

FULLERTON REDEVELOPMENT AGENCY FULLERTON, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2011

Lance Soll & Lunghard, LLP

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fullerton Redevelopment Agency (Agency), a component unit of the City of Fullerton, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2011, and the respective changes in financial position and budgetary comparisons for the Combined Low and Moderate Housing Fund, thereof 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 Note 7 – "California Redevelopment Agency Uncertainty". The note provides information on two bills passed, AB1X26 and 27 which dissolve redevelopment agencies effective October 1, 2011 and provide an option to avoid dissolution by making certain defined payments.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting



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

for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. 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 financial statements. These are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Brea, California December 15, 2011

Lance, Soll & Lunghard, LLP



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE

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

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on redevelopment program has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable to the redevelopment program for the year ended June 30, 2011

Internal Control Over Compliance

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

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



To the Honorable Chair and Members of the Governing Board Fullerton Redevelopment Agency

Lance, Soll & Lunghard, LLP

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

This report is intended for the information of management, the Audit Committee, and the California State Controller and it is not intended to be and should not be used by anyone other than these specified parties.

Brea, California December 15, 2011

FULLERTON REDEVELOPMENT AGENCY Management's Discussion and Analysis

The information presented in "Management's Discussion and Analysis" is intended to be a narrative overview of the Fullerton Redevelopment Agency (Agency) financial activities for the fiscal year ended June 30, 2011.

Financial Highlights

- Net Assets totaled \$25.3 million as of June 30, 2011, a decrease of \$29.1 million from the previous fiscal year.
- As of June 30, 2011, the governmental fund balance was \$131.5, an increase of \$15.2 million in comparison to the prior year.
- The Agency's Capital Assets were transferred to the City of Fullerton during fiscal year 2010-11, reducing the total from \$19 million in the previous year to \$0 as of June 30, 2011.
- Total Agency debt increased by \$25.5 million due to the issuance of Tax Allocation Housing bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements, which consist of three components: (1) Government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The annual report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities. These two 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 of 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 how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the Agency that are principally supported by property tax increment and bond proceeds. Redevelopment activities include providing public improvements, assisting with development and rehabilitation of existing properties, and providing low and moderate-income housing.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are classified as governmental funds.

Governmental funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. This information may be useful in evaluating the Agency's short-term financing requirements.

The focus of fund financial statements is narrower than that of the government-wide financial statements. The fund balance sheets and statement of revenues, expenditures, and changes in fund balances provide a reconciliation on pages 12 and 14 to facilitate the comparison between governmental funds and governmental activities.

The Agency is comprised of four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. All four funds are considered to be major funds.

The basic governmental fund financial statements can be found on pages 11-15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes of the financial statements can be found on pages 16-29.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents a calculation of the Agency's Low and Moderate Income Housing Fund's Excess/Surplus on page 30.

Government-wide Financial Analysis

Over time, net assets may serve as a useful indicator of the Agency's financial position. In 2010-11, net assets decreased by \$28.8 million due to an increase in long-term debt from the issuance of \$29 million in Housing bonds.

Fullerton Redevelopment Agency's Net Assets

		Governmental Activities Fiscal Year 2010-11 (in Millions)	Governmental Activities Fiscal Year 2009-10 (in Millions)
Current and c	ther assets	\$137.8	\$123.5
Capital assets	s, net	<u>0.0</u>	<u>19.0</u>
	Total assets	<u>137.8</u>	<u>142.5</u>
Current liabilit	ties	6.0	6.7
Noncurrent liabilities		<u>106.5</u>	<u>81.4</u>
	Total liabilities	<u>112.5</u>	<u>88.1</u>
Net assets:			
	Invested in capital assets	0.0	19.0
	Restricted	131.5	35.4
	Unrestricted	<u>(106.2)</u>	<u>0.0</u>
	Total net assets	<u>\$25.3</u>	<u>\$54.4</u>

The Agency's assets exceeded liabilities by \$25.3 million at June 30, 2011. Of this amount, \$131.5 million is restricted for 1) low and moderate housing (\$55.7 million), 2) community development (\$64.8 million), and 3) debt service (\$11 million). A total of -\$106.2 million is unrestricted. Capital assets decreased from \$19 million in 2009-10 to \$0 in 2010-11 due to the transfer of all assets to the City.

