

**Redevelopment Agency
of The
City of Fortuna**

**Basic Financial Statements
for the
Fiscal Year Ended June 30, 2008**

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Basic Financial Statements
for the
Fiscal Year Ended June 30, 2008**

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FINANCIAL SECTION



Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

Board of Directors
Redevelopment Agency of the City of Fortuna
Fortuna, California

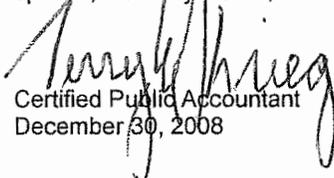
I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Fortuna, California, (the Agency) as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Fortuna, California, as of June 30, 2008, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis and Budgetary Comparison Information on pages 2 through 5 and page 22 through 23 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Certified Public Accountant
December 30, 2008

FORTUNA REDEVELOPMENT AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

As management of the Fortuna Redevelopment Agency (the "Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information contained within the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as the introduction to the Agency's basic financial statements. The Agency's financial statements are comprised of three parts; (1) the Government-Wide Financial Statements, (2) the Fund Financial Statements, and (3) the Notes to the Financial Statements.

Government-Wide Financial Statements 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 the Agency's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities presents information showing changes in the Agency's net assets during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Government-Wide Financial Statements can be found starting on page 6 of this report.

Fund Financial Statements A fund is a grouping of related accounts, which is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds in use include:

The Low and Moderate Income Housing Fund accounts for the resources that are accumulated and used to help provide low-cost housing and housing rehabilitation to low and moderate income households. This fund's resources are derived primarily from 20% of the tax increment revenues that are generated through the Agency's activities.

Debt Service Funds are used to account for accumulated resources that are used to repay the Agency's debt obligations. Agency debt service funds include the Bond Debt Service Fund and the City Debt Service Fund. The main funding source for the debt service funds, other than bond proceeds, is the remaining tax increment revenues available after the 20% allocation to the Low and Moderate Income Housing Fund.

The Administration (General) Fund is used to account for general administrative costs of the Agency.

The Economic Development Fund is used to hold all non-bond, non-general purpose, and non-Housing Set Aside funds of the Agency. The primary funding sources are loans from the City of Fortuna. The primary expenditures of this fund include economic projects not eligible for municipal bond funding. Secondary expenditures include loans to the Public Infrastructure Fund.

The Bond Debt Service Fund is used to account for accumulated resources that are used to repay the Agency's bonded debt including its share of the 2007 revenue bonds. The primary funding source for this Debt Service Fund is tax increment revenues, investment income revenues and bond proceeds retained in capitalized interest and bond reserve accounts and a special escrowed project account with initial funding of \$2.5 million from bond proceeds.

Other Major Funds include the CDBG grant funds, housing related funds and the City Loan debt service fund used predominantly for debt service and housing rehabilitation.

The Agency has only one fund type – Governmental Funds. All of the Agency's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the Governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long – term focus of the Government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

The Fund Financial Statements can be found starting on page 8 of this report.

Government-Wide Financial Analysis The Agency's net assets as reported on the Statement of Net Assets as of June 30, 2008 was \$323,320. A summary statement of net assets follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
ASSETS:		
Cash and investments	16,778,913	8,082,697
Other current assets	278,033	599,755
Non-current assets	2,713,994	1,644,228
Total Assets	<u>19,770,940</u>	<u>10,326,680</u>
LIABILITIES:		
Current liabilities	303,423	139,358
Non-current liabilities	19,144,197	10,743,905
Total Liabilities	<u>19,447,620</u>	<u>10,883,263</u>
NET ASSETS:		
Invested in Capital Assets, net of related debt	(8,548,093)	(989,994)
Restricted	10,837,418	2,770,340
Unrestricted	(1,966,005)	(2,336,929)
Total Net Assets	<u><u>323,320</u></u>	<u><u>(556,583)</u></u>

The Agency's primary source of operating revenues is in the form of property tax increment revenues that are generated as a result of the increase in assessed valuation within the project area from year-to-year. For the year ended June 30, 2008, tax increment revenues, which are classified as "general revenues", totaled \$1,064,985. Expenses for the Agency as reported on the Statement of Activities totaled \$1,211,727. The majority of these expenses consist of the cost of debt service obligation payments of the Agency, the provision of low and moderate income housing, and general administrative support for the Agency.

A summary statement of activities follows:

	<u>Fiscal Year Ended</u> June 30, 2008	<u>Fiscal Year Ended</u> June 30, 2007
Program revenues	764,884	566,871
Expenses	1,211,727	900,956
Net program revenues over (under) expenses	(446,843)	(334,085)
General revenues	1,326,746	1,295,650
Change in net assets	879,903	961,565
Net assets beginning of year	(556,583)	(1,518,148)
Net assets end of year	<u>323,320</u>	<u>(556,583)</u>

Fund Financial Analysis

After conducting all operations, the Agency's general fund ended the 2008 fiscal year with a \$3,314,660 fund balance, an increase of \$648,370 compared to the June 30, 2007 ending fund balance. This was the result of tax increment revenues being greater than the Agency's administrative costs, and the amounts transferred out to pay debt service and fund the low and moderate housing fund set-aside requirement.

The Low and Moderate Income Housing Fund ended the year with a \$3,129,141 fund balance, an increase of \$1,941,942 compared to the June 30, 2007 ending fund balance. The increase in fund balance resulted primarily from fund's portion of the 2007 loan proceeds, as well as tax increment deposited into the fund.

The Economic Development Fund ended the year with a \$3,236,195 fund balance, an increase of \$83,205 compared to the June 30, 2007 ending fund balance. The slight increase resulted from interest revenues being greater than the capital outlay expenditures for the year.

