,886. Total governmental activity expenses decreased \$4,213,390, mostly due to decreased capital outlay expenditures in the current year.

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

	Governmental Activities	
	2009	2008
Revenues		
Program revenues:		
Charges for services	\$ 81,287	\$ 120,540
Capital grants and contributions	-	302,703
General revenues:		
Property taxes	7,807,072	7,308,186
Investment earnings	250,722	939,222
Miscellaneous	201,045	73,519
Total revenues	<u>8,340,126</u>	<u>8,744,170</u>
Expenses		
General government	8,945,241	11,839,322
Interest	1,563,100	2,882,409
Total expenses	<u>10,508,341</u>	<u>14,721,731</u>
Other Financing Uses		
Transfers In	-	2,331,269
Transfers Out	-	(3,619,940)
Total other financing uses	-	(1,288,671)
Increase in net assets	(2,168,215)	(7,266,232)
Net assets, beginning of year	<u>(5,850,618)</u>	<u>1,415,614</u>
Net assets, end of year	<u>\$ (8,018,833)</u>	<u>\$ (5,850,618)</u>

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

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

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

The Agency's special revenue funds consist of the Central Folsom Redevelopment Project Fund and the Low/Moderate Housing Fund. The unreserved fund balances as of June 30 were \$7,801,398 and \$0, 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, 2009, the Agency's governmental funds reported combined ending fund balances of \$18,831,713, a decrease of \$5,477,880 in comparison with the prior fiscal year.

Revenues for governmental functions overall (excluding transfers) totaled \$8,340,126 in fiscal year 2009, which represents a decrease of \$404,044 in comparison with the prior fiscal year and is primarily due to a decrease in interest revenue. Expenditures for governmental functions, totaling \$13,818,006, decreased by \$260,296 from the prior fiscal year, mainly due to decreased spending in the Capital Projects Fund.

BUDEGTARY HIGHLIGHTS

The difference of \$397,072 between the original budget and the final amended budget for the Central Folsom Redevelopment Project Fund reflects additional amounts to fund AB1290 programs such as Downtown Revitalization, Commercial Rehabilitation, Capital Improvement, and Murer House restoration.

Differences between the original budget and the final amended budget for the Low/Moderate Housing Fund totaling \$42,096 reflect the City's intent to increase funding for urban redevelopment contracts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Agency's investment in capital assets for its governmental activities as of June 30, 2009 amounts to \$5,233,020. This investment in capital assets includes land, buildings, improvements and equipment. The total decrease in the Agency's capital assets for the current fiscal year was 1.9% as shown in the table below. Additional information on the Agency's capital assets can be found in Note 3 of this report.

CITY OF FOLSOM, CALIFORNIA

**REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

	Governmental Activities	
	2009	2008
Land	\$ 3,888,457	\$ 3,888,457
Buildings	1,189,653	1,277,857
Improvements	145,407	152,186
Equipment	9,503	12,959
Total	<u>\$ 5,233,020</u>	<u>\$ 5,331,459</u>

Long-term Debt - At the end of the current fiscal year, the Redevelopment Agency had total bonded debt outstanding of \$30,070,000. The Redevelopment Agency also has Owner Participation Agreements totaling \$2,243,348. The change during the fiscal year was payments on the bonds and owner participation agreements. Additional information on the Agency's long-term debt can be found in Note 4 of this report.

Economic Factors

The slowed real estate market is having significant impact on property tax revenues, as the rate of growth is smaller than in recent years.