Fullerton Redevelopment Agency's Changes in Net Assets

	Governmental Activities Fiscal Year 2010-11 (in Millions)	Governmental Activities Fiscal Year 2009-10 (in Millions)
Revenues:		
Property taxes Other	\$17.0 <u>0.8</u>	\$19.2 <u>1.6</u>
Total revenues	<u>17.8</u>	<u>20.8</u>
Expenses:		
General Government Community Development Public Works Interest on long-term debt Contributions to other governments Other Total expenses	1.2 35.2 0.0 6.1 1.4 3.5	0.0 22.9 15.9 4.5 0.0 <u>0.0</u>
Increase/(decrease) in net assets	(29.6)	(22.5)
Net assets - beginning	54.4	76.9
Restatement of net assets	<u>0.5</u>	0.0
Net assets - ending	<u>\$25.3</u>	<u>\$54.4</u>

Property tax increment revenues of \$17 million are the Agency's major revenue source. The reduction of tax increment from the previous year is due to the decline in property values resulting from the economic recession.

The Public works expenses reported in the previous year have been reclassified to community development, as these expenses represent public improvements made in the community. General Government expenses represent the pass-through payments, while contributions to other governments are the payments made to the Educational Revenue Augmentation Fund. Other expenses represent the amount of contributions made to the City of Fullerton for the year.

Financial Analysis of the Agency's Funds

Governmental funds. The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of 2010-11, the Agency's governmental funds reported combined ending fund balances of \$131.5 million, an increase of \$15.1 million in comparison with the prior year. Of that amount, \$27.1 is nonspendable because it represents long-term assets. The remainder of fund balance (\$104.4 million) is reserved because it has already been committed for: 1) debt service (\$13.8 million), 2) capital projects (\$56.1 million), and 3) low and moderate housing (\$34.5 million).

Capital Asset and Debt Administration

Capital assets. The Agency's investment in capital assets for its governmental activities decreased from \$19 million in fiscal year 2009-10 to \$0 in 2010-11 due to the transfer of assets from the Agency to the City during the fiscal year.

Long-term debt. At the end of fiscal year 2010-11, the Agency had a total of outstanding bonded debt and lease obligations of \$104.3 million as indicated below.

Fullerton Redevelopment Agency's Outstanding Debt

	Governmental Activities Fiscal Year 2010-11 (in Millions)	Governmental Activities Fiscal Year 2009-10 (in Millions)
1998 Revenue Bond	\$2.7	\$2.9
1999 Revenue Bond	0.0	2.0
2003 Certificate of Participation	3.3	4.1
2005 CRA/ERAF Revenue Bond	0.5	0.6
2005 Tax Allocation Revenue Bond	66.8	68.4
2006 CRA/ERAF Revenue Bond	0.7	0.8
2010 Lease Revenue Bonds, Series B	1.3	0.0
2010 Tax Allocation Housing Bonds	<u>29.0</u>	0.0
Total outstanding debt	<u>\$104.3</u>	<u>\$78.8</u>

Debt is secured by property tax increment revenue. In 2010-11, outstanding debt increased by \$25.5 million due to the issuance of Housing Bonds.

Information on the Agency's long-term debt can be found on pages 23-26.

Requests for Information

This financial report is designed to provide a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the office of the Director of Administrative Services, City of Fullerton, 303 W. Commonwealth Avenue, Fullerton, CA 92832.

STATEMENT OF NET ASSETS JUNE 30, 2011

	Governmenta	Governmental Activities			
Assets:					
Cash and investments		\$ 36,493,913			
Receivables:					
Tax increment	\$ 175,492				
Accounts	97,194				
Interest	47,544				
Loans	12,495,854				
Total Receivables		12,816,084			
Land held for resale (net)		14,552,224			
Deferred charges		2,190,289			
Other assets		28,944			
Restricted assets:					
Cash and investments with trustees		71,770,265			
Total Assets		137,851,719			
Liabilities:					
Accounts payable and accrued expenses		5,898,182			
Deposits from others		58,002			
Long-term liabilities:					
Due within one year	4,560,000				
Due in more than one year	101,964,035				
Total Long-Term Liabilities		106,524,035			
Total Liabilities		112,480,219			
Net Assets:					
Restricted for:					
Low and moderate housing		52,831,338			
Community development		64,846,455			
Debt service		13,871,114			
Unrestricted		(106,177,407)			
Total Net Assets		\$ 25,371,500			

STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2011

				Program Re	evenue	es		Re	et (Expense) evenues and Changes in
	Expenses	Charge Servi	s for	Operati Contribut and Gra	ng ions	Cap Contrib and G	utions	ı	Net Assets overnmental Activities
Functions/Programs									
Governmental Activities:									
General government	\$ 1,198,300	\$	-	\$	-	\$	-	\$	(1,198,300)
Community development	35,231,024		-		-		-		(35,231,024)
Interest on long-term debt	6,156,814		-		-		-		(6,156,814)
Contributions to other governments	1,373,413		-		-		-		(1,373,413)
Other	3,475,592	-		-					(3,475,592)
Total Governmental Activities	\$ 47,435,143	\$		\$		\$			(47,435,143)
General Revenues:									
Taxes (net of pass-through payments)									16,955,754
Use of money and property									884,078
Total General Revenues									17,839,832
Change in Net Assets									(29,595,311)
Net Assets at Beginning of Year									54,439,401
Restatement of Net Assets									527,410
Net Assets at End of Year								\$	25,371,500