The Bond Debt Service Fund ended the year with a \$4,202,029 fund balance, an increase of \$4,091,588 compared to the June 30, 2007 fund balance. The increase is due primarily to a portion of the proceeds of long term debt issued during the year remaining in the fund.

The Agency's other major funds collectively ended the 2008 fiscal year with an aggregate fund balance of \$363,612, all of which is in special revenue funds which can only be used for specific purposes.

The Agency's other nonmajor funds collectively ended the 2008 fiscal year with an aggregate fund balance of \$3,251,107. Of that, \$1,492,623 is in special revenue service funds, in which funds are to be used for specific purposes. The remaining \$1,758,484 is in the Agency's capital projects funds for use in funding future development and redevelopment activities. Overall, after paying operating costs, these funds collectively had a net \$1,878,187 increase in their aggregated fund balances.

Agency Long-Term Debt Obligations During the 2008 fiscal year, the Agency borrowed \$13,280,000. With these proceeds, the remaining 1993 tax allocation bonds were refunded, loans to the Agency from City of Fortuna Water and Wastewater funds were repaid, required deposits to the Agency's Low and Moderate Income Housing Fund were made, and the remainder, net of issuance costs and required reserve accounts will be used for redevelopment purposes. Additional information about the Agency's long-term debt can be found starting on page 19 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For the 2009 fiscal year, the Agency's budget includes the following:

- Tax Increment Revenue totaling approximately \$1,087,000, which is anticipated to remain constant with the 2008 fiscal year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances. Questions concerning any of the information in this report, or requests for additional financial information should be addressed to the Finance Director, City of Fortuna, P.O. Box 545, Fortuna CA, 95540.

Redevelopment Agency of The City of Fortuna
Statement of Net Assets
Governmental Activities
June 30, 2008

ASSETS

Current assets:

Cash and investments	\$	9,085,791
Net receivables		<u>278,033</u>

Total current assets		<u>9,363,824</u>
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Noncurrent assets:

Restricted cash and investments		7,693,122
Notes receivable		1,651,841
Bond issuance costs		469,069
Capital assets not being depreciated		<u>593,084</u>

Total noncurrent assets		<u>10,407,116</u>
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Total assets	\$	<u><u>19,770,940</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	\$	148,889
Accrued liabilities		4,397
Interest payable		105,137
2007 revenue bonds due within one year		<u>45,000</u>

Total current liabilities		<u>303,423</u>
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Noncurrent liabilities due in more than one year:

2007 Revenue bonds		13,235,000
Premium on 2007 revenue bonds		15,996
Advances from the City of Fortuna		<u>5,893,201</u>

Total noncurrent liabilities		<u>19,144,197</u>
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Total liabilities		<u>19,447,620</u>
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NET ASSETS

Invested in capital assets, net of related debt		(8,548,093)
Restricted for:		
Debt service		4,202,029
Affordable Housing		3,402,663
Housing and loan programs		3,232,726
Unrestricted		<u>(1,966,005)</u>

Total net assets	\$	<u><u>323,320</u></u>
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See accompanying notes to the basic financial statements

Redevelopment Agency of The City of Fortuna
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Agency Operations	Total
Functions/Programs						
Agency operations:						
Governmental activities:						
Community development:						
General administration:						
Personnel	\$ 101,749	\$ -	\$ -	\$ -	\$ (101,749)	\$ (101,749)
Professional and administrative services	31,678	6,300	-	-	(25,378)	(25,378)
Insurance	2,000	-	-	-	(2,000)	(2,000)
Property tax administration	26,071	-	-	-	(26,071)	(26,071)
Pass through payments to other agencies	27,985	-	-	-	(27,985)	(27,985)
Travel, conferences, and other expenses	6,096	-	-	-	(6,096)	(6,096)
Programs:						
Housing rehabilitation loans/grants and senior services	94,308	298,339	460,245	-	664,276	664,276
Economic development projects	205,909	-	-	-	(205,909)	(205,909)
Interest on long-term debt	715,931	-	-	-	(715,931)	(715,931)
Total governmental activities	1,211,727	304,639	460,245	-	(446,843)	(446,843)
Total Agency	\$ 1,211,727	\$ 304,639	\$ 460,245	\$ -	(446,843)	(446,843)
General revenues:						
Taxes:						
Property taxes, incremental					\$ 1,064,985	\$ 1,064,985
Unrestricted investment earnings					261,761	261,761
Total general revenues					1,326,746	1,326,746
Change in net assets					879,903	879,903
Net assets, beginning					(556,583)	(556,583)
Net assets, ending					\$ 323,320	\$ 323,320

See accompanying notes to the basic financial statements

Redevelopment Agency of The City of Fortuna
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Low and Moderate Income Housing	CDBG Open Grant	Economic Development	Housing Revolving	CDBG Unrestricted	Bond Debt Service	City Loan Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS										
Cash and investments	\$ 3,203,354	\$ 2,530,766	\$ -	\$ 3,236,195	\$ 153,563	\$ 200,347	\$ 4,202,029	\$ -	\$ 3,252,659	\$ 16,776,913
Receivables:										
Accounts	1,300	-	-	-	-	-	-	-	-	1,300
Taxes	16,543	5,514	-	-	-	-	-	-	-	22,057
Intergovernmental	-	-	254,676	-	-	-	-	-	-	254,676
Notes	-	273,522	812,282	-	330,748	193,390	-	-	41,899	1,651,841
Advances to other funds	124,129	-	-	-	-	-	-	-	-	124,129
Land held for resale	-	593,084	-	-	-	-	-	-	-	593,084
Total assets	\$ 3,345,326	\$ 3,402,886	\$ 1,066,958	\$ 3,236,195	\$ 484,311	\$ 393,737	\$ 4,202,029	\$ -	\$ 3,294,558	\$ 19,426,000

