COMBINED FINANCIAL STATEMENTS AND COMBINING INDIVIDUAL FUND FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Fontana Redevelopment Agency

Fontana, California

Janice Rutherford, Chairperson
Acquanetta Warren, Vice Chairperson
Mark N. Nuaimi, Member
John B. Roberts, Member
Frank Scialdone, Member

(At Date of Issuance)

Kenneth R. Hunt, Executive Director

PREPARED BY CITY OF FONTANA MANAGEMENT SERVICES DEPARTMENT

Lisa A. Strong, Management Services Director/Deputy City Treasurer
Melville Drown, Finance Manager

04345

FONTANA REDEVELOPMENT AGENCY

Year Ended June 30, 2008

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FONTANA REDEVELOPMENT AGENCY

Year Ended June 30, 2008

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LLP

Certified Public Accountants

Brandon W. Burrows
Donald L. Parker
Michael K. Chu
David E. Hale
A Professional Corporation
Donald G. Slater
Richard K. Kikuchi

Retired
Robert C. Lance
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Richard C. Soll
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INDEPENDENT AUDITORS' REPORT

To the Honorable Chair and Members of the Governing Board
Fontana Redevelopment Agency
City of Fontana, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fontana Redevelopment Agency, California, a component unit of the City of Fontana, 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 Fontana Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 misstatements. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Fontana Redevelopment Agency as of June 30, 2008, and the respective changes in financial position thereof, and the respective budgetary comparison for the Low/Moderate Income Housing Special Revenue Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We would like to draw the reader's attention to the paragraph captioned "Investment in Lehman Brothers" in Note 9 – Subsequent Events on Page 42 of this report. The note details the subsequent decline in the fair value of the Agency's investment in Lehman Brothers Holdings, Inc. due to the bankruptcy filing of September 15, 2008.

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To the Honorable Chair and Members of the Governing Board
Fontana Redevelopment Agency
City of Fontana, California

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated November 25, 2008, on our consideration of the Fontana Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Agency has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The computation of low and moderate income housing funds excess/surplus are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lance, Soll & Lunghard, LLP

November 25, 2008

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

To the Honorable Chair and Members of the Governing Board
Fontana Redevelopment Agency
City of Fontana, California

We have audited the financial statements of the governmental activities and each major fund of the City of Fontana Redevelopment Agency, California, as of and for the year ended June 30, 2008, which collectively comprise the City of Fontana Redevelopment Agency's basic financial statements and have issued our report thereon dated November 25, 2008. 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 City of Fontana Redevelopment Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fontana Redevelopment Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fontana Redevelopment Agency'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 City of Fontana Redevelopment 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 City of Fontana Redevelopment Agency's financial statements that is more than inconsequential will not be prevented or detected by the City of Fontana Redevelopment Agency's internal control.

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To the Honorable Chair and Members of the Governing Board
Fontana Redevelopment Agency
City of Fontana, California

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 City of Fontana Redevelopment Agency'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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fontana Redevelopment Agency's financial statements are free of material misstatements, 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. Such provisions included those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Lance, Soll & Lunghard, LLP

November 25, 2008

FONTANA REDEVELOPMENT AGENCY

Exhibit A

Statement of Net Assets

June 30, 2008

	Governmental Activities
Assets:	
Cash and investments	$ 53,356,632
Investments in litigation	1,974,037
Receivables, net:	
Accounts	5,294
Interest	2,027,503
Loans	17,138,115
Due from other governments	5,068,829
Deposits	2,161,043
Land held for resale	62,706,281
Deferred charges	5,654,212
Restricted assets:	
Cash with fiscal agent	86,715,275
Capital assets not being depreciated	36,386,377
Capital assets, net of depreciation	69,023,577
Total assets	342,217,175
Liabilities:	
Accounts payable	6,923,197
Deposits payable	105,707
Retentions payable	7,927,213
Interest payable	12,171,668
Due to other governments	11,850,349
Noncurrent liabilities:	
Due within one year	9,011,797
Due in more than one year	673,862,234
Total liabilities	721,852,165
Net Assets:	
Invested in capital assets, net of related debt	-
Restricted for:	
Debt service	23,570,758
Low and Moderate Housing	43,708,893
Unrestricted (deficit)	(446,914,641)
Total net assets	$ (379,634,990)

See accompanying notes to financial statements

FONTANA REDEVELOPMENT AGENCY

Exhibit B

Statement of Activities

For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues Operating Contributions and Grants	Net (Expense) Revenues and Changes in Net Assets
Governmental activities:			
Community development	$ 120,639,508	$ 3,500,000	$ (117,139,508)
Interest on long-term debt	35,725,087	-	(35,725,087)
Total governmental activiites	156,364,595	3,500,000	(152,864,595)
General revenues:			
Property taxes			111,219,850
Sales tax			71,922
Investment earnings			6,901,008
Gain on sale of capital assets			597,302
Other			1,366,690
Total general revenues			120,156,772
Change in net assets			(32,707,823)
Net assets at beginning of year			(347,515,335)
Restatement of net assets			588,168
Net assets at end of year			$ (379,634,990)

See accompanying notes to financial statements

FONTANA REDEVELOPMENT AGENCY

Balance Sheet
Governmental Funds
June 30, 2008

	Special Revenue	Debt Service				
	Low/Moderate Income Housing	Southwest Industrial Park	Jurupa Hills	North Fontana	Downtown	Sierra Corridor
Assets:						
Cash and investments	$ 24,397,024	$ 4,858,861	$ 122,297	$ 13,003,921	$ 846,988	$ 6,933,521
Investments in litigation	902,655	179,770	4,525	481,126	31,337	256,530
Receivables (net):						
Accounts	28	-	-	-	-	-
Interest	227,693	86,958	-	113,850	26,366	88,077
Loans	12,252,656	-	-	-	-	80,051
Due from other funds	-	-	10,450	-	-	-
Due from other governments	949,507	324,077	728,489	2,303,717	65,889	697,150
Deposits	-	-	-	-	-	-
Land held for resale	-	-	-	-	-	-
Advances to other funds	5,329,247	-	-	-	-	-
Restricted assets:						
Cash with fiscal agent	61,001	1,513,378	7,433,098	5,146	939,097	925,441
Total assets	$ 44,119,811	$ 6,963,044	$ 8,298,859	$ 15,907,760	$ 1,909,677	$ 8,980,770
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable	$ 405,418	$ 270,138	$ 6,399	$ -	$ -	$ -
Deposits payable	5,500	-	-	-	-	-
Retentions payable	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Due to other governments	-	860,898	1,648,747	4,695,747	142,582	4,502,255
Deferred revenue	-	-	-	-	-	-
Advances from other funds	-	5,329,247	-	-	-	-
Total liabilities	410,918	6,460,283	1,655,146	4,695,747	142,582	4,502,255
Fund balances:						
Reserved for:						
Encumbrances	1,434,639	-	-	-	-	-
Investment in litigation	902,655	179,770	4,525	481,126	31,337	256,530
Debt service	-	322,991	6,639,188	10,730,887	1,735,758	4,141,934
Advances to other funds	5,329,247	-	-	-	-	-
Deposits	-	-	-	-	-	-
Loans receivable	12,252,656	-	-	-	-	80,051
Land held for resale	-	-	-	-	-	-
Unreserved, reported in:						
Special revenue fund	23,789,696	-	-	-	-	-
Capital projects fund	-	-	-	-	-	-
Total fund balances	43,708,893	502,761	6,643,713	11,212,013	1,767,095	4,478,515
Total liabilities and fund balances	$ 44,119,811	$ 6,963,044	$ 8,298,859	$ 15,907,760	$ 1,909,677	$ 8,980,770