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2011

	Special Revenue	Capital Projects	Capital Projects	Debt Service	
	Combined	General Agency Fund	Merged Project Area	Merged Project Area	
	Low and Moderate Housing	General Agency	Project	Tax Increment	Total Governmental Funds
Assets:					
Cash and investments Cash and investments with trustee Receivables:	\$ 8,934,168 28,399,919	\$ 7,866,287 -	\$ 10,222,369 40,972,818	\$ 9,471,089 2,397,528	\$ 36,493,913 71,770,265
Tax increment	-	-	-	175,492	175,492
Accounts	6,626	36,454	54,114	-	97,194
Interest	15,490	32,054	-	-	47,544
Loans	6,660,803	-	5,835,051	-	12,495,854
Prepaid costs	28,944	-	-	-	28,944
Land held for resale	11,651,456		2,900,768		14,552,224
Total Assets	\$ 55,697,406	\$ 7,934,795	\$ 59,985,120	\$ 12,044,109	\$ 135,661,430
Liabilities and Fund Balances: Liabilities:					
Accounts payable	\$ 26,340	\$ 271,544	\$ 2,747,014	\$ 1,009,623	\$ 4,054,521
Deposits from others	3,100		54,902		58,002
Total Liabilities	29,440	271,544	2,801,916	1,009,623	4,112,523
Fund Balances:					
Nonspendable:	00.044				00.044
Prepaid Land held for resale	28,944	-	- 2 000 7 69	-	28,944
	11,651,456 6,660,803	-	2,900,768 5,835,051	-	14,552,224 12,495,854
Long-term receivables Restricted:	0,000,003	-	5,635,051	-	12,495,654
Debt service	2,836,628	_	_	11,034,486	13,871,114
Capital projects	-	7,663,251	48,447,385	- 11,001,100	56,110,636
Low and moderate housing	34,490,135		-		34,490,135
Total Fund Balances	55,667,966	7,663,251	57,183,204	11,034,486	131,548,907
Total Liabilities and					
Fund Balances	\$ 55,697,406	\$ 7,934,795	\$ 59,985,120	\$ 12,044,109	\$ 135,661,430

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2011

Fund balances of governmental funds	\$ 131,548,907
Amounts reported for governmental activities in the statement of net assets are different because:	
Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:	
Unamortized debt issuance costs - amortized over life of new bonds	2,190,289
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	
Bonds payable	(104,335,000)
Unamortized net original issue discounts and (premiums)	(2,189,035)
Accrued interest payable for the current portion of interest due on Tax Allocation	
Bonds has not been reported in the governmental funds.	(1,843,661)
Net assets of governmental activities	\$ 25,371,500

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Special Revenue	Capital Projects	Capital Projects	Debt Service	
	Combined	General Agency Fund	Merged Project Area	Merged Project Area	
	Low and Moderate Housing	General Agency	Project	Tax Increment	Total Governmental Funds
Revenues:					
Taxes and assessments	\$ -	\$ -	\$ -	\$ 18,154,596	\$ 18,154,596
Use of money and property	259,134	(34,472)	616,642	97,223	938,527
Other revenue		31,925			31,925
Total Revenues	259,134	(2,547)	616,642	18,251,819	19,125,048
Expenditures:					
Current:					
Community development	1,198,300	-	-	-	1,198,300
Capital outlay	-	4,096,927	12,100,273	-	16,197,200
Debt service	496,138	43,347	-	10,579,403	11,118,888
Contribution to City			3,507,517		3,507,517
Total Expenditures	1,694,438	4,140,274	15,607,790	10,579,403	32,021,905
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(1,435,304)	(4,142,821)	(14,991,148)	7,672,416	(12,896,857)
Other Financing Sources (Uses):					
Transfers in	5,654,190	4,273,464	2,435,787	-	12,363,441
Transfers out	(2,435,786)	-	(6,296,736)	(3,630,919)	(12,363,441)
Long-term debt issued	28,847,093	-	-	1,779,431	30,626,524
Pass-through agreement payments	-	-	-	(1,198,842)	(1,198,842)
Payment to Educational Revenue					
Augmentation Fund				(1,373,413)	(1,373,413)
Total Other Financing					
Sources (Uses):	32,065,497	4,273,464	(3,860,949)	(4,423,743)	28,054,269
Excess (Deficiency) of Revenues an Other Sources Over (Under)	d				
Expenditures and Other Uses	30,630,193	130,643	(18,852,097)	3,248,673	15,157,412
Fund Balances:					
Beginning of Year	25,037,773	7,532,608	76,035,301	7,785,813	116,391,495
End of Year	\$ 55,667,966	\$ 7,663,251	\$ 57,183,204	\$ 11,034,486	\$ 131,548,907