Requests for Information

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

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments	\$ 11,986,540
Cash with Fiscal Agent	789,805
Receivables, net of allowance for uncollectibles	5,364,072
Due from other governments	264,012
Deferred charges	963,435
Land held for resale	774,149
Restricted assets:	
Cash with fiscal agent	2,875,381
Capital assets, net of accumulated depreciation	<u>5,233,020</u>
Total assets	<u>28,250,414</u>
LIABILITIES:	
Accounts payable	1,350,251
Wages payable	35,670
Interest payable	733,653
Unearned revenue	1,836,325
Long-term liabilities:	
Due within one year	1,036,470
Due in more than one year	<u>31,276,878</u>
Total liabilities	<u>36,269,247</u>
NET ASSETS:	
Invested in capital assets, net of related debt	2,298,020
Restricted for:	
Debt service	2,875,381
Low/moderate income housing	6,482,061
Unrestricted	<u>(19,674,295)</u>
Total net assets	<u><u>\$ (8,018,833)</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, 2009

	Governmental Activities
OPERATING EXPENSES:	
General government	\$ 8,945,241
Interest on long-term debt	<u>1,563,100</u>
Total operating expenses	<u>10,508,341</u>
PROGRAM REVENUES:	
Charges for services	<u>81,287</u>
NET EXPENSES	<u>(10,427,054)</u>
GENERAL REVENUES:	
Tax increment	7,807,072
Investment earnings	250,722
Miscellaneous	<u>201,045</u>
Total general revenues	<u>8,258,839</u>
Change in net assets	(2,168,215)
Net assets, beginning of year	<u>(5,850,618)</u>
Net assets, end of year	<u><u>\$ (8,018,833)</u></u>

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

CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

	Major Funds				TOTAL GOVERNMENTAL FUNDS
	Special Revenue Funds		Debt Service	Capital Projects	
	Central Folsom Redevelopment Project	Low/ Moderate Housing			
ASSETS					
Cash and investments	\$ 8,164,769	\$ 3,448,283	\$ 373,488	\$ -	\$ 11,986,540
Cash with Fiscal Agent	-	-	228,282	561,523	789,805
Receivables, net of allowance for uncollectibles:					
General accounts	4,979	-	-	-	4,979
Accrued interest	32,808	11,279	1,181	-	45,268
Loans	1,654,945	3,658,880	-	-	5,313,825
Due from other governments	211,209	52,803	-	-	264,012
Land held for resale	-	774,149	-	-	774,149
Restricted assets:					
Cash with fiscal agent	-	-	2,875,381	-	2,875,381
TOTAL ASSETS	\$ 10,068,710	\$ 7,945,394	\$ 3,478,332	\$ 561,523	\$ 22,053,959
LIABILITIES AND FUND BALANCE					
Accounts payable	\$ 558,820	\$ 55,819	\$ -	\$ 735,612	\$ 1,350,251
Wages payable	25,161	10,509	-	-	35,670
Deferred revenue	439,320	1,397,005	-	-	1,836,325
TOTAL LIABILITIES	1,023,301	1,463,333	-	735,612	3,222,246
FUND BALANCE:					
Reserved for:					
Loans receivable	1,215,625	2,261,875	-	-	3,477,500
Encumbrances	28,386	46,065	-	393,500	467,951
Debt service	-	-	2,875,381	-	2,875,381
Land held for resale	-	774,149	-	-	774,149
Low and moderate income housing	-	3,399,972	-	-	3,399,972
Unreserved:					
Undesignated	7,801,398	-	602,951	(567,589)	7,836,760
TOTAL FUND BALANCE/(DEFICIT)	9,045,409	6,482,061	3,478,332	(174,089)	18,831,713
TOTAL LIABILITIES AND FUND BALANCE/(DEFICIT)	\$ 10,068,710	\$ 7,945,394	\$ 3,478,332	\$ 561,523	\$ 22,053,959