	General Fund	Low and Moderate Income Housing	CDBG Open Grant	Economic Development	Housing Revolving	CDBG Unrestricted	Bond Debt Service	City Loan Debt Service	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ 28,093	\$ 223	\$ 118,841	\$ -	\$ -	\$ 180	\$ -	\$ -	\$ 1,552	\$ 148,889
Accrued liabilities	2,573	-	1,824	-	-	-	-	-	-	4,397
Advances from other funds	-	-	124,129	-	-	-	-	-	-	124,129
Deferred revenue	-	273,522	812,282	-	330,748	193,390	-	-	41,899	1,651,841
Total liabilities	30,666	273,745	1,057,076	-	330,748	193,570	-	-	43,451	1,929,256
Fund balances:										
Reserved for land held for resale	-	593,084	-	-	-	-	-	-	-	593,084
Unreserved	3,314,660	2,536,057	9,882	3,236,195	153,563	200,167	4,202,029	-	-	13,652,553
Unreserved, reported in nonmajor:										
Special revenue funds	-	-	-	-	-	-	-	-	1,492,623	1,492,623
Capital projects funds	-	-	-	-	-	-	-	-	1,758,484	1,758,484
Total fund balances	3,314,660	3,129,141	9,882	3,236,195	153,563	200,167	4,202,029	-	3,251,107	17,496,744
Total liabilities and fund balances	\$ 3,345,326	\$ 3,402,886	\$ 1,066,958	\$ 3,236,195	\$ 484,311	\$ 393,737	\$ 4,202,029	\$ -	\$ 3,294,558	\$ 19,426,000

Total Governmental Fund Balances		Total Governmental Funds
Amounts reported for governmental activities in the statement of net assets are different because:		
Interest payable is not due and payable in the current period and is therefore not reported in the funds		(105,137)
Debt issuance costs are not current financial resources and are not reported in the funds		469,069
Long-term receivables are deferred in the funds, but not in the statement of net assets		1,651,841
Bond premiums are not a current financial liability and are therefore not reported in the funds		(15,996)
Long-term debt obligations are not due and payable in the current period and therefore are not reported in the funds.		(19,173,201)
Net Assets of Governmental Activities	\$	323,320

See accompanying notes to the basic financial statements

Redevelopment Agency of The City of Fortuna
 Statements of Revenues, Expenditures, and
 Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2008

	General Fund	Low and Moderate Income Housing	CDBG Open Grant	Economic Development	Housing Revolving	CDBG Unrestricted	Bond Debt Service	City Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES										
Property taxes, incremental	\$ 1,064,985	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,064,985
Intergovernmental	-	-	460,245	-	-	-	-	-	-	460,245
Charges for services	6,300	-	-	-	-	-	-	-	-	6,300
Interest	125,747	74,482	65	127,460	5,398	7,689	139,688	-	62,321	542,850
Miscellaneous	-	1,563	-	-	155,669	14,972	-	-	235,424	407,628
Total revenues	1,197,032	76,045	460,310	127,460	161,067	22,661	139,688	-	297,745	2,482,008
EXPENDITURES										
Current:										
Community development:										
Administration and programs	130,808	19,666	137,913	-	-	1,500	-	-	-	289,887
Housing rehabilitation loans	-	200,000	308,000	-	-	-	-	-	-	508,000
Capital outlay	-	-	-	44,255	-	-	-	-	157,753	202,008
Debt service:										
Cost of issuance	-	-	-	-	-	-	472,970	-	-	472,970
Payment to refunded bond escrow agent	-	-	-	-	-	-	184,142	-	-	184,142
Interest	-	79,291	-	-	-	-	237,872	270,692	-	587,855
Total expenditures	130,808	298,957	445,913	44,255	-	1,500	894,984	270,692	157,753	2,244,862
Excess (deficiency) of revenues over (under)expenditures	1,066,224	(222,912)	14,397	83,205	161,067	21,161	(755,296)	(270,692)	139,992	237,146
OTHER FINANCING SOURCES(USES)										
Proceeds of long-term debt	-	-	-	-	-	-	13,280,000	270,692	-	13,550,692
Premiums on debt issued	-	-	-	-	-	-	16,130	-	-	16,130
Payment refunded bond escrow agent	-	-	-	-	-	-	(950,467)	-	-	(950,467)
Payment advance refund City Loan	-	-	-	-	-	-	170,261	(4,061,396)	-	(4,061,396)
Transfers in	-	2,183,506	25,000	-	-	-	5,824,592	4,061,396	5,824,592	12,264,755
Transfers out	(417,854)	(18,652)	(72,812)	-	-	-	(7,669,040)	-	(4,086,397)	(12,264,755)
Total other financing sources(uses)	(417,854)	2,164,854	(47,812)	-	-	-	4,846,884	270,692	1,738,195	8,554,959
Net change in fund balances	648,370	1,941,942	(33,415)	83,205	161,067	21,161	4,091,588	-	1,878,187	8,792,105
Fund balances, July 1	2,666,290	1,187,199	43,297	3,152,990	(7,504)	179,006	110,441	-	1,372,920	8,704,639
Fund balances, June 30	\$ 3,314,660	\$ 3,129,141	\$ 9,882	\$ 3,236,195	\$ 153,563	\$ 200,167	\$ 4,202,029	\$ -	\$ 3,251,107	\$ 17,496,744