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, 2011

Net change in fund balances - total governmental funds	\$ 15,157,412
Amounts reported for governmental activities in the statement of activities are different because:	
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	5,190,000
Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:	
Debt issuance costs on bonds issued Amortization for current fiscal year	547,899 (232,895)
Unamortized premium or discounts on bonds issued are revenue or expenditures in the governmental funds, but these are spread to future periods over the life of the new bonds:	
Current year original issuance premium on bonds issued Amortization for current fiscal year	83,477 144,898
Collections on interest and other revenues receivable not available to pay for current-period expenditures and, therefore, were not accured in the governmental funds.	(54,449)
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets in capitalized and allocated over their estimated useful lives through depreciation expense:	
Transfer of capital assets to the City	(19,033,824)
Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets.	(30,710,000)
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:	
Current accrual of interest due on bonds Prior year accrual of interest due on bonds	(1,843,661) 1,155,832
Change in net assets of governmental activities	\$ (29,595,311)

BUDGETARY COMPARISON STATEMENT LOW AND MODERATE INCOME HOUSING YEAR ENDED JUNE 30, 2011

		Amounts	Actual	Variance with Final Budget Positive
D	Original	Final	Amounts	(Negative)
Revenues:	ф <u>ББ 000</u>	ф <u>гг</u> 000	Φ.	Φ (FF 000)
Intergovernmental	\$ 55,000	\$ 55,000	\$ -	\$ (55,000)
Use of money and property	73,900	73,900	259,134	185,234
Total Revenues	128,900	128,900	259,134	130,234
Expenditures:				
Current:				
Community development	935,210	1,410,689	1,198,300	212,389
Debt service:				
Interest and fiscal charges	-	496,138	496,138	_
Total Expenditures	935,210	1,906,827	1,694,438	212,389
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(806,310)	(1,777,927)	(1,435,304)	342,623
Other Financing Sources (Uses):				
Transfers in	3,327,950	3,630,919	5,654,190	2,023,271
Long-term debt issued	-	28,847,093	28,847,093	-
Transfers out	(1,280,000)	(4,967,095)	(2,435,786)	2,531,309
Total Other Financing Sources (Uses)	2,047,950	27,510,917	32,065,497	4,554,580
Not Change in Fund Ralance	1,241,640	25,732,990	30,630,193	4,897,203
Net Change in Fund Balance	1,241,040	23,132,990	30,030,193	4,097,203
Fund Balance, Beginning of Year	25,037,773	25,037,773	25,037,773	
Fund Balance, End of Year	\$ 26,279,413	\$ 50,770,763	\$ 55,667,966	\$ 4,897,203

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies

a. Reporting Entity

The Fullerton Redevelopment Agency (the "Agency") was activated in June 1973. The primary purpose of the Agency is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational, and public facilities. The Agency is a component unit of the City of Fullerton and therefore the Agency's financial activities are included (blended) with the financial activities of the City of Fullerton for financial reporting purposes. On December 19, 2006, the Agency merged four existing project areas into a single project area which includes four component areas: Orangefair, Central Fullerton, East Fullerton, and Auto Dealership. The sole purpose of the merger was to enable the agency to expend property tax increment in any project area without regard to the area for which property tax increment was collected. The Orangefair Redevelopment Project Area involves major commercial center development and public improvements; the Central Fullerton Redevelopment Project Area is focused on downtown revitalization, building rehabilitation, housing and public improvements; the East Fullerton Redevelopment Project Area efforts are concentrated on hotel and restaurant development, provision of parkland and recreation facilities, and public improvements; and the Project Area #4 assists with attraction and expansion activities related to automobile dealerships and/or other major retail developments.

The Agency's primary source of revenue, other than loans and advances from the City and bond proceeds, comes from property taxes, referred to in the accompanying financial statements as "Tax increment revenue." Property taxes allocated to the Agency are computed in the following manner: 1) the assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan; 2) property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts.

b. Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the Agency as a whole. For the most part the effect of interfund activity has been removed from these statements. The Agency provides only governmental activities which are supported principally by property tax increments.

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 charges for services and 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.