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, 2009

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 18,831,713
<i>Amounts reported for Governmental Activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds' balance sheets	5,233,020
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	963,435
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	(733,653)
Bonds and owner participation agreements	<u>(32,313,348)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (8,018,833)</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 REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Major Funds				TOTAL GOVERN- MENTAL FUNDS
	Special Revenue Funds		Debt Service	Capital Projects	
	Central Folsom Redevelopment Project	Low/ Moderate Housing			
REVENUES:					
Tax increment revenues	\$ 6,245,658	\$ 1,561,414	\$ -	\$ -	\$ 7,807,072
Charges for services	59,942	21,345	-	-	81,287
Interest revenue	155,909	46,017	34,096	14,700	250,722
Other revenue	31,195	150	-	169,700	201,045
TOTAL REVENUES	6,492,704	1,628,926	34,096	184,400	8,340,126
EXPENDITURES:					
Current operating:					
General government	3,555,343	1,190,636	7,402	4,093,421	8,846,802
Debt service:					
Principal payments	3,094,769	-	525,000	-	3,619,769
Interest and fiscal charges	-	-	1,351,435	-	1,351,435
TOTAL EXPENDITURES	6,650,112	1,190,636	1,883,837	4,093,421	13,818,006
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(157,408)	438,290	(1,849,741)	(3,909,021)	(5,477,880)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	1,870,456	2,244,417	4,114,873
Transfers out	(4,114,873)	-	-	-	(4,114,873)
TOTAL OTHER FINANCING SOURCES/(USES)	(4,114,873)	-	1,870,456	2,244,417	-
NET CHANGE IN FUND BALANCE	(4,272,281)	438,290	20,715	(1,664,604)	(5,477,880)
FUND BALANCE, JULY 1	13,317,690	6,043,771	3,457,617	1,490,515	24,309,593
FUND BALANCE, JUNE 30	\$ 9,045,409	\$ 6,482,061	\$ 3,478,332	\$ (174,089)	\$ 18,831,713

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, 2009

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ (5,477,880)

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

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (98,439)

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. (37,619)

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	\$ 525,000	
Owner participation agreements	<u>3,094,769</u>	3,619,769

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		<u>(174,046)</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (2,168,215)

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, 2009

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2009

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.

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*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

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

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.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2009

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

The Agency reports the following major special revenue governmental funds:

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

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

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

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

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

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

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.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2009

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

Encumbrances - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Open encumbrances at year end are reported as reservations of fund balance. Encumbrances do not constitute expenditures or liabilities. All appropriations remaining at year-end lapse.

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

Investments - Investments are stated at fair value.

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

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

Restricted Assets - Certain proceeds of debt issuances, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets - Capital assets, which include land, buildings, improvements, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the 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, 2009

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

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

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

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2009

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

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

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

Annual Financial Statements - These financial statements are intended to reflect the financial position, results of operations and compliance of the Redevelopment Agency of the City of Folsom. The comprehensive annual financial report of the City of Folsom, California is available at the Finance department.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2009

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, 2009 was \$11,986,540 and \$3,665,186, respectively. The City's Comprehensive Annual Financial Report contains further details regarding cash and investments and can be obtained from the City's Finance Department located at 50 Natoma Street, Folsom, CA 95630 or visit the City's website at www.folsom.ca.us

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2009

Total Agency deposits and investments at fair value as of June 30, 2009 were as follows:

	Credit Quality Rating		Fair Value
	Moody's	S & P	
Cash pooled with the City Treasury Investments			
Local Agency Investment Fund	Not Rated	Not Rated	\$ 11,986,540
Total funds in City Treasury Investments			<u>11,986,540</u>
Cash and investments with fiscal agents			
California Asset Management Program	Not Rated	AAAm	2,875,381
Money market mutual funds	Not Rated	Not Rated	789,805
Total cash and investments with fiscal agents			<u>3,665,186</u>
Total cash and investments			<u><u>\$ 15,651,726</u></u>

Investments

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of portfolio *	Maximum Investment in One issuer
Local Agency Investment Fund (LAIF)	N/A	40%	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.