See accompanying notes to financial statements

FONTANA REDEVELOPMENT AGENCY

Balance Sheet
Governmental Funds
June 30, 2008

	Capital Projects					
	Southwest Industrial Park	Jurupa Hills	North Fontana	Downtown	Sierra Corridor	Totals
Assets:						
Cash and investments	$ 179,079	$ -	$ 48,634	$ 989,828	$ 1,976,479	$ 53,356,632
Investments in litigation	6,624	-	1,802	36,622	73,046	1,974,037
Receivables (net):						
Accounts	4,400	-	-	-	866	5,294
Interest	-	877,061	396,612	7,848	203,038	2,027,503
Loans	174,979	850,429	-	-	3,780,000	17,138,115
Due from other funds	-	-	-	-	-	10,450
Due from other governments	-	-	-	-	-	5,068,829
Deposits	-	-	1,187,043	-	974,000	2,161,043
Land held for resale	-	-	62,257,043	-	449,238	62,706,281
Advances to other funds	4,799,248	-	-	-	-	10,128,495
Restricted assets:						
Cash with fiscal agent	6,755,970	207	47,492,421	-	21,589,516	86,715,275
Total assets	$ 11,920,300	$ 1,727,697	$ 111,383,555	$ 1,034,298	$ 29,046,183	$ 241,291,954
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable	$ 779,348	$ -	$ 4,558,229	$ 32,843	$ 870,822	$ 6,923,197
Deposits payable	-	207	-	-	100,000	105,707
Retentions payable	706,207	-	6,906,571	-	314,435	7,927,213
Due to other funds	-	10,450	-	-	-	10,450
Due to other governments	-	-	-	-	120	11,850,349
Deferred revenue	2,669,403	877,061	-	-	200,000	3,746,464
Advances from other funds	-	2,409,048	-	2,390,200	-	10,128,495
Total liabilities	4,154,958	3,296,766	11,464,800	2,423,043	1,485,377	40,691,875
Fund balances:						
Reserved for:						
Encumbrances	413,665	-	13,850,405	451,646	12,815,072	28,965,427
Investment in litigation	6,624	-	1,802	36,622	73,046	1,974,037
Debt service	-	-	-	-	-	23,570,758
Advances to other funds	2,304,824	-	-	-	-	7,634,071
Deposits	-	-	1,187,043	-	974,000	2,161,043
Loans receivable	-	850,429	-	-	3,580,000	16,763,136
Land held for resale	-	-	62,257,043	-	449,238	62,706,281
Unreserved, reported in:						
Special revenue fund	-	-	-	-	-	23,789,696
Capital projects funds	5,040,229	(2,419,498)	22,622,462	(1,877,013)	9,669,450	33,035,630
Total fund balances	7,765,342	(1,569,069)	99,918,755	(1,388,745)	27,560,806	200,600,079
Total liabilities and fund balances	$ 11,920,300	$ 1,727,697	$ 111,383,555	$ 1,034,298	$ 29,046,183	$ 241,291,954

See accompanying notes to financial statements

Exhibit D

FONTANA REDEVELOPMENT AGENCY

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2008

Fund balances of governmental funds	$ 200,600,079
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets, net of depreciation, have not been included as financial resources in governmental funds.	105,409,954
Deferred charges for debt issuance costs on long-term debt have not been reported in the governmental funds.	5,654,212
Long-term debt has not been included in the governmental funds.	(682,874,031)
Accrued interest payable from the current portion of interest due on long-term debt has not been reported in the governmental funds.	(12,171,668)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,746,464
Net assets of governmental activities	$ (379,634,990)

See accompanying notes to financial statements

FONTANA REDEVELOPMENT AGENCY

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue	Debt Service				
	Low/Moderate Income Housing	Southwest Industrial Park	Jurupa Hills	North Fontana	Downtown	Sierra Corridor
Revenues:						
Taxes	$ -	13,545,522	17,658,105	63,149,455	2,363,037	14,575,653
Investment earnings	1,040,942	208,558	233,798	489,152	85,339	235,127
Contribution from developer	-	-	-	-	3,500,000	-
Other revenue	38,968	-	120,841	-	-	-
Total revenues	1,079,910	13,754,080	18,012,744	63,638,607	5,948,376	14,810,780
Expenditures:						
Current:						
Community Development	1,727,521	3,769	112,634	8,949	4,574	3,320
Capital Outlay	11,474,066	-	-	-	-	-
Debt Service:						
Principal	15,499	1,260,000	1,985,000	4,051,853	3,945,000	820,000
Interest	674,212	2,587,231	12,019,338	17,095,510	531,615	2,401,081
Total expenditures	13,891,298	3,851,000	14,116,972	21,156,312	4,481,189	3,224,401
Excess (deficiency) of revenues over (under) expenditures	(12,811,388)	9,903,080	3,895,772	42,482,295	1,467,187	11,586,379
Other Financing Sources (Uses):						
Transfers in	22,243,970	-	3,531,621	804,200	121,600	-
Transfers out	(4,457,421)	(4,080,738)	(3,531,621)	(31,673,691)	(1,280,023)	(5,493,861)
Issuance of long-term debt	-	-	-	-	-	-
Pass through agreement payments	-	(3,833,290)	(3,842,544)	(15,641,370)	(228,021)	(2,997,220)
Owner participation agreement payments	-	(652,697)	-	(114,701)	-	-
Sale of capital assets	-	-	-	-	-	-
Total other financing sources (uses)	17,786,549	(8,566,725)	(3,842,544)	(46,625,562)	(1,386,444)	(8,491,081)
Net change in fund balances	4,975,161	1,336,355	53,228	(4,143,267)	80,743	3,095,298
Fund Balances:						
Beginning of fiscal year, as previously reported	38,746,607	(833,594)	6,590,485	15,355,280	1,686,352	1,383,217
Restatements	(12,875)	-	-	-	-	-
Beginning of fiscal year, as restated	38,733,732	(833,594)	6,590,485	15,355,280	1,686,352	1,383,217
Net change in fund balances	4,975,161	1,336,355	53,228	(4,143,267)	80,743	3,095,298
End of fiscal year	$ 43,708,893	$ 502,761	$ 6,643,713	$ 11,212,013	$ 1,767,095	$ 4,478,515

See accompanying notes to financial statements

FONTANA REDEVELOPMENT AGENCY

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	Capital Projects					
	Southwest Industrial Park	Jurupa Hills	North Fontana	Downtown	Sierra Corridor	Totals
Revenues:						
Taxes	$ -	$ -	$ -	$ -	$ -	$ 111,291,772
Investment earnings	397,804	-	2,285,995	29,943	1,521,365	6,528,023
Contribution from developer	-	-	-	-	-	3,500,000
Other revenue	74,978	-	17,172	-	317,125	569,084
Total revenues	472,782	-	2,303,167	29,943	1,838,490	121,888,879
Expenditures:						
Current:						
Community Development	1,756,915	2,775,353	2,536,578	435,411	2,384,128	11,749,152
Capital Outlay	7,840,619	-	45,679,164	-	20,471,547	85,465,396
Debt Service:						
Principal	-	-	-	-	-	12,077,352
Interest	-	81,538	-	79,800	140,000	35,610,325
Total expenditures	9,597,534	2,856,891	48,215,742	515,211	22,995,675	144,902,225
Excess (deficiency) of revenues over (under) expenditures	(9,124,752)	(2,856,891)	(45,912,575)	(485,268)	(21,157,185)	(23,013,346)
Other Financing Sources (Uses):						
Transfers in	1,371,633	-	19,043,800	821,800	2,578,731	50,517,355
Transfers out	-	-	-	-	-	(50,517,355)
Issuance of long-term debt	-	2,767,884	43,393,080	-	-	46,160,964
Pass through agreement payments	-	-	-	-	-	(26,542,445)
Owner participation agreement payments	-	-	-	-	-	(767,398)
Sale of capital assets	-	-	-	-	597,302	597,302
Total other financing sources (uses)	1,371,633	2,767,884	62,436,880	821,800	3,176,033	19,448,423
Net change in fund balances	(7,753,119)	(89,007)	16,524,305	336,532	(17,981,152)	(3,564,923)
Fund Balances:						
Beginning of fiscal year, as previously reported	15,518,461	(1,480,062)	83,029,339	(1,725,277)	45,141,958	203,412,766
Restatements	-	-	365,111	-	400,000	752,236
Beginning of fiscal year, as restated	15,518,461	(1,480,062)	83,394,450	(1,725,277)	45,541,958	204,165,002
Net change in fund balances	(7,753,119)	(89,007)	16,524,305	336,532	(17,981,152)	(3,564,923)
End of fiscal year	$ 7,765,342	$ (1,569,069)	$ 99,918,755	$ (1,388,745)	$ 27,560,806	$ 200,600,079

See accompanying notes to financial statements

Exhibit F

FONTANA REDEVELOPMENT AGENCY

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	$ (3,564,923)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	6,614,633
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.	(2,504,720)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	372,985
The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, Governmental Funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(34,083,612)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	457,814
Change in net assets of governmental activities	$ (32,707,823)