As part of the basic financial statements separate fund statements are provided for all governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

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. Under the economic resources measurement focus, all assets and liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available expendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by noncurrent receivables is deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts. Revenues are recognized when they become measurable and available as net current assets. The primary revenue sources susceptible to accrual are taxpayer assessed taxes, investment income and capital project financing sources. Revenues are recognized when they are measurable at the end of the year and available within 60 days after the end of the fiscal year. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The Agency considers all of its funds as major governmental funds. They are:

The special revenue fund is used to account for the 20% of property tax increment revenues legally required to be set aside for low and moderate income housing.

The debt service funds are used to account for property tax increment revenues, bond proceeds required to be set aside for future debt service and related interest income. The funds are used primarily to account for repayment of principal and interest on long-term indebtedness of the Agency for the merged project areas.

The capital projects funds are used to account for bond proceeds available for project improvements, interest income on invested funds, and certain other income. The funds are expended primarily for administrative, which are included in the General Agency Fund, and redevelopment project costs, which are included in the Project Fund, for the merged project areas.

All government-wide activities of the Agency follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

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

d. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

The Agency pools its cash and investments with the City of Fullerton to maximize yield. All investments are reported at fair value (the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale), except for investments which have a remaining maturity of less than one year when purchased, which are stated at amortized cost. Those investments are short-term, highly liquid debt instruments including commercial paper, certificates of deposit, and agency obligations. In accordance with GASB 31, "Accounting and Financial Reporting for Certain Investments, and for External Investment Pools", the City's investments are stated at fair value.

2. Receivables

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

3. Land Held for Resale

Land held for resale is carried at the lower of cost or estimated realizable value. Fund balance have been reserved for land and improvements held for resale by the Fullerton Redevelopment Agency in the Low and Moderate Income Housing Special Revenue Fund and Central Capital Projects Fund.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with 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.

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.

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

Assets	Years
Buildings and Improvements	20-50
Vehicles, Furniture, and Equipment	10
Leasehold Improvements	20

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. The Agency first implemented GASB Statement 34 for the fiscal year ended June 30, 2003. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds for all the bonds issued after June 30, 2002.

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 financing 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.

6. Fund Equity

In the fund financial statements, government funds report the following fund balance classification:

Nonspendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

<u>Restricted</u> include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

<u>Committed</u> include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, City Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is ordinance or resolution.

<u>Assigned</u> include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City Manager and/or Administrative Services Director is authorized to assign amounts to a specific purpose, which was established by the governing body in the fund balance policy approved through resolution 2011-40.

<u>Unassigned</u> include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

An individual governmental fund could include nonspendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications. Restricted amounts are to be considered spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and committed, assigned, then unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

7. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2: Stewardship, Compliance, and Accountability

a. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governments.

The operating budget includes a summary of the proposed expenditures and financial resources of the Agency, as well as historical data for the preceding two fiscal periods. Public hearings are conducted at the civic center to obtain taxpayer comments. The Agency adopts the budget at the second meeting in June through passage of an adopting resolution. This appropriated budget covers substantially all Agency expenditures including rebudgeted items. All governmental funds have legally adopted budgets. All appropriated amounts are as originally adopted or as amended by the Agency and lapse at year-end.

The appropriated budget is prepared by fund, program, and department. The City Manager is authorized to transfer budgeted amounts within departments, within funds. Transfers of appropriations between departments and between funds may be made only by authority of the Agency Board. Total fund and department expenditures in excess of the total budgeted amounts are prohibited. Formal budgetary integration is employed as a management control device during the fiscal year for all governmental funds. Expenditures may not legally exceed budgeted appropriations at the department level.

Note 3: Detailed Notes on All Funds

a. Cash and Investments

Cash and investments at June 30, 2011, consisted of the following:

Cash investments	\$ 36,493,913
Cash investments with fiscal agent	71,770,265
Total cash and investments	\$ 108,264,178

At June 30, 2011, the Agency's cash investments consisted of \$36,493,213 pooled with City of Fullerton and \$71,770,265 cash and investments held by fiscal agent under debt agreements. The Agency's funds are pooled with the City of Fullerton's cash and investments in order to generate optimum interest income. GASB Statement 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 3: Detailed Notes on All Funds (Continued)

b. Notes Receivable

The Agency offers incentive programs to commercial property owners located in the downtown section of the Central Project Area and the Orangefair Project Area to improve the physical appearance and the seismic safety of the buildings in those areas. The Commercial Rehabilitation Loan Program offers no-interest, deferred loans with the sliding scale contribution based on project cost, with a maximum of \$100,000 from the Agency.

The Seismic Rehabilitation Loan Program offers a combination of deferred and payment loans with no interest for upgrading unreinforced masonry buildings. The first \$25,000 is deferred, and 50 percent of the amount over \$25,000 is added to the loan, but must be repaid over a ten-year period. The Tenant Loan program offers a maximum of \$50,000 in matching funds, all of which must be repaid over ten years with no interest charge.