See accompanying notes to the basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
 Reconciliation of the Statement of Revenues,
 Expenditures and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 8,792,105</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report interest expenditures when paid, but in the statement of activities interest expense is accrued as payable in each accounting period	(93,601)
Amortization of premiums on long-term debt does not provide current financial resources and is therefore not reported in the funds	134
Collections of long-term receivables are reported as revenues in the funds, but are not reported as revenues in the statement of activities and reduce assets in the statement of net assets	(407,628)
Long-term loans are reported as expenditures in the funds, but are not reported as expenses in the statement of activities	525,250
Bond issuance costs do not provide current financial resources and are not recorded as assets in the funds	472,970
Amortization of bond issuance costs to expense is not a use of current financial resources and is not reported in the funds	(3,901)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	5,161,396
Proceeds of long-term debt provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets	<u>(13,566,822)</u>
Net adjustment to reconcile to changes in net assets	<u>(7,912,202)</u>
Change in Net Assets of Governmental Activities	<u>\$ 879,903</u>

See accompanying notes to the basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

1. **Summary of Significant Accounting Policies**

A. Reporting Entity

The Fortuna Redevelopment Agency is a separate legal entity created for the purpose of improving the economic conditions of the City, making public improvements and providing financing for these purposes. The Agency is governed by the City Council of the City of Fortuna, and is therefore reported as if they were part of the City. These financial statements present only financial information about the Agency and are not intended to and do not present the financial position and results of operations of the City of Fortuna.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Redevelopment Agency. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Agency has no business type activities.

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. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Agency's major funds include its general fund used to account for tax increment revenues and administrative operations and the CDBG Housing Rehabilitation loan fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Redevelopment Agency 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.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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

The Agency reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The *Low and Moderate Income Housing Fund* is a special revenue fund used to account for resources required to be set aside and used only for affordable housing. The *CDBG Open Grant Fund* is a special revenue fund used to account for resources such as Federal Grants restricted for use in housing and other improvement projects

The *Economic Development Fund* used to account for special development projects. The *Housing Revolving Fund* is a special revenue fund used to account for prior year CDBG grant program resources that continue to be subject to grant restrictions. The *CDBG Unrestricted Fund* is a special revenue fund used to account for prior year CDBG grant program resources no longer subject to grant restriction.

The *Bond Debt Service and City Debt Service Funds* used to account for the repayment of long-term debt obligations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Redevelopment Agency has elected not to follow subsequent private-sector guidance. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Redevelopment Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Redevelopment Agency to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, the State Treasurer's Investment Pool, the Humboldt County Treasurer's Pool and other permitted investments

Investments for the Redevelopment Agency are reported at fair value. The State Treasurer's Investment Pool and the Humboldt County Treasurer's Pool operate in accordance with appropriate state laws and regulations. The reported value in the pools is the same as the fair value of the pool shares.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Expenditures for long-term notes receivable are reported in the fund statements when made; and the related receivable is recorded as an asset in the fund statements but is offset by deferred revenue accounts until the receivables are realized by the funds. Long-term receivables are recorded as assets in the statement of net assets when the transaction is consummated by the Redevelopment Agency and are not offset by deferred revenue accounts.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Humboldt collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The Redevelopment Agency receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the Redevelopment Agency. The Redevelopment Agency recognizes property tax revenues in the fiscal year in which they are due to the Redevelopment Agency.

3. *Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental type activities columns in the government-wide financial statements. Capital assets are defined by the Redevelopment Agency as assets with an initial, individual cost of more than \$5,000 for equipment and vehicles and \$10,000 for other capital assets having an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Under the GASB 34 Implementation Rules, the Redevelopment Agency was not required to record infrastructure assets existing or acquired prior to July 1, 2003; and the Redevelopment Agency has not recorded such assets. The Redevelopment Agency may elect to record such infrastructure assets in the future. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the Redevelopment Agency are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25
Public domain infrastructure	20
System infrastructure	15-50
Vehicles and equipment	5

5. *Compensated Absences*

The Agency has no separate regular employees, but instead is charged for personnel costs by the City of Fortuna. Any vacation pay applicable to the Agency is accrued when incurred in the government-wide financial statements; and is recorded as a fund liability only if it is immediately due and payable by the Agency such as for amounts due related to employee terminations or retirements.

6. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

7. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

2. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "long-term debt liabilities" are not due and payable in the current period and are therefore not reported in the funds." The details of this \$19,173,201 difference are as follows:

Long-Term Debt Obligations:

2007 Revenue Bonds	\$ 13,280,000
Long-term advances from the City of Fortuna	<u>5,893,201</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	<u>\$ (19,173,201)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. The details of this \$ (7,912,202) difference are as follows

Funds expended for long-term receivables	\$ 525,250
Collections on long-term receivables	(407,970)
Repayment of long-term debt principal tax allocation bonds	1,100,000
Repayment of long-term advance from City of Fortuna	4,061,396
Proceeds of long-term advances from City of Fortuna	(270,692)
Sale of 2007 revenue bonds	(13,280,000)
Premium on sale 2007 revenue bonds	(16,130)
Other items	<u>375,944</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (7,912,202)</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of each fiscal year, the Redevelopment Agency submits requests for appropriations so that a budget may be prepared. By May 15 of each year, the proposed budget is presented to the council for review. The council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, function, and department. The Redevelopment Agency's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Redevelopment Agency Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The council made no supplemental budgetary appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds.

The expenditure budgets were exceeded by the CDBG Open Grant Fund in the amount of \$184,192. The over expenditure was funded by available revenues.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments consisted of the following at June 30, 2008:

Investments with bond trustee	\$ 7,693,122
Pooled investments with the City of Fortuna	<u>9,085,791</u>
Total	<u>\$ 16,778,913</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

4. Detailed Notes on All Funds (Continued)

A. Deposits and Investments (Continued)

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Redevelopment Agency's deposits may not be returned to it. The Redevelopment Agency's policy for deposits is that they will be made in institutions in California, and that they shall be insured or fully collateralized with government securities. At June 30, 2008, the Agency had no separate deposits with financial institutions.