See accompanying notes to financial statements

FONTANA REDEVELOPMENT AGENCY

Exhibit G

Low/Moderate Income Housing

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	$ 22,378,900	$ 22,250,100	$ -	$ (22,250,100)
Investment earnings	506,000	655,000	1,040,942	385,942
Other revenue	-	13,000	38,968	25,968
Total revenues	22,884,900	22,918,100	1,079,910	(21,838,190)
Expenditures:				
Current:				
Community development	629,900	678,319	1,727,521	(1,049,202)
Capital outlay	7,000,000	21,931,469	11,474,066	10,457,403
Debt service:				
Principal	120,000	120,000	15,499	104,501
Interest	569,800	569,800	674,212	(104,412)
Total expenditures	8,319,700	23,299,588	13,891,298	9,408,290
Excess (deficit) of revenues over expenditures	14,565,200	(381,488)	(12,811,388)	(12,429,900)
Other Financing Sources (Uses):				
Transfers in	-	-	22,243,970	22,243,970
Transfers out	(5,272,200)	(5,323,400)	(4,457,421)	865,979
Total other financing sources (uses)	(5,272,200)	(5,323,400)	17,786,549	23,109,949
Net change in fund balances	9,293,000	(5,704,888)	4,975,161	10,680,049
Fund balances - beginning	38,733,732	38,733,732	38,733,732	-
Fund balances - ending	$ 48,026,732	$ 33,028,844	$ 43,708,893	$ 10,680,049

See accompanying notes to financial statements

Fontana
REDEVELOPMENT AGENCY

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Note 1. Organization and Summary of Significant Accounting Policies

Description of the Reporting Entity

The Fontana Redevelopment Agency (Agency) was established in 1968 pursuant to provisions of the California Health and Safety Code. The Agency is subject to the oversight responsibility of the City Council of the City of Fontana (City) and, accordingly, is a component unit of the City, although it is a separate legal entity. The Agency's primary purpose is to eliminate blighted areas within the City by encouraging development of residential, commercial, industrial, recreational and public facilities. The Agency accounts for its financial position and operations in accordance with generally accepted accounting principles applicable to governmental units. Accordingly, the Agency uses several funds and account groups described below.

Government-Wide and Fund Financial Statements

The basic financial statements of the Agency are comprised of the following:

- Agency-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Agency-wide financial statements (i.e., the statement of net assets and the statement of activities) display information about the Agency as a whole. All significant interfund activity has been eliminated in the statement of activities. The agency provides only governmental activities which are supported principally by property tax increment. Agency-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.

Amounts paid to acquire capital assets are capitalized as assets in the Agency-wide financial statements, rather than reported as an expenditure. Proceeds from long-term debt are recorded as a liability in the Agency-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

In the Agency-wide financial statements, net assets are classified in the following categories:

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

these assets reduce this category. Since related debt exceeds the net capital assets, this amount has been reported as zero on the Statement of Net Assets.

Restricted Net Assets: This category presents external restrictions imposed by creditors, grantors, contributions, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets: This category represents the net assets of the Agency, not restricted for any project or other purpose. This category is in a deficit position primarily because long-term debt is in excess of capital assets owned by the Agency. The Agency issues debt for construction and/or acquisition of assets.

Fund Financial Statements

The accounting system of the agency is organized and operated on the basis of separate funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

Fund financial statements are reported using the current financial resources measure focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available, and accrued revenues include property taxes and interest. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as expenditures when paid.

All governmental funds are accounted for on a spending or "financial flow" measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. However, noncurrent portions of long-term receivables related to governmental funds are also reported on their balance sheets and are offset by deferred revenue or fund balance reserve accounts. Statements of revenues, expenditures, and changes in fund balances for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Department heads are authorized to transfer budgeted amounts within their departments, within the same funds, with the approval of the City Manager. Transfers of appropriations between departments and between funds may be made only by authority of the City Council. Formal budgetary integration is employed as a management control device during the fiscal year for all governmental funds.

Major Funds

The Agency reports the following major governmental funds:

The Low/Moderate-Income Housing Special Revenue Fund accounts for the Agency's 20% tax increment set-aside money to be used to increase and improve the community's supply of low- and moderate-income housing in the Redevelopment project areas.

The Southwest Industrial Park Debt Service Fund accounts for the tax increment receipts and payment of the Southwest Industrial Park Project Area bonded indebtedness.

The Jurupa Hills Debt Service Fund accounts for the tax increment receipts and payment of the Jurupa Hills Project Area bonded indebtedness.

The North Fontana Debt Service Fund accounts for the tax increment receipts and payment of the North Fontana Project Area bonded indebtedness.

The Downtown Debt Service Fund accounts for the tax increment receipts and payment of the Downtown Project Area bonded indebtedness.

The Sierra Corridor Debt Service Fund accounts for the tax increment receipts and payment of the Sierra Corridor Project Area bonded indebtedness.

The Southwest Industrial Park Capital Projects Fund accounts for the revenues and expenditures of the Southwest Industrial Park Project area.

The Jurupa Hills Capital Projects Fund accounts for the revenues and expenditures of the Jurupa Hills Project area.

The North Fontana Capital Projects Fund accounts for the revenues and expenditures of the North Fontana Project area.

The Downtown Capital Projects Fund accounts for revenues and expenditures of the Downtown Project area.

The Sierra Corridor Capital Projects Fund accounts for the revenues and expenditures of the Sierra Corridor Project area.

Additionally, the Agency reports the following fund types:

Governmental Fund Types

Debt Service Funds – to account for the accumulation of resources for, and the payment of, general long-term debt obligation principal, interest and related costs.

Capital Project Funds – to account for financial resources to be used for the acquisition or construction of major capital facilities.

Special Revenue Funds – to account for the proceeds of specific revenue resources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

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, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The 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.

Investments for the Agency are reported at fair value. The Agency's policy is generally to hold investments until maturity, or until market values equal or exceed cost. The State Treasurer's Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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" (current portion of interfund loans) or "advances to/from other funds" (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 governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

The Agency has elected, by ordinance, that the duties of assessing and collecting property taxes be performed by the San Bernardino County Assessor and Tax Collector, respectively. Tax levies cover the period from July 1 to June 30 of each year. All tax liens attach annually on January 1 preceding the fiscal year for which the taxes are levied. Taxes are levied on both real and personal property as of January 1. Secured property taxes are levied against real property and are due and payable in two equal installments. The first installment is due on November 1 and becomes delinquent if not paid by December 10. The second installment is due on February 1 and becomes delinquent if not paid by April 10. Unsecured personal property taxes are due on July 1 each year and become delinquent if not paid by August 31.

All receivables are shown net of an allowance for uncollectibles.

Functional Classifications

Expenditures of the Governmental funds are classified by function. Functional classifications are defined as follows:

Community Development includes those activities which enhance the general quality of life.

Debt Service includes those activities that account for the payment of long-term debt principal, interest and fiscal charges.

Deposits

Deposits placed with the State of California condemnation fund for the express purpose of right of way acquisition for street widening projects.

Land Held for Resale

Land purchased for resale is capitalized as inventory at acquisition cost or net realizable value, if lower.

Restricted Assets

Restricted assets represent unexpended bond proceeds, interest earnings thereon and reserve amounts of certificates of participation, tax allocation bonds, and special assessment bonds. Under the related resolutions and indentures, the remaining proceeds are restricted for the use of future construction of improvements to the respective projects, for debt service or for reserve requirements. The majority of these assets are held by trustees and fiscal agents.

Low and Moderate Housing funds are restricted by law only for the purpose of providing low and moderate income housing in the Redevelopment project areas. The net assets related to Low and Moderate Housing funds are shown as restricted net assets on the Statement of Net Assets for this purpose.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. 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.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings and improvements	40-55 years
Machinery and equipment	3-20 years
Vehicles	5 years

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, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

Reconciliation of Government-Wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance of governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term debt has not been included in the governmental funds." The details of this $(682,874,031) long-term debts difference is as follows:

Tax allocation bonds and loans payable	$ (415,013,297)
Loans payable to City	(82,215,877)
Owner participation agreements	(185,644,857)
Net adjustment to reduce *fund balances of governmental funds* to arrive at *net assets of governmental activities*	$ (682,874,031)

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 a 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. One element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $(34,083,612) difference are as follows:

Debt issued or incurred:	
Issuance of owner participation agreements	$ (2,767,884)
Issuance of Loans payable to City	(43,393,080)
Principal repayments:	
Tax allocation bonds and loans	12,077,352
Net adjustment to decrease net changes in *fund balances of governmental funds* to arrive at changes in *net assets of governmental activities*	$ (34,083,612)

II. STEWARDSHIP

Note 2. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The Agency uses the following procedures in establishing the budgetary data reflected in the financial statements. After January 1, department heads prepare estimates for required appropriations for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and forecasted revenues for the fiscal year. The data is presented to the Executive Director for review. Prior to June 1, the Executive Director submits to the City Council (serving as the Agency board) a proposed operating budget for the upcoming fiscal year. The operating budget includes a summary of the proposed expenditures and financial resources of the City and Agency, as well as historical data for the preceding five fiscal periods. Public meetings are conducted at the civic center to obtain taxpayer comments. The City Council adopts the budget by June 30 through passage of an adopting resolution. Budgets were legally adopted for the general, special revenue, debt service and all capital project funds during the fiscal year ended June 30, 2008. This appropriated budget covers substantially all Agency expenditures. All appropriated amounts shown are as originally adopted or as amended by the City Council. During the year, several supplementary appropriations were approved. Additionally, amounts representing projects that were not completed were unappropriated at the end of the year, and reappropriated in the following year. Unexpended appropriations lapse at the year end.