The deferred loans for both programs are due on sale or transfer of the property.

Maple School Expansion loan is repayable by the district over twenty-five years with no interest change.

As part of the affordable housing program, the Agency implemented a first time homebuyer down payment assistance program to eligible homebuyers. The loan is deferred for the first fifteen years and repaid in the following fifteen years with no interest. The loans are also due and payable upon sale or transfer of title.

At June 30, 2011, notes receivable consisted of the following:

	Principal			ured Interest	Total Receivable		
Special Revenue Fund:							
Affordable Housing Program	\$	3,425,470	\$	17,302	\$	3,442,772	
Affordable Housing Development Loan		3,140,031		78,000		3,218,031	
Sub-total		6,565,501		95,302		6,660,803	
Orangefair Captial Project Fund:							
Commercial Rehabilitation Loan		37,500		-		37,500	
Seismic Rehabilitation Loan		25,000		-		25,000	
Fullerton- Maple School Expansion Loan		440,442		-		440,442	
Fullerton Historic Theatre Rehabilitation Loan		2,665,722				2,665,722	
Sub-total		3,168,664				3,168,664	
Central Capital Project Fund:							
Commercial Rehabilitation Loan		1,086,993		-		1,086,993	
Seismic Rehabilitation Loan		916,484		-		916,484	
Tenant Loan		101,121		-		101,121	
Fullerton Historic Theatre Rehabilitation Loan		561,789		<u> </u>		561,789	
Sub-total		2,666,387				2,666,387	
Total Notes Receivable	\$	12,400,552	\$	95,302	\$	12,495,854	

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 3: Detailed Notes on All Funds (Continued)

c. Capital Assets

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

	Beginning Balance	Increases	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 12,349,121	\$ -	\$ 12,349,121	\$ -
Total capital assets not being depreciated	12,349,121		12,349,121	
Capital assets being depreciated:				
Buildings	136,203	_	136,203	-
Improvements other than buildings	7,700,813	-	7,700,813	_
Machinery and equipment	757,040	-	757,040	-
Leasehold improvements	546,500	-	546,500	-
Total capital assets being depreciated	9,140,556		9,140,556	
Less accumulated depreciation for:				
Buildings	(49,292)	_	(49,292)	_
Improvements other than buildings	(2,101,096)	_	(2,101,096)	-
Machinery and equipment	(196, 165)	_	(196, 165)	-
Leasehold improvements	(109,300)	-	(109,300)	_
Total accumulated depreciation	(2,455,853)		(2,455,853)	
Total capital assets, being depreciated, net	6,684,703		6,684,703	
Governmental activities capital assets, net	\$ 19,033,824	\$ -	\$ 19,033,824	\$ -

d. Interfund Transfers

The composition of interfund transfers as of June 30, 2011, is as follows:

Special Revenue Fund:	1	ransfers In	T	ransfers Out
Low and Moderate Income Housing	\$	5,654,190	\$	(2,435,786)
Debt Service:				
Tax Increment		-		(3,630,919)
Capital Projects:				
General Agency		4,273,464		-
Project		2,435,787		(6,296,736)
Totals	\$	12,363,441	\$	(12,363,441)

The interfund transfers are made for purposes of setting aside 20 percent of tax increment in the Low and Moderate Income Housing Fund, and financing certain property acquisitions for housing and capital improvements and transferring excess property tax increment for capital projects. There were no significant transfers during the fiscal year that were either non-routine in nature or inconsistent with the activities of the fund making the transfer.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 4: Long Term Debt

		Balance					Balance		ue Within
	J	uly 1, 2010	 Additions	Re	epayments	Ju	ine 30, 2011	(One Year
Bonds - 1998 Revenue bond	\$	2,850,000	\$ =	\$	135,000	\$	2,715,000	\$	140,000
Bonds - 1999 Refunding Revenue bond		2,045,000	-		2,045,000		-		-
Bonds - 2003 Refunding Certificates of Participation		4,130,000	-		775,000		3,355,000		795,000
Bonds - 2005 CRA/ERAF Revenue bond		640,000	-		115,000		525,000		120,000
Bonds - 2005 Tax Allocation Revenue bond		68,365,000	-		1,595,000		66,770,000		1,635,000
Bonds - 2006 CRA/ERAF Revenue bond		785,000	-		115,000		670,000		120,000
Bonds - 2010 Lease Revenue Bonds, Series B		=	1,730,000		410,000		1,320,000		420,000
Bonds - 2010 Tax Allocation Housing bond			28,980,000		-		28,980,000		1,330,000
Total	\$	78,815,000	\$ 30,710,000	\$	5,190,000		104,335,000	\$	4,560,000