As of June 30, 2008, the Redevelopment Agency had the following investments:

<u>Type Investment</u>	<u>Average Weighted Maturity</u>	<u>Fair Value</u>
Pooled investments with the City of Fortuna ,primarily in the Local Agency Investment Fund (LAIF)	212 Days	\$ 9,085,791
Goldman Sachs Financial Square Treasury Obligation Mutual Fund	14 Days	<u>7,693,122</u>
Total Investments		<u>\$ 16,778,913</u>

Interest Rate Risk- As a means of limiting its exposure to fair value losses arising from rising interest rates, the Redevelopment Agency has a formal policy which limits Redevelopment Agency purchased investments to securities having a remaining maturity date from time of purchases to five years or less.

Credit Risk- The Redevelopment Agency's investment policy limits investments in mutual and money market funds to the top two ratings issued by nationally recognized statistical ratings organizations. Investments in obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require the disclosure of credit quality. The Local Agency Investment Fund is unrated. The Goldman Sachs Mutual Funds are rated AAAM by Standard and Poors.

Concentration of Credit Risk- Investments explicitly guaranteed by the U.S. government and investments in mutual funds, and external investment pools such as those held by the Redevelopment Agency are excluded from concentration of credit risk disclosures.

Custodial Credit Risk- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Redevelopment Agency will not be able to recover the value of its investments or the collateral securities that are in the possession of an outside party. Investments in mutual funds and external investment pools are not subject to custodial credit risk because these investments are not evidenced by specific securities.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

4. Detailed Notes on All Funds (Continued)

B. Receivables

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Low and Moderate Income Housing	CDBG Open Grant	Housing Revolving	CDBG Unrestricted and Other
Receivables:					
Taxes	\$ 16,543	\$ 5,514	\$ -	\$ -	\$ -
Accounts	1,300	-	-	-	-
Intergovernmental	-	-	254,676	-	-
Subtotal current	<u>17,843</u>	<u>5,514</u>	<u>254,676</u>	<u>-</u>	<u>-</u>
Notes receivable	<u>-</u>	<u>273,522</u>	<u>812,282</u>	<u>330,748</u>	<u>235,289</u>
Net total receivables	<u>\$ 397,686</u>	<u>\$ 279,036</u>	<u>\$ 1,066,958</u>	<u>\$ 330,748</u>	<u>\$ 235,289</u>

Long-term notes receivable of \$1,651,841 consists of notes relating to business development and redevelopment projects. The notes are secured by a deed of trusts on the related properties, and are generally repayable in monthly installments of principal and interest at various rates and terms.

C. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land held for resale	\$ 110,009	\$ 551,369	(\$68,294)	\$ 593,084
Total capital assets, not being depreciated	<u>110,009</u>	<u>-</u>	<u>-</u>	<u>593,084</u>
Capital assets, being depreciated:				
Equipment	52,401	-	-	52,401
Total capital assets being depreciated	<u>52,401</u>	<u>-</u>	<u>-</u>	<u>52,401</u>
Less accumulated depreciation for:				
Equipment	(52,401)	-	-	(52,401)
Total accumulated depreciation	<u>(52,401)</u>	<u>-</u>	<u>-</u>	<u>(52,401)</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental activities capital assets, net	<u>\$ 110,009</u>	<u>\$ 551,369</u>	<u>\$ (68,294)</u>	<u>\$ 593,084</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

4. Detailed Notes on All Funds (Continued)

D. Interfund Receivables, Payables, and Transfers

1. Interfund transfers at June 30, 2008 were as follows:

Transfers in:	Low and Moderate Income	City Debt Service	Nonmajor Funds	Other Funds	Total Transfers Out
Transfers out:					
General fund	\$ 266,246	\$ -	\$ -	\$ 151,608	\$ 417,854
Bond debt service	1,917,260	-	5,751,780	-	7,669,040
Low and Moderate	-	-	-	18,652	18,652
CDBG Open Grant	-	-	72,812	-	72,812
Nonmajor funds	-	4,061,396	-	25,001	4,086,397
Totals	\$2,183,506	\$4,061,396	\$5,824,592	\$ 195,261	\$ 12,264,755

The \$7,669,040 transfers out of the Bond Debt Service Fund consisted of \$1,917,260 of bond proceeds into the Agency's Low and Moderate Income Housing Fund and \$5,751,780 of bond proceeds into the Agency's Public Infrastructure Fund. Of the \$4,086,397 transfer out of the non-major Public Infrastructure Fund, \$4,061,396 was transferred into the City Debt Service Fund for the purpose of making a repayment to the City of Fortuna as a partial repayment of the long-term advance made by the City to the Agency in prior years.

E. Long-Term Debt

2007 Revenue Bonds

The City's Redevelopment Agency entered into a loan agreement with the Fortuna Public Financing Authority, dated October 1, 2007, wherein the Authority would sell \$17,500,000 in its Revenue Bonds, Series 2007. From the sale of the Authority's 2007 Revenue Bonds, the Authority was to loan \$13,280,000 to the Agency pursuant to the loan agreement. From the \$13,280,000, the Agency was to receive \$7,669,040 to be used to repay a loans from the City's enterprise funds, make a deposit of no less than 20 percent of that amount into the Agency's Low and Moderate Income Housing Fund, and use the remainder of the \$7,669,040 for redevelopment purposes.

The remaining \$5,610,960 of the \$13,280,000 was to be used for bond reserve and capitalized interest accounts, a \$950,467 advance refunding of the 1993 tax allocation bonds, costs of issuance and \$2,525,000 was to be deposited into an Escrowed Project Fund Account.

Until October 15, 2010, the Agency may, based upon certain reports of consultants, release certain amounts from the escrowed project fund account. On October 15, 2010, the bond trustee is to transfer all amounts in the escrowed project fund to the bond principal fund for redemption on November 1, 2010 of the escrow bonds which bonds are defined as the bonds maturing November 1, 2038 with an interest rate of 4.9 percent. At June 30, 2008, there was \$2,525,000 of the 4.9 percent Escrow Bonds outstanding; and there was \$2,530,944 on deposit in the escrow account.