The legal level of control is at the department level. Department heads are authorized to transfer budgeted amounts within their departments, within the same funds, with the approval of the City Manager. Transfers of appropriations between departments and between funds may be made only by authority of the City Council. Formal budgetary integration is employed as a management control device during the fiscal year for all governmental funds.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

III. DETAIL NOTES ON ALL FUNDS

Note 3. Deposits and Investments

The Agency follows the practice of pooling cash and investments of all funds except for restricted funds generally held by outside custodians and funds in its employees' deferred compensation plans. Each fund's portion of total cash and investments is summarized by fund type in the combined balance sheet as equity in pooled cash and investments.

Interest income earned on pooled cash and investments is allocated to those funds which are required by law, local ordinance, administrative action or agreements to receive interest. Such allocation is made annually, at a minimum, based on the weighted average cash balances in each fund receiving interest. Interest income from cash and investments which are restricted is credited directly to the related fund.

Cash and investments	$ 53,356,632
Investments in litigation*	1,974,037
Restricted assets:	
Cash with fiscal agent	86,715,275
	$ 142,045,944

* Refer to Note 9 regarding Investments in litigation.

GASB Statement No. 31

The City adopted GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Investments and Interest Receivable – Restricted

Restricted assets represent unexpended financing proceeds, interest earnings thereon and reserved amounts of certificates of participation, tax allocation bonds, and special assessment bonds. Under the related resolutions and indentures, the remaining proceeds are restricted for the use of future construction or improvement to the respective projects, for debt service or for reserve requirements. The majority of these assets are held by trustees and fiscal agents.

Authorized Investments

Under the provisions of the City's investment policy and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- State Treasurer's Local Agency Investment Fund (LAIF)
- Corporate Obligations (medium-term notes and bonds)
- U.S. Government Securities
- Mutual Funds
- Bankers' Acceptances
- Mortgage Pass-Through Securities (FHLMC or FNMA only)
- Commercial Paper
- Certificates of Deposit
- Negotiable Certificates of Deposit
- Investment Contracts

It is the City's policy not to invest in Small Business Administration Obligations (SBAs), Repurchase Agreements, Reverse Repurchase Agreements, Financial Futures and Financial Option Contracts, or California State and Local Agency Obligations even though such investments are authorized under the California Government Code. All investments present at June 30, 2008, and during the fiscal year conform to the City's investment policy.

The City's idle cash in the following bond accounts is invested in investment agreements. The type of securities held under the investment agreements comply with the Government Code and the City's investment policy.

The bond reserve account of $914,120 from the 2000 Downtown Tax Allocation Refunding Bonds is invested in an investment agreement with an annual rate of 5.47% through the year 2021.

The bond reserve account of $1,512,535 from the 2003 Southwest Industrial Park Subordinate Tax Allocation Bonds is invested in an investment agreement with an annual rate of 4.36% through the year 2033.

The bond reserve account of $924,770 from the 2004 Sierra Corridor Tax Allocation Bonds is invested in an investment agreement with an annual rate of 4.547% through the year 2034.

The project account of $38,442,664 from the 2005 North Fontana Subordinate Lien Tax Allocation Revenue Bonds is invested in an investment agreement with an annual rate of 3.806% through the year 2008.

The project account of $19,734,666 from the 2007 Sierra Corridor Tax Allocation Bonds is invested in an investment agreement with an annual rate of 4.956% through the year 2010.

Local Agency Investment Fund (LAIF)

The LAIF is a special fund of the California State Treasury, secured by the full faith and credit of the State of California, through which local governments may pool investments. Each city may invest up to $40,000,000 in LAIF for each entity (City and Redevelopment Agency). Investments in LAIF are highly liquid as deposits can be converted to cash within twenty-four (24) hours without loss of interest earned to such date.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the State pool is the same as the value of the pool shares.

Collateral for Deposits

Under the provisions of the California Government Code, California banks and Savings and Loan Associations are required to secure city deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the deposits. California law also allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

The collateral for certificates of deposit is generally held in safekeeping by a third-party trustee. The securities are physically held in an undivided pool for all California public agency depositors. The State Public Administrative Office for public agencies and the Federal Home Loan Bank maintain detailed records of the security pool which are coordinated and updated weekly. The City Treasurer or the Management Services Director may waive the 100% collateral requirement for deposits which are insured up to $100,000 by the FDIC.

The Agency's funds are pooled with the City of Fontana's cash and investments in order to generate optimum interest income. The City has adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This new pronouncement is an amendment to GASB Statement No. 3. GASB No. 40 establishes and modifies disclosure requirements related to deposit and investment risks. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc. is available in the annual report of the City.

Note 4. Capital Assets

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

	Beginning Balance as Previously Reported June 30, 2007	Adjustments*	Adjusted Beginning Balance June 30, 2007	Increases	Decreases	Ending Balance June 30, 2008
Governmental activities:						
Capital assets, not being depreciated						
Land	$ 32,631,818	$ (151,540)	$ 32,480,278	$ 3,906,099	$ -	$ 36,386,377
Total capital assets, not being depreciated	32,631,818	(151,540)	32,480,278	3,906,099	-	36,386,377
Capital assets, being depreciated						
Buildings and improvements	21,275,183	-	21,275,183	2,708,534	-	23,983,717
Machinery and equipment	17,492		17,492	-	-	17,492
Vehicles	435,969	-	435,969	-	-	435,969
Infrastructure	51,926,692		51,926,692		-	51,926,692
Total capital assets, being depreciated	73,655,336	-	73,655,336	2,708,534	-	76,363,870
Less accumulated depreciation for:						
Buildings and improvements	(1,644,714)	(14,458)	(1,659,172)	(773,830)	-	(2,433,002)
Machinery and equipment	(17,492)	-	(17,492)	-	-	(17,492)
Vehicles	(435,969)	-	(435,969)	-	-	(435,969)
Infrastructure	(2,722,940)		(2,722,940)	(1,730,890)	-	(4,453,830)
Total accumulated depreciation	(4,821,115)	(14,458)	(4,835,573)	(2,504,720)	-	(7,340,293)
Total capital assets, being depreciated, net	68,834,221	(14,458)	68,819,763	203,814	-	69,023,577
Governmental activities capital assets, net	$ 101,466,039	$ (165,998)	$ 101,300,041	$ 4,109,913	$ -	$ 105,409,954

* Refer to Footnote 7 regarding beginning net assets adjustments

Note 5. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2008, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
Jurupa Hills Debt Service	Jurupa Hills Capital Projects	$10,450

The amount due to the debt service fund is the result of negative cash balances at the end of the year.

Advances to/from other funds:

Receivable Fund	Payable Fund	Amount
Low/Moderate Income Housing Special Revenue	Southwest Industrial Park Debt Service	$ 5,329,247
Southwest Industrial Park Capital Projects	Jurupa Hills Capital Projects	2,409,048
	Downtown Capital Projects	2,390,200
		$ 10,128,495

The amount advanced by the Low/Moderate Income Housing Special Revenue fund reflects a portion of the prior years ERAF obligation, and amounts advanced by the Southwest Industrial Park Capital Projects fund reflects administrative and other costs.

Interfund transfers:

	Transfer In:								
	Low/Moderate Income Special Revenue	Jurupa Hills Debt Service	North Fontana Debt Service	Downtown Debt Service	Southwest Industrial Park Capital Projects	North Fontana Capital Projects	Downtown Capital Projects	Sierra Corridor Capital Projects	Total
Transfer out:									
Low/Moderate Income Housing	$ -	$ 3,531,621	$ 804,200	$ 121,600	$ -	$ -	$ -	$ -	$ 4,457,421
Southwest Industrial Park Debt Service	2,709,105	-	-	-	1,371,633	-	-	-	4,080,738
Jurupa Hills Debt Service	3,531,621	-	-	-	-	-	-	-	3,531,621
North Fontana Debt Service	12,629,891	-	-	-	-	19,043,800	-	-	31,673,691
Downtown Debt Service	458,223	-	-	-	-	-	821,800	-	1,280,023
Sierra Corridor Debt Service	2,915,130	-	-	-	-	-	-	2,578,731	5,493,861
	$ 22,243,970	$ 3,531,621	$ 804,200	$ 121,600	$ 1,371,633	$ 19,043,800	$ 821,800	$ 2,578,731	$ 50,517,355

Interfund transfers primarily consist of transfer of 20% set-aside tax increment, transfer of funding for capital projects to capital project funds, and transfer of funding for debt service to debt service funds.