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2009

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of portfolio	Maximum Investment in One issuer	1997 RDA	2005 RDA	2006 RDA
U.S. Treasury Obligations	None	None	None	x	x	x
U.S. Treasury Obligations	5 years	None	None	n/a	n/a	n/a
U.S. Agency Securities	None	None	None	x	x	x
Banker's Acceptances	360 days	None	None	n/a	n/a	n/a
Commercial paper	270 days	None	None	x	x	x
Commercial paper	180 days	30%	10%	n/a	n/a	n/a
Corporate bonds, notes, debentures	N/A	None	None	n/a	n/a	n/a
Money market mutual funds	N/A	None	None	x	x	x
Municipal obligations	None	None	None	x	x	x
State obligations	None	None	None	x	x	x
Investment agreements - *	None	None	None	x	x	x
California Asset Management Program (CAMP)	None	None	None	x	x	x
Local Agency Investment Fund (LAIF)	None	None	None	n/a	n/a	n/a
Other *1	None	None	None	x	x	x
City's investment policy *2	N/A	N/A	N/A	n/a	n/a	n/a
Interest bearing accounts	None	None	None	n/a	n/a	n/a
Shares in California Common law trust	None	None	None	n/a	n/a	n/a
Cash (insured at all times by FDIC)	None	None	None	n/a	n/a	n/a
Deposit Accounts (FDIC Insured) *3	None	None	None	x	x	x
CD's, time deposits and bankers acceptances	30 days	None	None	x	x	x
Certificates of deposit	None	None	None	n/a	n/a	n/a

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

*1 including repurchase agreements

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

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

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

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

needed for operations and debt service. Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	Fair Value	Investment Maturities (In Less than 1 year)
CAMP	\$ 2,875,381	\$ 2,875,381
LAIF	11,986,540	11,986,540
Money market	789,805	789,805
Total	<u>\$ 15,651,726</u>	<u>\$ 15,651,726</u>

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

3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 3,888,457	\$ -	\$ -	\$ 3,888,457
Total capital assets, not being depreciated	3,888,457	-	-	3,888,457
Capital assets, being depreciated:				
Buildings	2,646,128	-	-	2,646,128
Improvements	217,273	-	-	217,273
Equipment	26,061	-	-	26,061
Total capital assets, being depreciated	2,889,462	-	-	2,889,462
Less accumulated depreciation for:				
Buildings	(1,368,271)	(88,204)	-	(1,456,475)
Improvements	(65,087)	(6,779)	-	(71,866)
Equipment	(13,102)	(3,456)	-	(16,558)
Total accumulated depreciation	(1,446,460)	(98,439)	-	(1,544,899)
Governmental activities capital assets, net	\$ 5,331,459	\$ (98,439)	\$ -	\$ 5,233,020

CITY OF FOLSOM, CALIFORNIA REDEVELOPMENT AGENCY

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED JUNE 30, 2009

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, 2009:

Governmental Activities	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Amount Due within one year
Tax allocation bonds					
1997 RDA Refunding TAB	\$ 3,460,000	\$ -	\$ (525,000)	\$ 2,935,000	\$ 580,000
2005 RDA Library TAB	10,190,000	-	-	10,190,000	-
2006 RDA RR Block TAB	16,945,000	-	-	16,945,000	-
Total Tax allocation bonds	<u>30,595,000</u>	-	<u>(525,000)</u>	<u>30,070,000</u>	<u>580,000</u>
Owner participation agreements:					
Gaslight Properties	42,000	-	(23,000)	19,000	19,000
Kikkoman Food, Inc.	1,108,117	-	(215,887)	892,230	216,470
McCarthy/Cook	1,547,000	-	(214,882)	1,332,118	221,000
Sutter Street Development	2,641,000	-	(2,641,000)	-	-
Total owner participation agreements	<u>5,338,117</u>	-	<u>(3,094,769)</u>	<u>2,243,348</u>	<u>456,470</u>
Governmental activities long-term liabilities	<u>\$ 35,933,117</u>	\$ -	<u>\$ (3,619,769)</u>	<u>\$ 32,313,348</u>	<u>\$ 1,036,470</u>

Tax Allocation Bonds

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

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

In August 2006, the City issued Redevelopment Agency Tax Allocation Bonds, Series 2006 for \$16,945,000 with interest rates ranging from 4.0% to 4.5% for the serial bonds and 4.25% to 4.375% for the term bonds. The bonds were issued to provide funds to pay for a

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

portion of the costs of constructing the Railroad Block Parking Structure and the Folsom Railroad Block Public Plaza and related improvements and infrastructure, to make a deposit to a reserve account for the Series 2006 Bonds (as defined in the Indenture) and to pay the costs of issuance of the 2006 Bonds.