The bonds mature each November 1 commencing November 1, 2008 through 2038, bear interest at rates from 3.75 percent to 5.00 percent and consist of \$5,365,000 in serial bonds, \$4,110,000 in term bonds due November 1, 2031; \$2,525,000 in term bonds due November 1, 2038; and \$5,500,000 in term bonds due November 1, 2038. The bonds are subject to early redemption from certain prepayments, bonds maturing on or after November 1, 2018 are subject to optional early redemption, the escrow bonds are subject to mandatory early redemption on November 1, 2010, and the term bonds maturing November 1, 2031 and 2038 are subject to mandatory sinking fund redemptions on or after November 1, 2024 and 2032, respectively.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

F. Long-Term Debt (Continued)

2007 Revenue Bonds (Continued)

The Agency entered into the Loan Agreement to obtain funds to conduct projects, repay advances from the City and to advance refund the 1993 tax allocation bonds having interest rates of 5.25 to 6.30 percent by entering into the loan agreement with interest rates of 3.75 to 5.00 percent. Net loan agreement proceeds of \$950,467 plus \$184,142 from the 1993 bond trustee and reserve accounts were deposited into an irrevocable escrow account to provide for the full retirement of the 1993 tax allocation bonds. The Agency effectively reduced its aggregate debt service payments by almost \$307,051 over the next 15 years and obtained an economic gain (difference between the net present values of the old and the new debt service payments) of \$235,490.

The Agency also used \$4,061,396 of the loan agreement proceeds to advance refund the advances made to the Agency by the City of Fortuna's water and wastewater enterprise funds. The Agency's advance refunding of these City loans effectively increased its aggregate debt service payments by almost \$4,772,926 over the next 30 years and incurred an economic loss (difference between the net present values of the old and the new debt service payments) of \$1,276,649.

The Agency has pledged future incremental property tax revenues to repay the \$13,280,000 in 2007 revenue bonds (its portion under the loan agreement) which bonds were issued to provide funds for the Agency to advance refund its 1993 tax allocation bonds, repay advances from the City of Fortuna, and finance projects. The bonds are payable solely from the pledged tax increment revenues and from certain trust accounts held by the bond trustee. Total principal and interest remaining on the Agency's share of the bonds is \$26,929,875 payable through November 1, 2038. For the current fiscal year, principal and interest paid and total tax increment revenues were \$317,163 and \$1,064,985, respectively.

Future debt service is:

Fiscal Year	Principal	Interest	Totals
2009	\$ 45,000	\$ 629,699	\$674,699
2010	95,000	626,199	721,199
2011	80,000	621,824	701,824
2012	95,000	617,449	712,449
2013	105,000	612,974	717,974
2014-2018	825,000	2,976,435	3,801,435
2019-2023	1,455,000	2,728,981	4,183,981
2024-2028	2,185,000	2,324,993	4,509,993
2029-2033	3,205,000	1,698,388	4,903,388
2034-2038	4,215,000	787,661	5,002,661
2039	975,000	24,275	999,275
	<u>\$ 13,280,000</u>	<u>\$ 13,648,878</u>	<u>\$ 26,928,878</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

4. Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

Advances From The City of Fortuna

The \$5,893,201 in advances represents amounts advanced by the City of Fortuna to the Redevelopment Agency to commence operations and startup projects. The advances are repayable in annual installments of about \$646,076 from the Agency's tax increment revenues commencing in fiscal year 2010 and concluding in 2024 using an interest rate of 6.06 percent as of June 30, 2008. The actual interest to be charged is to be adjusted annually to average rates of return on pooled investments of the City of Fortuna.

Future debt service on these advances at June 30, 2008 as recalculated is estimated to be:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	\$ -	\$ -
2010	267,307	378,769	646,076
2011	283,505	362,571	646,076
2012	300,696	345,390	646,076
2013	318,907	327,169	646,076
2014-2018	1,908,936	1,321,444	3,230,380
2019-2023	2,561,825	668,555	3,230,380
2024	609,163	36,913	646,076
Totals	\$ 6,250,329	\$ 3,440,811	\$9,691,140

The above repayment schedule uses the interest rate of 6.06 percent as of June 30, 2008 and provides that interest on the advances for the 2009 fiscal year will be added to the unpaid principal balance payable to the City of Fortuna. The amount of interest added to principal prior to commencement of repayments is estimated at \$357,128.

Changes in Long-term liabilities

Long-term debt activity for the 2008 fiscal year was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due In One Year</u>
<i>Governmental-Type</i>					
Tax allocation bonds	\$ 1,100,000	\$ -	\$ 1,100,000	\$ -	\$ -
2007 Revenue bonds	-	13,280,000	-	13,280,000	45,000
Advance from the City of Fortuna	9,683,905	270,692	4,061,396	5,893,201	-
Totals	\$ 10,783,905	\$ 13,550,692	\$ 5,161,396	\$ 19,173,201	\$ 45,000

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

5. Other Information

A. Risk Management

The Redevelopment Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Redevelopment Agency carries insurance.

The City of Fortuna is a member of the Redwood Empire Municipal Insurance Fund a joint powers authority, which provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, property and workers compensation claims. Under the program, the Redevelopment Agency has a \$ 10,000 general liability retention limit similar to a deductible with the Fund being responsible for losses above that amount up to \$ 500,000. The Fund carries excess liability coverage to a total of \$25 million in excess of its \$ 500,000 retention limit per occurrence through the California Joint Powers Risk Management Authority and its excess insurers.