Note 6. Long-Term Debt

All long-term obligations of the Agency are from governmental activities. The major portion of the long-term obligations is debt directly or indirectly related to activities of the Fontana Redevelopment Agency. This debt is serviced primarily from tax increment revenues. The total indebtedness has been segregated below and summarized as to the changes therein during the fiscal year ended June 30, 2008.

	Balance June 30, 2007 As Previously Reported	Adjustments	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Amounts Due Within One Year
Governmental Activities:							
Tax Allocation Bonds and Notes:							
North Fontana Project Area Loans	$ 132,908,004	$ -	$ 132,908,004	$ -	$ 4,051,853	$ 128,856,151	$ 4,244,262
North Fontana Project Area Loans	73,400,000	-	73,400,000	-	-	73,400,000	-
Jurupa Hills Project Area	73,680,000	-	73,680,000	-	1,985,000	71,695,000	2,085,000
Southwest Industrial Park Project Area	54,285,000	-	54,285,000	-	1,260,000	53,025,000	1,310,000
Downtown Project Area	9,485,000	-	9,485,000	-	445,000	9,040,000	460,000
Sierra Corridor Project Area	54,305,000	-	54,305,000	-	820,000	53,485,000	895,000
Low/Mod Housing (North Fontana)	5,638,614	-	5,638,614	-	15,499	5,623,115	17,535
Other Redevelopment Agency:							
Payable to City	38,822,797	-	38,822,797	43,393,080	-	82,215,877	-
Payable to developers	3,500,000	-	3,500,000	-	3,500,000	-	-
Owner participation agreements	182,878,903	(1,930)	182,876,973	2,767,884	-	185,644,857	-
Total Redevelopment Agency	$ 628,903,318	$ (1,930)	$ 628,901,388	$ 46,160,964	$ 12,077,352	$ 662,985,000	$ 9,011,797
				Unamortized bond premium		19,889,031	
						$ 682,874,031	

Tax Allocation Bonds

The Fontana Redevelopment Agency (Agency) has issued the following Tax Allocation Bonds which are special obligations of the Agency secured by pledged tax increment revenues within the individual project areas. The bonds are not a debt of the City and are not payable out of any funds or properties other than those of the Agency:

RDA 1997 Series A Refunding Bonds (Jurupa Hills)

$52,170,000 of *Jurupa Hills Redevelopment Project Tax Allocation Refunding Bonds, 1997 Series A*, were issued in December 1997. The proceeds were used to current refund all of the Agency's Jurupa Hills Redevelopment Project Tax Allocation Bond Anticipation Notes, 1994, in the amount of $10,300,000, and to advance refund all of the Agency's Jurupa Hills Redevelopment Project Refunding Tax Allocation Bonds, 1992 Series A, in the amount of $36,790,000. The bonds pay interest semi-annually at rates ranging from 4.0% to 5.5% and mature from October 1998 through October 2027.

RDA 1997 Series A Refunding Bonds (Jurupa Hills)

Fiscal Year Ending	Principal	Interest	Total
2009	$ 620,000	$ 2,546,715	$ 3,166,715
2010	650,000	2,514,005	3,164,005
2011	685,000	2,478,953	3,163,953
2012	725,000	2,441,225	3,166,225
2013	760,000	2,400,750	3,160,750
2014 - 2018	4,470,000	11,311,575	15,781,575
2019 - 2023	15,615,000	8,860,913	24,475,913
2024 - 2028	23,185,000	3,324,338	26,509,338
Totals	$ 46,710,000	$ 35,878,474	$ 82,588,474

RDA 1999 Series A Refunding Bonds (Jurupa Hills)

Fiscal Year Ending	Principal	Interest	Total
2009	$ 1,465,000	$ 1,315,421	$ 2,780,421
2010	1,540,000	1,239,526	2,779,526
2011	1,615,000	1,158,266	2,773,266
2012	1,695,000	1,071,783	2,766,783
2013	1,790,000	979,854	2,769,854
2014 - 2018	10,505,000	3,289,309	13,794,309
2019 - 2023	3,960,000	1,004,080	4,964,080
2024 - 2028	2,415,000	352,940	2,767,940
Totals	$ 24,985,000	$ 10,411,179	$ 35,396,179

RDA 1999 Series A Refunding Bonds (Jurupa Hills)

$33,985,000 of *Jurupa Hills Redevelopment Project Tax Allocation Refunding Bonds, 1999 Series A*, were issued in June 1999. The proceeds were used to advance refund the Jurupa Hills Redevelopment Project Tax Allocation Refunding Bonds, 1994 Series A, in the amount of $23,915,000 and to advance refund the Agency's Jurupa Hills Redevelopment Project Subordinate Tax Allocation Refunding Bonds, 1994 Series B, in the amount of $5,560,000. The bonds pay interest semi-annually at rates ranging from 4.25% to 5.6% and mature from October 2000 through October 2027.

RDA 1998 Tax Allocation Bonds (SWIP)

Fiscal Year Ending	Principal	Interest	Total
2009	$ 945,000	$ 1,723,377	$ 2,668,377
2010	990,000	1,680,430	2,670,430
2011	1,035,000	1,634,350	2,669,350
2012	1,080,000	1,585,570	2,665,570
2013	1,130,000	1,533,758	2,663,758
2014 - 2018	6,535,000	6,759,890	13,294,890
2019 - 2023	8,340,000	4,910,700	13,250,700
2024 - 2028	10,550,000	2,616,003	13,166,003
2029 - 2031	4,885,000	366,210	5,251,210
Totals	$ 35,490,000	$ 22,810,288	$ 58,300,288

RDA 1998 Tax Allocation Bonds (Southwest Industrial Park)

$42,470,000 of *Southwest Industrial Park Project Tax Allocation Bonds, 1998*, were issued in September 1998. The proceeds were used to advance refund all of the Agency's 1993 Southwest Industrial Park Project Tax Allocation Bonds, in the amount of $26,805,000 and to current refund those certain 1990 Taxable Variable Rate Certificates of Participation (City of Fontana Property Acquisition Program), in the amount of $14,400,000. The bonds pay interest semi-annually, starting March 1, 1999, at rates ranging from 4% to 5.2% and mature from September 1999 through September 2030.

RDA 2003 Series A and Series B (Taxable) Tax Allocation Bonds (Southwest Industrial Park Project)

$19,015,000 of *Subordinate Tax Allocation Bonds, 2003 Series A and Series B (Taxable)*, were issued in November 2003. The proceeds were used by the Redevelopment Agency to finance certain improvements in the Southwest Industrial Park Project. The Series A bonds pay interest semi-annually at rates ranging from 2.0% to 4.95% and mature from October 2004 through October 2033. The Series B bonds pay interest semi-annually at rates ranging from 1.68% to 5.25% and mature from October 2004 through October 2014.

RDA 2003 Tax Allocation Bonds (SWIP)

Fiscal Year Ending	Principal	Interest	Total
2009	$ 365,000	$ 812,360	$ 1,177,360
2010	375,000	799,523	1,174,523
2011	385,000	784,830	1,169,830
2012	405,000	768,382	1,173,382
2013	420,000	750,445	1,170,445
2014 - 2018	2,405,000	3,447,390	5,852,390
2019 - 2023	2,960,000	2,873,126	5,833,126
2024 - 2028	3,775,000	2,073,773	5,848,773
2029 – 2033	4,850,000	1,114,819	5,964,819
2034	1,595,000	39,476	1,634,476
Totals	$ 17,535,000	$ 13,464,124	$ 30,999,124

RDA 2000 Tax Allocation Refunding Bonds (Downtown)

Fiscal Year Ending	Principal	Interest	Total
2009	$ 460,000	$ 438,440	$ 898,440
2010	485,000	413,634	898,634
2011	510,000	387,515	897,515
2012	540,000	361,303	901,303
2013	565,000	335,059	900,059
2014 - 2018	3,250,000	1,228,320	4,478,320
2019 - 2022	3,230,000	333,000	3,563,000
Totals	$ 9,040,000	$ 3,497,271	$ 12,537,271

RDA 2000 Tax Allocation Refunding Bonds (Downtown)

$11,975,000 of *Downtown Project Tax Allocation Refunding Bonds, 2000*, were issued in December 2000. The proceeds were used to advance refund all of the Public Financing Authority 1991 Tax Allocation Revenue Bonds (Downtown Redevelopment Project), in the amount of $10,895,000. The bonds pay interest semi-annually, starting March 1, 2001, at rates ranging from 4% to 5.25% and mature from September 2001 through September 2021.