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

Year Ending June 30	Tax Allocation Bonds	
	Principal	Interest
2010	\$ 580,000	\$ 1,303,646
2011	620,000	1,273,936
2012	665,000	1,241,395
2013	730,000	1,205,375
2014	680,000	1,170,670
2015 - 2019	3,875,000	5,390,673
2020 - 2024	4,725,000	4,515,932
2025 - 2029	5,835,000	3,381,225
2030 - 2034	7,220,000	1,959,016
2035 - 2037	5,140,000	349,235
Total	\$ 30,070,000	\$ 21,791,103

Owner Participation Agreements

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

In January 1997, the Agency entered into an owner participation agreement with Kikkoman, Inc. with an estimated value of \$1,500,000 depending on the increase of assessed value on the property. The City is scheduled to pay \$216,470 annually. The agreement will extend for ten years.

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.

In April 2006, the Agency entered into an owner participation agreement with Sutter Street Development Partners, LLC. With an estimated value of \$2.16 million. In October 2007, the

**CITY OF FOLSOM, CALIFORNIA
REDEVELOPMENT AGENCY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

Agency increased the financial assistance to the project by \$481,000 due to increased construction costs associated with the project. The Agency will purchase covenants on 51 parking spaces to be constructed on the site. Payments were funded in advance and disbursed to the Participant incrementally as construction of the Project was completed in Fiscal Years 2008 and 2009.

The annual requirements to amortize the Owner Participation Agreements as of June 30, 2009, are as follows:

Owner Participation Agreements

Year Ending June 30	Principal
2010	\$ 456,470
2011	437,470
2012	437,470
2013	463,820
2014	221,000
2015	227,118
Total	\$ 2,243,348

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, 2009:

	Transfers in			Total
	Central Folsom Redevelopment Project	Folsom Redevelopment Agency Debt Service Fund	Folsom Redevelopment Agency Capital Projects Fund	
Transfers out				
Central Folsom Redevelopment Project	\$ -	\$ 1,870,456	\$ 2,244,417	\$ 4,114,873
Folsom RDA Debt Service	-	-	-	-
Folsom RDA Capital Projects	-	-	-	-
Total	\$ -	\$ 1,870,456	\$ 2,244,417	\$ 4,114,873

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, 2009

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 DEFICIT FUND BALANCES

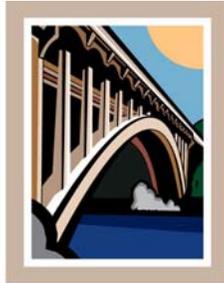
The Folsom Redevelopment Agency Capital Project Fund had a deficit fund balance of \$174,089 at June 30, 2009 primarily as a result of expenditures incurred in advance of receipt of revenues and will be eliminated with future revenues.

8 SUBSEQUENT EVENT

Debt Issuance - In October 2009, the Redevelopment Agency issued the \$18,095,000 Redevelopment Agency of the City of Folsom Central Folsom Redevelopment Project Tax Allocation Bonds, Series 2009. The purpose of these bonds was to refund the remaining outstanding \$2,355,000 principal of the 1997 RDA Bonds, with the remaining proceeds after issuance expenses to be used to fund various projects within the Agency.

Redevelopment Agencies - In July 2009, the California Legislature passed ABX4-26 as part of the State's budget package which required redevelopment agencies to remit approximately \$2.05 billion in redevelopment revenues back to the State. Under ABX4-26, each redevelopment agency must contribute to a proportionate share of revenue to the newly created Supplemental Educational Revenue Augmentation Fund (SERAF). The bill authorizes redevelopment agencies, from July 1, 2009, to June 30, 2010, to suspend all or part of its required 20% allocation to its Low and Moderate Income Housing Fund (Housing Fund) in order to make the required payments. The Housing Fund must be repaid by June 30, 2015. If the agency fails to repay the Housing Fund, the required allocation of tax increment to the Housing Fund is increased to 25% for most agencies as long as the project area continues to receive tax increment. This will result in the delay or elimination of many affordable housing projects where redevelopment funding is a key funding component. In October 2009, the California Redevelopment Association and two of its members filed a lawsuit to challenge the constitutionality of the bill. A ruling is expected before May 2010, the date redevelopment agencies must make their 2009-2010 payment to the State.