The Fund covers workers compensation claims up to its self-insurance limit of \$ 1 million. A purchased excess policy insures the Fund for an additional \$ 1 million to provide aggregate coverage of up to \$ 2 million per claim. The Redevelopment Agency pays an annual premium to the Fund; the Redevelopment Agency may share in any surplus revenues or may be required to pay additional assessments based upon the Fund's operating results. The Fund also provides property coverage up to \$200 million per occurrence.

The Redevelopment Agency paid no material uninsured losses during the 2004-2005 or 2005-2006 fiscal years. Financial statements of the JPA Fund may be obtained from their administrative offices located at 414 W. Napa Street, Sonoma, California 95476.

Liabilities of the Redevelopment Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Settlements have not exceeded coverage for each of the past three fiscal years.

The Agency had no material uninsured claim liabilities at June 30, 2007 or June 30, 2008.

B. Contingencies and Commitments

Litigation. The Redevelopment Agency is involved in litigation incurred in the normal course of conducting Redevelopment Agency business. Redevelopment Agency management believes that, based upon consultation with its counsel, these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Redevelopment Agency.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2008

5. Other Information (Continued)

B. Restricted Net Assets and Reserved Fund Balances

Restricted Net Assets

The \$ 10,837,418 restricted amount for debt service, affordable housing and housing and loan programs in the governmental activities statement of net assets represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments and primarily relate to redevelopment funds restricted by law to only certain specified uses.

Reserved Fund Balances

The reserved fund balances in the governmental fund types represent amounts not available for appropriation and consists of:

Purpose of Reservation	Nonmajor Funds
Advances to other funds	\$ -
Land held for resale	593,084
Totals	\$ 593,084

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF FORTUNA
Redevelopment Agency General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance With final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Incremental property taxes	\$ 961,405	\$ 961,405	\$ 1,064,985	\$ 103,580
Charges for services	1,300	1,300	6,300	-
Interest	125,015	125,015	125,747	732
Miscellaneous	-	-	-	-
Total revenues	<u>1,087,720</u>	<u>1,087,720</u>	<u>1,197,032</u>	<u>104,312</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Administration	<u>150,950</u>	<u>150,950</u>	<u>130,808</u>	<u>20,142</u>
Total expenditures	<u>150,950</u>	<u>150,950</u>	<u>130,808</u>	<u>20,142</u>
Excess(deficiency) of revenues over expenditures	<u>936,770</u>	<u>936,770</u>	<u>1,066,224</u>	<u>124,454</u>
Other financing uses:				
Transfers out	<u>(325,991)</u>	<u>(325,991)</u>	<u>(417,854)</u>	<u>(91,863)</u>
Net change in fund balances	610,779	610,779	648,370	32,591
Fund balance, July 1	<u>2,666,290</u>	<u>2,666,290</u>	<u>2,666,290</u>	<u>-</u>
Fund balance, June 30	<u>\$ 3,277,069</u>	<u>\$ 3,277,069</u>	<u>\$ 3,314,660</u>	<u>\$ 32,591</u>

CITY OF FORTUNA
CDBG OPEN GRANT Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance With final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$ 347,870	\$ 347,870	\$ 460,245	\$ 112,375
Interest	415	415	65	(350)
Miscellaneous	-	-	-	-
Total revenues	<u>348,285</u>	<u>348,285</u>	<u>460,310</u>	<u>112,025</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Loans and programs	<u>261,721</u>	<u>261,721</u>	<u>445,913</u>	<u>(184,192)</u>
Total expenditures	<u>261,721</u>	<u>261,721</u>	<u>445,913</u>	<u>(184,192)</u>
Excess(deficiency) of revenues over expenditures	<u>86,564</u>	<u>86,564</u>	<u>14,397</u>	<u>(72,167)</u>
Other financing sources:				
Transfers in	38,851	38,851	25,000	(13,851)
Transfers out	<u>(125,000)</u>	<u>(125,000)</u>	<u>(72,812)</u>	<u>52,188</u>
Total Other Financing Sources(Uses)	<u>(86,149)</u>	<u>(86,149)</u>	<u>(47,812)</u>	<u>38,337</u>
Net change in fund balances	415	415	(33,415)	(33,830)
Fund balance, July 1	<u>43,297</u>	<u>43,297</u>	<u>43,297</u>	<u>-</u>
Fund balance, June 30	<u>\$ 43,712</u>	<u>\$ 43,712</u>	<u>\$ 9,882</u>	<u>\$ (33,830)</u>

CITY OF FORTUNA
Unrestricted Business Revolving Loan Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive(Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Interest	\$ 3,896	\$ 3,896	\$ 7,689	\$ 3,793
Miscellaneous	8,207	8,207	14,972	6,765
Total revenues	<u>12,103</u>	<u>12,103</u>	<u>22,661</u>	<u>10,558</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Economic development loans	189,199	189,199	1,500	187,699
Total expenditures	<u>189,199</u>	<u>189,199</u>	<u>1,500</u>	<u>187,699</u>
Excess(deficiency) of revenues over expenditures	<u>(177,096)</u>	<u>(177,096)</u>	<u>21,161</u>	<u>198,257</u>
Other Financing Sources(Uses)				
Transfers out	-	-	-	-
Net change in fund balances	(177,096)	(177,096)	21,161	198,257
Fund balance, July 1	<u>179,006</u>	<u>179,006</u>	<u>179,006</u>	<u>-</u>
Fund balance, June 30	<u>\$ 1,910</u>	<u>\$ 1,910</u>	<u>\$ 200,167</u>	<u>\$ 198,257</u>