RDA 2004 Tax Allocation Bonds (Sierra Corridor)

$13,685,000 of *Sierra Corridor Commercial Redevelopment Project Tax Allocation Bonds* were issued in July 2004. The proceeds will be used to finance certain Improvements in or benefiting the Sierra Corridor Project area. The Bonds pay Interest semi-annually at rates ranging from 3.5% to 5.5% and mature from September 2005 through September 2034.

RDA 2004 Tax Allocation Bonds (Sierra Corridor)

Fiscal Year Ending	Principal	Interest	Total
2009	$ 250,000	$ 669,095	$ 919,095
2010	255,000	659,620	914,620
2011	270,000	649,120	919,120
2012	280,000	637,980	917,980
2013	290,000	626,005	916,005
2014 - 2018	1,655,000	2,915,310	4,570,310
2019 - 2023	2,105,000	2,453,774	4,558,774
2024 - 2028	2,715,000	1,822,370	4,537,370
2029 – 2033	3,540,000	975,589	4,515,589
2034 - 2035	1,705,000	95,013	1,800,013
Totals	$ 13,065,000	$ 11,503,876	$ 24,568,876

RDA 2007 Tax Allocation Bonds (Sierra Corridor)

Fiscal Year Ending	Principal	Interest	Total
2009	$ 645,000	$ 1,915,788	$ 2,560,788
2010	675,000	1,887,700	2,562,700
2011	700,000	1,856,763	2,556,763
2012	735,000	1,824,475	2,559,475
2013	770,000	1,790,613	2,560,613
2014 - 2018	4,395,000	8,380,950	12,775,950
2019 - 2023	5,580,000	7,160,063	12,740,063
2024 - 2028	7,135,000	5,578,688	12,713,688
2029 – 2033	9,030,000	3,632,913	12,662,913
2034 - 2037	10,755,000	1,137,031	11,892,031
Totals	$ 40,420,000	$ 35,164,984	$ 75,584,984

RDA 2007 Tax Allocation Refunding Bonds (Sierra Corridor)

$41,000,000 of *Sierra Corridor Commercial Redevelopment Project Tax Allocation Bonds, 2007,* were issued in March 2007. The proceeds were used to finance certain improvement in or benefiting the Sierra Corridor Project area. The bonds pay interest semi-annually, starting September 1, 2007, at rates ranging from 4% to 5% and mature from September 2007 through September 2036.

The Fontana Public Financing Authority has issued the following Tax Allocation Bonds, the proceeds of which were loaned to the Redevelopment Agency to finance certain redevelopment activities of the Agency and, in some cases, to refinance prior debt. The bonds are special obligations of the Authority payable from and secured by revenues consisting primarily of amounts payable by the Agency under Loan Agreements:

PFA 2005 Series A Tax Allocation Loan (North Fontana)

$61,565,000 of Subordinated Lien Tax Allocation Revenue Loan was issued in February, 2005. The proceeds were used in part to refund and defease all of the Public Financing Authority 1993 Series A Tax Allocation Revenue Loan (North Fontana), in the amount of $35,070,000. The remaining proceeds will be used to finance improvements to include street improvements, sewer, storm drains, traffic signals, recreation improvements, property acquisition and landscaping within or benefiting, the Project Area (North Fontana). The Loan pay interest semi-annually at rates ranging from 3% to 5% and mature from October, 2005 through October, 2032.

PFA 2005 Series A Tax Allocation Loan (North Fontana)

Fiscal Year Ending	Principal	Interest	Total
2009	$ 2,375,000	$ 2,317,181	$ 4,692,181
2010	2,435,000	2,251,044	4,686,044
2011	2,500,000	2,176,938	4,676,938
2012	2,585,000	2,091,075	4,676,075
2013	2,675,000	1,995,681	4,670,681
2014 - 2018	15,040,000	8,246,463	23,286,463
2019 - 2023	25,260,000	4,226,300	29,486,300
2024	1,975,000	49,375	2,024,375
Totals	$ 54,845,000	$ 23,354,057	$ 78,199,057

2001 Series A Tax Allocation Loan (North Fontana)

Fiscal Year Ending	Principal	Interest	Total
2009	$ 1,849,178	$ 2,738,117	$ 4,587,295
2010	1,988,015	2,600,715	4,588,730
2011	2,127,583	2,453,342	4,580,925
2012	2,283,111	2,295,384	4,578,495
2013	2,440,323	2,126,205	4,566,528
2014 - 2018	15,099,921	7,639,560	22,739,481
2019 - 2023	12,920,488	1,771,711	14,692,199
2024	556,465	18,393	574,858
Totals	$ 39,265,084	$ 21,643,427	$ 60,908,511

2001 Series A Tax Allocation Loan (North Fontana)

$49,675,000 *Tax Allocation Revenue Loan, 2001 Series A*, was made by the Public Financing Authority in March 2001. The proceeds were used by the Redevelopment Agency to refinance $42,505,000 of outstanding PFA 1990 Series A Tax Allocation Revenue Loan and $7,170,000 of outstanding PFA 1993 Series B Subordinate Lien Tax Allocation Revenue Loan. The loan pays interest semi-annually at rates ranging from 6.611% to 7.233% and matures form September 2001 through September 2023.

2003 Series A Tax Allocation Loan (North Fontana)

$34,765,761 *Tax Allocation Revenue Loan* was made by the Public Financing Authority in October 2003. The proceeds were used by the Redevelopment Agency to finance certain improvements in or benefiting the North Fontana Redevelopment Project. The loan pays interest semi-annually at a rate of 7.50% and matures from September 2005 through September 2032.

2003 Series A Tax Allocation Loan (North Fontana)

Fiscal Year Ending	Principal	Interest	Total
2009	$ 20,083	$ 2,605,202	$ 2,625,285
2010	22,290	2,603,613	2,625,903
2011	29,361	2,601,676	2,631,037
2012	28,163	2,599,519	2,627,682
2013	36,476	2,597,095	2,633,571
2014 - 2018	203,082	12,942,931	13,146,013
2019 - 2023	293,534	12,850,014	13,143,548
2024 - 2028	10,853,106	11,537,849	22,390,955
2029 – 2033	23,259,972	4,612,952	27,872,924
Totals	$ 34,746,067	$ 54,950,851	$ 89,696,918

2003 Series B Tax Allocation Loan (North Fontana)			
Fiscal Year Ending	Principal	Interest	Total
2009	$ 17,535	$ 673,722	$ 691,257
2010	14,614	671,793	686,407
2011	19,868	669,724	689,592
2012	20,232	667,318	687,550
2013	25,380	664,581	689,961
2014 - 2018	167,793	3,269,250	3,437,043
2019 - 2023	613,143	3,096,852	3,709,995
2024 - 2028	1,719,395	2,378,368	4,097,763
2029 – 2033	3,025,155	989,447	4,014,602
Totals	$ 5,623,115	$ 13,081,055	$ 18,704,170

2003 Series B Taxable Tax Allocation Loan (North Fontana)

$5,771,753 *Tax Allocation Revenue Loan, 2003 Series B Taxable,* was made by the Public Financial Authority in October 2003. The proceeds were used by the Redevelopment Agency to refinance $9,107,150 of outstanding RDA Tax Allocation Notes. The bonds pay interest semi-annually at a rate of 12.0% and matures from September 2008 through September 2032.

PFA 2005 Series A Tax Allocation Notes (North Fontana)

$73,400,000 of Subordinated Lien Tax Allocation Revenue Notes were issued in February, 2005. The proceeds were used to finance improvements to include street improvements, sewer, storm drains, traffic signals, recreation improvements, property acquisition and landscaping within or benefiting the project area (North Fontana). The Notes pay interest semi-annually at the rate of 5% and mature from October, 2023 through October, 2032.