COMPLIANCE REPORT



CITY OF
FOLSOM
DISTINCTIVE BY NATURE



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

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

We have audited the component unit financial statements of the Redevelopment Agency of the City of Folsom (the Agency) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

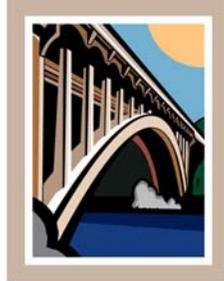
This report is intended solely for the information and use of the Agency's Board, management, and the California State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

December 17, 2009

REQUIRED SUPPLEMENTARY INFORMATION



CITY OF
FOLSOM
DISTINCTIVE BY NATURE

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Central Folsom Redevelopment Project			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
REVENUES:				
Taxes	\$ 5,700,000	\$ 5,700,000	\$ 6,245,658	\$ 545,658
Charges for current services	150,000	150,000	59,942	(90,058)
Interest revenue	300,000	300,000	155,909	(144,091)
Miscellaneous	14,291,073	14,291,073	31,195	(14,259,878)
	TOTAL REVENUES	20,441,073	6,492,704	(13,948,369)
EXPENDITURES:				
Current operating:				
General government	2,736,502	3,133,574	3,555,343	(421,769)
Debt Service:				
Principal Payments	3,094,769	3,094,769	3,094,769	-
	TOTAL EXPENDITURES	6,228,343	6,650,112	(421,769)
EXCESS REVENUES AND OTHER SOURCES OVER EXPENDITURES	14,609,802	14,212,730	(157,408)	(14,370,138)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(14,609,802)	(14,609,802)	(4,114,873)	10,494,929
	TOTAL OTHER FINANCING SOURCES (USES)	(14,609,802)	(4,114,873)	10,494,929
NET CHANGE IN FUND BALANCE	-	(397,072)	(4,272,281)	(3,875,209)
FUND BALANCE, JULY 1	13,317,690	13,317,690	13,317,690	-
FUND BALANCE, JUNE 30	\$ 13,317,690	\$ 12,920,618	\$ 9,045,409	\$ (3,875,209)

CITY OF FOLSOM, CALIFORNIA

REDEVELOPMENT AGENCY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUND TYPE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Low/Moderate Housing Fund				
Budget		Actual	Variance with Final Budget Positive (Negative)	
Original	Final			
\$ 1,500,000	\$ 1,500,000	\$ 1,561,414	\$ 61,414	REVENUES:
-	-	21,345	21,345	Taxes
100,000	100,000	46,017	(53,983)	Charges for current services
3,321,030	3,321,030	150	(3,320,880)	Interest revenue
				Miscellaneous
4,921,030	4,921,030	1,628,926	(3,292,104)	TOTAL REVENUES
				EXPENDITURES:
4,832,714	4,790,618	1,190,636	3,599,982	Current operating:
				General government
-	-	-	-	Debt Service:
				Principal Payments
4,832,714	4,790,618	1,190,636	3,599,982	TOTAL EXPENDITURES
88,316	130,412	438,290	307,878	EXCESS REVENUES AND OTHER SOURCES OVER EXPENDITURES
-	-	-	-	OTHER FINANCING SOURCES (USES):
(88,316)	(88,316)	-	88,316	Transfers in
				Transfers out
(88,316)	(88,316)	-	88,316	TOTAL OTHER FINANCING SOURCES (USES)
-	42,096	438,290	396,194	NET CHANGE IN FUND BALANCE
6,043,771	6,043,771	6,043,771	-	FUND BALANCE, JULY 1
\$ 6,043,771	\$ 6,085,867	\$ 6,482,061	\$ 396,194	FUND BALANCE, JUNE 30