Adjustments:

Unamortized net original issue (discount) or premium Net Long-term Debt

 2,189,035
\$ 106,524,035

Revenue Bonds

1998 Revenue Bond

On July 1, 1998, the City of Fullerton Public Financing Authority issued \$24,539,455 in Revenue Bonds consisting of current interest bonds in the aggregate principal amount of \$16,310,000 and capital appreciation bonds in the original principal amount of \$8,229,455. The average interest rates range from 4.5 percent to 5.125 percent. The term of the bonds is 27 years maturing in the year 2025. The net proceeds were \$23.9 million (after payment of \$503,000 in underwriting fees, insurance, and other issuance costs).

A portion of the proceeds were used to advance refund \$3,485,000 of outstanding 1989 bonds with average interest rates ranging from 6.2 percent to 7 percent. Proceeds in the amount of \$1,330,581, plus an additional \$2,361,703 of 1989 Series sinking fund monies were used to purchase Defeasance Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1989 bonds. The 1989 bonds were completely redeemed on February 1, 1999.

The remainder of the net proceeds was used for the acquisition, construction, and improvement of the City's public capital improvements of benefit to the East Fullerton Redevelopment Project Area, including expansion of the police facility, expansion of the City's Main Library, trail system expansion, park renovation, construction of improvements in the Museum Plaza, and street construction. The Authority receives lease payments from the City under a lease agreement and the Fullerton Redevelopment Agency reimburses the City under a financing agreement. The lease portion of the debt is not recorded as the Fullerton Redevelopment Agency's long-term debt.

1999 Refunding Revenue Bonds

On April 1, 1999, the City of Fullerton Public Financing Authority issued \$6.3 million in Revenue Bonds with average interest rates ranging from 3.0 percent to 4.375 percent to advance refund \$5.3 million of outstanding 1986 Certificates of Participation, originally issued to provide funding for the full repayment of a developer reimbursement agreement for the Town Center Phase I Project, and for the improvements to Duane Winters Field/Amerige Park in the Orangefair Redevelopment Area and Central Fullerton Redevelopment Area,

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 4: Long Term Debt (Continued)

respectively. The term of the bonds is 15 years maturing in the year 2014. The net proceeds of \$6,009,378 (after payment of \$233,045 in underwriting fees, insurance, and other issuance costs) were used to retire all \$5.3 million of the 1986 outstanding bonds on June 1, 1999. As of June 30, 2011, the balance was paid in full.

2003 Refunding Certificates of Participation

On August 1, 2003, the Fullerton Redevelopment Agency issued \$8,355,000 in Certificates of Participation with average interest rates ranging from 2.3 percent to 4 percent to refund \$12,580,000 of outstanding 1993 Certificates of Participation with average interest rates ranging from 2.8 percent to 5.1 percent. The 1993 Certificates of Participation was issued to finance a portion of the City's share of the costs of a public safety communication system and to refund 1988 Series bonds which was originally issued to construct a public parking lot, the City's maintenance yard and to improve the Police and Fire station facilities. The term of the 2003 Certificates of Participation is 11 years maturing in the year 2014. The net proceeds of \$8.2 million (after payment of \$290,000 in underwriting fees, insurance, and other issuance costs) plus an additional \$769,125 of 1993 Certificates of Participation debt service fund were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 Certificates of Participation. As a result, the 1993 Certificates of Participation are considered to be defeased with an outstanding balance of \$4,285,000 at June 30, 2011, and the liability for those bonds has been removed from the long-term debt.

2005 CRA/ERAF Revenue Bond

On April 27, 2005, the Redevelopment Agency borrowed \$1.135-million to fund the payment due to the County of Orange Audio/Controller for the Education Revenue Augmentation Fund due May 10, 2005 in accordance with Section 33681.12 of the California Health and Safety Code. The loan is a ten year loan with an average coupon of 4.78%. The final maturity of the loan is August 1, 2015.

2006 CRA/ERAF Revenue Bond

On April 1, 2006 the Redevelopment Agency borrowed \$1.160 million to fund the payment due to the County of Orange Auditor/Controller for the Education Revenue Augmentation Fund due May 10, 2006, in accordance with section 33681.12 of the California Health and Safety Code. The loan is a ten year loan, with an average coupon of 5.57%. The final maturity of the loan is August 1, 2016.