PFA 2005 Series A Tax Allocation Notes (North Fontana)			
Fiscal Year Ending	Principal	Interest	Total
2009	$ -	$ 3,670,000	$ 3,670,000
2010	-	3,670,000	3,670,000
2011	-	3,670,000	3,670,000
2012	-	3,670,000	3,670,000
2013	-	3,670,000	3,670,000
2014 - 2018	-	18,350,000	18,350,000
2019 - 2023	-	18,350,000	18,350,000
2024 - 2028	33,930,000	14,094,500	48,024,500
2029 – 2033	39,470,000	5,125,750	44,595,750
Totals	$ 73,400,000	$ 74,270,250	$ 147,670,250

Payable to Developers

In July and August, 1990, the Agency and City, respectively, entered into Disposition and Development Agreements with Gatlin-Berger (a private developer) to facilitate the development, operation and maintenance of a commercial shopping center to be located in the Downtown Redevelopment Project Area. Under the terms of this agreement, the Agency was required to purchase land from the developer with a $3,500,000 note payable. The land was subsequently sold to the developer for redevelopment purposes. The loan was to be repaid with sales tax generated from the project. Payments commenced upon completion of the project. There was no fixed repayment schedule as the debt was be repaid based on the collection of sales tax. The loan specified that the obligation would be discharged at the final payment date if the sales tax generated by the shopping center was insufficient to fully satisfy the debt. The City was discharged of the obligation of the loan payable in July 2007, the final payment date, as the sales tax was not sufficient to satisfy the debt.

Long-Term Agency Payables to the City of Fontana

The advance between the General Fund and the Redevelopment Agency Debt Service represents the loan between the Agency and the City which resulted from the amendment to the 1991 Junior Lien Tax Allocation Bonds. The amendment increased the interest rate to 12%, accreted the unpaid interest of $22,729,130 making the new principal balance $32,729,130, and modified the maturity schedule. Interest is now due semi-annually, every January and June, commencing on June 15, 2005. The present balance of amounts advanced totaled $38,822,797 at June 30, 2008, and are to be repaid from tax increment revenues generated by the redevelopment project areas. The accumulated unpaid interest for each project area, through June 30, 2008, is as follows:

Jurupa Hills Project Area	$ 4,408,711
Downtown Project Area	1,447,491
	$ 5,856,202

The General Fund advanced the Redevelopment Agency Capital Projects fund $43,393,080 for the purchase of property in the North Fontana Project area. The loan accrues interest at 8%. The Redevelopment Agency will repay the loan in 20 annual installments, which are due in September of each year.

Payable Under Jurupa Hills Owner Participation Agreement

The Agency has entered into an owner participation agreement (OPA) with Ten-Ninety, Ltd., a private land development partnership (the Participating Owner), relating to the Jurupa Hills Project Area. The OPA requires, among other things, the reimbursement by the Agency to the Participating Owner of costs incurred for certain infrastructure and other improvements. Costs advanced, which accrue interest at 15.5%, are reimbursed from, and limited to: (i) the tax increment revenue generated in the Southridge Village portion of the Jurupa Hills Project Area and (ii) certain fees and assessments collected from benefited property owners.

In January 1992, the City, Agency and Participating Owner entered into two agreements in further implementation of the development of Southridge Village; a Facilitation Agreement and an Amendment No. 3 to OPA and Composite OPA. On March 31, 1992, a judgment was entered by the San Bernardino County Superior Court validating the provisions of these two agreements and declaring them to be legally binding upon the parties.

The Facilitation Agreement provides for specific allocations of costs and responsibilities between the City and Participating Owner with respect to certain public works items and for the discharge of the Participating Owner's obligations and responsibilities with respect to the infrastructure items for Phase I, II and III of Southridge Village.

Amendment No. 3 to OPA includes acknowledgment that the Participating Owner has completed its infrastructure obligations relating to the development of Southridge Village, and provides for certain payments by the Participating Owner to the Agency and City, in order to mitigate certain negative fiscal impacts imposed by the development and continued existence of Southridge Village. As described in the agreements, the payments to the City and Agency will be in amounts equal to 35% of the residual tax increments and 50% of the assessments and other reimbursements to be paid to the Participating Owner as reimbursement for public infrastructure improvements installed by the Participating Owner.

The balance at June 30, 2008, does not include $409,769,740 of accumulated unpaid interest that is subject to the same limitations of reimbursement from tax increment revenue, fees and assessments as is the case for costs of construction advanced. The total reimbursement costs of the project are $185,644,857. Consequently, it is estimated that all future residual tax increment revenue through the year-ended June 30, 2033 (the termination date of the OPA) will be required to service this obligation.

In October 1988, the Agency issued $28,700,000 of Refunding Tax Allocation Bonds, 1988 Series A, and in June 1992, the Agency issued $37,765,000 of Refunding Tax Allocation Bonds, 1992 Series A, both issues relating to the Jurupa Hills Project Area. In October 1994, the Agency issued $26,350,000 of Refunding Tax Allocation Bonds, 1994 Series A, and $5,930,000 of Refunding Tax Allocation Bonds, 1994 Series B. Both of these issues were used to defease the 1988 Series A Refunding Tax Allocation Bonds and to refund a portion of the principal obligation due to the participating owner. In December 1997, the Agency issued $52,170,000 of Tax Allocation Refunding Bonds, 1997 Series A. The proceeds were used to refund the 1994 Tax Allocation Bond Anticipation Notes and to defease the 1992 Series A Refunding Tax Allocation Bonds. In June 1999, the Agency issued $33,985,000 of Tax Allocation Refunding Bonds, 1999 Series A. The proceeds were used to defease the 1994 Series A and 1994 Series B Tax Allocation Refunding Bonds. The payable under the OPA is subordinate to these bond issues.

Residential Mortgage and Industrial Development Revenue Bond Programs

The Agency has sponsored several revenue bond programs since inception under which residential mortgage and industrial development revenue bonds were issued. The residential mortgage revenue bond programs are designed to provide funds for the purchases of home mortgages secured by newly constructed and existing single family homes located in the City. The bonds are secured by an exclusive pledge of all receivables from residential mortgage loans purchased with the bonds proceeds plus amounts held in the bond debt service accounts by the trustee. The industrial development revenue bond programs provide funds for the acquisition and construction of commercial developments located in the City. The bonds are secured by an exclusive pledge of revenues, receipts or resources from the loans made from the bond proceeds plus amounts held in the bond debt service accounts by the trustees. As of June 30, 2008, the conduit debt obligation has been completely satisfied.

The bonds are not indebtedness of the Agency or the City, and there exists no legal obligation on the part of the Agency or the City to make payments on the bonds from any source other than the revenues and assets pledged therefore. The programs are completely administered by the trustees, and have been excluded from the accompanying combined financial statements.

Commercial and Industrial Owner Participation Agreements

The Agency has entered into owner participation agreements (OPAs) or other contracts with certain commercial and industrial companies which have constructed facilities within Agency project areas. These agreements generally require, among other things, the pledging of property tax increment and/or sales tax revenues generated by the facilities. The amounts refundable range from 37% to 50% of the facility generated revenues, generally subject to maximum limitations, and generally are in effect for periods of one to twenty years. The following is a summary of unrecorded, estimated future OPA payments:

	2009	2010	2011	2012	Thereafter	Total
Southwest Industrial Park:						
Clark Pacific	$ 17,338	$ 17,210	$ -	$ -	$ -	$ 34,548
W.E. Hall	12,000	11,911	-	-	-	23,911
Home Shopping Network	217,954	222,313	226,760	231,295	-	898,322
Lock & Load Self Storage	20,897	21,315	21,741	22,176	-	86,129
American Hotel Registry	25,522	26,032	26,553	-	-	78,107
Downtown:						
Birtcher Trachman	-	-	-	-	750,000	750,000
Total	$ 293,711	$ 298,781	$ 275,054	$ 253,471	$ 750,000	$ 1,871,017

Disposition and Development Agreement

The Agency has entered into a disposition and development agreement (DDA) to facilitate the development, operation and maintenance of a commercial shopping center to be located in the Downtown Project Area. This agreement generally requires, among other things, the payment of 52% of property tax increment and 80% of the Agency's portion of sales and use taxes generated by the development through 2013. Under the terms of the agreement, the Agency was required to convey certain parcels of land to the developer with a fair market value of $4,537,813. Additionally, the Agency was required to reimburse the developer for acquisition costs of related parcels in excess of $4,400,000 and off-site improvement costs in excess of $3,000,000. Under the DDA, the Agency is entitled to retain annual base tax revenues of $600,000. In addition, the amounts refundable are limited to $150,000 each year in excess of annual base tax revenues.

GASB Statement No. 48 – Sale and Pledges of Receivables and Future Revenues

The Agency has pledged, as security for bonds it has issued, either directly or through the City's Financing Authority, a portion of the tax increment revenue, including Low and Moderate Income Housing set-aside, that it receives. These bonds were to provide financing for various capital projects, accomplish Low and Moderate Income Housing projects and to defease previously issued bonds. The Agency has committed to appropriate each year, from these resources amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is $715,154,102 with debt service requirements as indicated on page 31-37. For the current year, the total tax increment revenue and the required 20% Low and Moderate Income Housing set-aside recognized by the Agency was $111,219,850 and $22,243,970, respectively.