CITY OF FORTUNA
Housing Revolving Loan Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	\$ -	\$ -	\$ 5,398	\$ 5,398
Miscellaneous	22,838	22,838	155,669	132,831
Total revenues	<u>22,838</u>	<u>22,838</u>	<u>161,067</u>	<u>132,831</u>
Expenditures:				
Current				
Redevelopment and housing:				
Administration	-	-	-	-
Housing project loans	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess(deficiency) of revenues over expenditures	<u>22,838</u>	<u>22,838</u>	<u>161,067</u>	<u>132,831</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	-	-	161,067	161,067
Fund balance, July 1	<u>(7,504)</u>	<u>(7,504)</u>	<u>(7,504)</u>	<u>-</u>
Fund balance, June 30	<u>\$ (7,504)</u>	<u>\$ (7,504)</u>	<u>\$ 153,563</u>	<u>\$ 161,067</u>

CITY OF FORTUNA
Housing Set Aside Special Revenue Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	\$ 24,662	\$ 24,662	\$ 74,482	\$ 49,820
Miscellaneous	1,500	1,500	1,563	63
Total revenues	<u>26,162</u>	<u>26,162</u>	<u>76,045</u>	<u>49,883</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Rehabilitation loans	1,359,158	1,359,158	200,000	1,159,158
Administration	6,172	6,172	19,666	(13,494)
Debt service:				
Principal	10,000	10,000	-	-
Interest	16,992	16,992	79,291	(62,299)
Total expenditures	<u>1,392,322</u>	<u>1,392,322</u>	<u>298,957</u>	<u>1,083,365</u>
Excess(deficiency) of revenues over expenditures	<u>(1,366,160)</u>	<u>(1,366,160)</u>	<u>(222,912)</u>	<u>1,133,248</u>
Other financing sources (uses):				
Transfers in	245,160	245,160	2,183,506	1,938,346
Transfers out	-	-	(18,652)	(18,652)
Total other financing sources(uses)	<u>245,160</u>	<u>245,160</u>	<u>2,164,854</u>	<u>1,919,694</u>
Net changes in fund balances	(1,366,160)	(1,366,160)	1,941,942	3,308,102
Fund balance, July 1	<u>1,187,199</u>	<u>1,187,199</u>	<u>1,187,199</u>	<u>-</u>
Fund balance, June 30	<u>\$ (178,961)</u>	<u>\$ (178,961)</u>	<u>\$ 3,129,141</u>	<u>\$ 3,308,102</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	Unrestricted Business Revolving Loan	CDBG Business	Public Infrastructure	Totals
Assets				
Cash and investments	\$ 844,025	\$ 648,598	\$ 1,760,036	\$ 3,252,659
Receivables:				
Notes receivable, long-term	18,356	21,715	1,828	41,899
Land held for resale	-	-	-	-
Total assets	<u>\$ 862,381</u>	<u>\$ 670,313</u>	<u>\$ 1,761,864</u>	<u>\$ 3,294,558</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 1,552	\$ 1,552
Deferred revenue	18,356	21,715	1,828	41,899
Total liabilities	<u>18,356</u>	<u>21,715</u>	<u>3,380</u>	<u>43,451</u>
Fund balances:				
Reserved	-	-	1,758,484	1,758,484
Unreserved:				
Undesignated	844,025	648,598	-	1,492,623
Total fund balances	<u>844,025</u>	<u>648,598</u>	<u>1,758,484</u>	<u>3,251,107</u>
Total liabilities and fund balances	<u>\$ 862,381</u>	<u>\$ 670,313</u>	<u>\$ 1,761,864</u>	<u>\$ 3,294,558</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2008

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	Unrestricted Business Revolving Loan	CDBG Business	Public Infrastructure	Totals
Revenues:				
Interest	\$ 31,809	\$ 21,959	\$ 8,553	\$ 62,321
Miscellaneous	68,627	161,367	5,430	235,424
Total revenues	<u>100,436</u>	<u>183,326</u>	<u>13,983</u>	<u>297,745</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Administration	-	-	-	-
Capital outlay	24,036	-	133,717	157,753
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>24,036</u>	<u>-</u>	<u>133,717</u>	<u>157,753</u>
Excess (deficiency) of revenues over expenditures	<u>76,400</u>	<u>183,326</u>	<u>(119,734)</u>	<u>139,992</u>
Other Financing Sources (Uses)				
Transfers in	-	-	5,824,592	5,824,592
Transfers out	(25,001)	-	(4,061,396)	(4,086,397)
Total other financing sources (uses)	<u>(25,001)</u>	<u>-</u>	<u>1,763,196</u>	<u>1,738,195</u>
Net change in fund balances	51,399	183,326	1,643,462	1,878,187
Fund balances, July 1	<u>792,626</u>	<u>465,272</u>	<u>115,022</u>	<u>1,372,920</u>
Fund balances, June 30	<u>\$ 844,025</u>	<u>\$ 648,598</u>	<u>\$ 1,758,484</u>	<u>\$ 3,251,107</u>



Terry E. Krieg, CPA

Certified Public Accountant

Board of Directors
Redevelopment Agency of the City of Fortuna
Fortuna, California

*Report On Compliance and On Internal Control Over Financial Reporting
Based On an Audit of Financial Statements Performed In Accordance
With Auditing Standards Generally Accepted in the United States of America*

I have audited the basic financial statements of the Redevelopment Agency of the City of Fortuna as of and for the year ended June 30, 2008, and have issued my report thereon dated December 30, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

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

Internal Control Over Financial Reporting

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

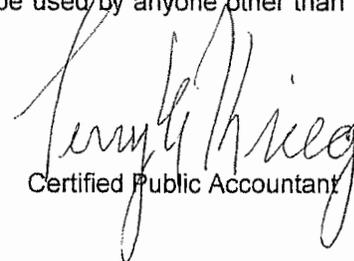
A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control 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 Agency'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 Agency's internal control.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses as defined above.

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

December 30, 2008


Certified Public Accountant