Note 7. Fund Equity and Net Asset Restatements

Beginning fund equity has been restated as follows:

Major governmental funds:	
Low/Mod Income Housing - Special Revenue	
Revenue understated in prior year	$ 815
Loan Receivable overstated in prior year	(13,690)
	(12,875)
North Fontana Capital Projects	
Capital Assets transferred to Land Held for Resale	365,111
Sierra Corridor Capital Projects	
Expenditures overstated in prior year	400,000
Total fund equity restatements	$ 752,236

Net assets have been restated as follows:

Governmental activities:	
Capital assets overstated in prior year	(165,998)
Long term liabilities overstated in prior year	1,930
Revenue understated in prior year	815
Loan Receivable overstated in prior year	(13,690)
Expenditures overstated in prior year	400,000
Capital Assets transferred to Land Held for Resale	365,111
Total net asset restatement	588,168

Note 8. Insurance

Insurance coverage has been obtained by the City of Fontana. Information related to the Agency's insurance coverage can be obtained by contacting the City.

Note 9. Subsequent Events

Investment in Lehman Brothers

At June 30, 2008, the City's investment portfolio included medium term notes with a face value of $10,000,000 (actual cost of $10,118,000) in Lehman Brothers Holdings Inc. On September 15, 2008, Lehman Brothers Holdings Inc. filed for Chapter 11 bankruptcy. As a result of the filing, the market value of the notes substantially declined, the estimated value of the notes is $0.125 per $1.00. The financial statements included in this report do not reflect the decline in market value; the investment is included at its fair market value as of June 30, 2008 of $1,974,037, the Agency's allocation of the pooled investment. The following pro forma statements show the amounts that would have appeared in the June 30, 2008 financial statements if the estimated loss of $1,849,524 for the Agency's allocation of the pooled investment had been recorded at June 30,2008.

Balance Sheet/Statement of Net Assets:

	Special Revenue	Debt Service				
	Low/Mod. Income Housing	Southwest Industrial Park	Jurupa Hills	North Fontana	Downtown	Sierra Corridor
Assets						
Cash and investments	$24,453,959	$4,870,200	$122,583	$13,034,268	$848,964	$6,949,702
Other assets	18,820,132	1,924,413	8,172,037	2,422,713	1,031,352	1,790,719
Total assets	43,274,091	6,794,613	8,294,620	15,456,981	1,880,316	8,740,421
Liabilities	410,918	6,460,283	1,655,146	4,695,747	142,582	4,502,255
Fund balance/net assets	42,863,173	334,330	6,639,474	10,761,234	1,737,734	4,238,166
Total liabilities and fund balance/net assets	$43,274,091	$6,794,613	$8,294,620	$15,456,981	$1,880,316	$8,740,421

	Capital Projects					
	Southwest Industrial Park	Jurupa Hills	North Fontana	Downtown	Sierra Corridor	Total All Fund Types
Assets						
Cash and investments	$149,499	$ -	$48,748	$955,714	$2,047,507	$53,481,144
Other assets	11,764,595	1,727,697	111,333,119	44,272	26,930,237	185,961,286
Total assets	11,914,094	1,727,697	111,381,867	999,986	28,977,744	239,442,430
Liabilities	4,154,958	3,296,766	11,464,800	2,423,043	1,485,377	40,691,875
Fund balance/net assets	7,759,136	(1,569,069)	99,917,067	(1,423,057)	27,492,367	198,750,555
Total liabilities and fund balance/net assets	$11,914,094	$1,727,697	$111,381,867	$999,986	$28,977,744	$239,442,430

Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance (Net Assets):

	Special Revenue	Debt Service				
	Low/Mod. Income Housing	Southwest Industrial Park	Jurupa Hills	North Fontana	Downtown	Sierra Corridor
Revenue						
Investment earnings	$195,222	$40,127	$229,559	$38,373	$55,978	($5,222)
Other revenue	38,968	13,545,522	17,778,946	63,149,455	5,863,037	14,575,653
Total revenues	234,190	13,585,649	18,008,505	63,187,828	5,919,015	14,570,431
Expenditures	13,891,298	3,851,000	14,116,972	21,156,312	4,481,189	3,224,401
Other financing sources	17,786,549	(8,566,725)	(3,842,544)	(46,625,562)	(1,386,444)	(8,491,081)
Net change	4,129,441	1,167,924	48,989	(4,594,046)	51,382	2,854,949
Fund balance/net assets						
Beginning of year, as restated	38,733,732	(833,594)	6,590,485	15,355,280	1,686,352	1,383,217
Net change in fund balance	4,129,441	1,167,924	48,989	(4,594,046)	51,382	2,854,949
End of fiscal year	$ 42,863,173	$ 334,330	$ 6,639,474	$ 10,761,234	$ 1,737,734	$ 4,238,166

	Capital Projects					
	Southwest Industrial Park	Jurupa Hills	North Fontana	Downtown	Sierra Corridor	Total All Fund Types
Revenue						
Investment earnings	$391,598	$ -	$2,284,307	($4,369)	$1,452,926	$4,678,499
Other revenue	74,978	-	17,172	0	317,125	115,360,856
Total revenues	466,576	-	2,301,479	(4,369)	1,770,051	120,039,355
Expenditures	9,597,534	2,856,891	48,215,742	515,211	22,995,675	144,902,225
Other financing sources	1,371,633	2,767,884	62,436,880	821,800	3,176,033	19,448,423
Net change	(7,759,325)	(89,007)	16,522,617	302,220	(18,049,591)	(5,414,447)
Fund balance/net assets						
Beginning of year, as restated	15,518,461	(1,480,062)	83,394,450	(1,725,277)	45,541,958	204,165,002
Net change in fund balance	(7,759,325)	(89,007)	16,522,617	302,220	(18,049,591)	(5,414,447)
End of fiscal year	$ 7,759,136	$ (1,569,069)	$ 99,917,067	$ (1,423,057)	$ 27,492,367	$ 198,750,555

ERAF Tax Increment Revenue Shift

On September 30, 2008 the California Legislature passed AB 1389, requiring a shift in tax increment revenues during fiscal year 2008-2009 to the State Educational Revenue Augmentation Fund (ERAF). It is estimated that the Redevelopment Agency's share of the ERAF shift for fiscal year 2008-2009 will amount to approximately $6,889,204.

Financial Concerns Relating to the California Economy

As indicated in the State of California's 2008-2009 Proposed Budget Summary – Economic Outlook:

> "The California and national economies faced considerable headwinds -a deepening housing slump, a breakdown in mortgage markets, tighter credit, more volatile financial markets, and rising energy prices. Upward resets of subprime mortgage rates made payments unaffordable for many borrowers and helped push mortgage defaults and foreclosures to record levels. Several large financial institutions reported huge losses on subprime mortgages and securities backed by these mortgages. Uncertainty about how far the problems with these mortgages would spread increased financial market volatility and prompted lenders to tighten credit standards. The Federal Reserve injected liquidity into the financial markets and eased monetary policy on a number of occasions in the second half of the year, but as year-end neared, financial markets were still not functioning normally."

While the values shown in the attached financial statements reflect those present at June 30, 2008, substantial changes have occurred in the economy in which the City and its component units operate. Therefore, the projection of the financial data for the City and its component units into future periods must recognize these factors and consider the effect of these on its operations and costs.

FONTANA REDEVELOPMENT AGENCY

Schedule 1

Computation of Low and Moderate Housing Excess/Surplus Funds
For the Fiscal Year Ended June 30, 2008

	Low and Moderate Housing Funds - All Project Areas July 1, 2007		Low and Moderate Housing Funds - All Project Areas July 1, 2008	
Opening fund balance		$ 38,733,732		$ 43,708,893
Less unavailable amounts:				
ERAF loans	$ (5,329,247)		$ (5,329,247)	
Encumbrances (Section 33334.12 (g)(2))	(11,525,738)		(1,434,639)	
Unspent debt proceeds (Section 33334.12 (g)(3)(B))	(89,754)		(61,001)	
Long-term loans receivable	(12,276,075)		(12,252,656)	
		(29,220,814)		(19,077,543)
Available Low and Moderate Income Housing Funds		9,512,918		24,631,350
Limitation (greater of $1,000,000 or four years set-aside)				
Set-aside for last four years:				
2007-2008	-		22,243,970	
2006-2007	18,976,344		18,976,344	
2005-2006	15,906,356		15,906,356	
2004-2005	12,970,653		12,970,653	
2003-2004	10,649,863		-	
Total	$ 58,503,216		$ 70,097,323	
Base limitation	$ 1,000,000		$ 1,000,000	
Greater amount		58,503,216		70,097,323
Computed excess/surplus		None		None

PORTLAND
REDEVELOPMENT AGENCY