2010 Lease Revenue Bonds, Series B

On December 22, 2010, the City of Fullerton Public Financing Authority issued 2010 Lease Revenue Bonds, Series B in the amount of \$1,730,000. Issuance of the debt was for the purpose of financing the acquisition and construction of certain capital improvements for the City of Fullerton. The annual principal and interest payments begin on May 1, 2011, and end May 1, 2014, with annual rates remaining at 4.00 percent for the life of the Bonds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 4: Long Term Debt (Continued)

Tax Allocation Bonds

The Agency has pledged, as security for bonds it has issued, 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, and accomplish Low and Moderate Income Housing projects. 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 secured by tax increment is \$152,392,386 with debt service requirements as indicated above. For the current year, the total tax increment revenue, the required 20% Low and Moderate Income Housing set-aside and net debt service expenditures recognized by the Agency were \$18,154,596, \$3,630,919, and \$5,433,693, respectively.

2005 Tax Allocation Revenue Bonds

On December 1, 2005, the City of Fullerton Public Financing Authority issued 2005 Tax Allocation Revenue Bonds in the amount of \$74,600,000. Issuance of the debt was for the purpose of financing certain capital improvements in the Orangefair Project Area, Central Fullerton Project Area and East Fullerton Project Area. The 2005 Tax Allocation Revenue Bonds are secured by the tax revenues to be derived from each project areas. The annual principal and interest payments begin on March 1, 2006, and end September 1, 2027, with interest rates ranging between 3.75 percent and 5 percent, plus supplemental interest paid to the City of Fullerton Public Financing Authority for administration fees.

2010 Tax Allocation Housing Bonds

On October 21, 2010 the Fullerton Redevelopment Agency issued 2010 Taxable Tax Allocation Housing Bonds in the amount of \$28,980,000. Issuance of the debt was for the purpose of financing certain improvements to the supply of low and moderate income housing in the City of Fullerton. The annual principal and interest payments begin on March 1, 2011, and end September 1, 2026, with annual rates ranging between 3.00 percent and 6.625 percent.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 4: Long Term Debt (Continued)

	199	8 - PFA - \$ Revenue			2	2003 - RDA - \$8,355,000 - Refunding COP's					A - \$1,135,000 - F Loan Program		
	Prir	ncipal		Interest	F	Principal	_	nterest	Principal			nterest	
2011 - 2012	\$	140,000	\$	137,731	\$	795,000	\$	114,250	\$	120,000	\$	25,792	
2012 - 2013	•	145,000		130,731		825,000		84,869		130,000		20,068	
2013 - 2014	•	155,000		123,481		850,000		52,400		135,000		13,710	
2014 - 2015	•	160,000		115,731		885,000		17,700		140,000		7,014	
2015 - 2016	•	170,000		107,731		-		-		-		-	
2016 - 2021	ç	970,000		403,425		-		-		-		-	
2021 - 2026		975,000		128,381				-		_		-	
Totals	\$ 2,7	715,000	\$	1,147,211	\$	3,355,000	\$	269,219	\$	525,000	\$	66,584	
	2005 -	- PFA - \$7	4,60	0,000 - Tax	2	2006 - RDA -	- \$1,10	60,000 -	201	0 - PFA - \$1	,730,0	00 - Lease	
	Allo	ocation Re	venu	e Bonds		CRA/ERAF L	.oan F	rogram		Revenue Bor	Bonds, Series B		
	Prir	ncipal		Interest	F	Principal	I	nterest		Principal		nterest	
2011 - 2012	\$ 1,6	635,000	\$	3,599,770	\$	120,000	\$	38,682	\$	420,000	\$	52,800	
2012 - 2013	1,6	675,000		3,517,230		125,000		32,028		440,000		36,000	
2013 - 2014	1,7	735,000		3,438,852		135,000		25,034		460,000		18,400	
2014 - 2015	1,7	765,000		3,362,661		140,000		17,442		-		-	
2015 - 2016	3,2	245,000		3,371,173		150,000		9,540		-		-	
2016 - 2021	18,2	250,000		14,322,840		-		-		-		-	
2021 - 2026	24,6	605,000		8,758,714		-		-		-		-	
2026 - 2031	13,8	360,000		1,127,145									
Totals	\$ 66,7	770,000	\$	41,498,385	\$	670,000	\$	122,726	\$	1,320,000	\$	107,200	

2010 - RDA - \$28,980,000 - Taxable Tax Allocation Housing

	Bon	ds	Total					
	Principal	Interest	Principal	Interest				
2011 - 2012	\$ 1,330,000	\$ 1,506,628	\$ 4,560,000	\$ 5,475,653				
2012 - 2013	1,335,000	1,466,653	4,675,000	5,287,579				
2013 - 2014	1,380,000	1,422,478	4,850,000	5,094,355				
2014 - 2015	1,425,000	1,369,828	4,515,000	4,890,376				
2015 - 2016	1,485,000	1,310,707	5,050,000	4,799,151				
2016 - 2021	8,515,000	5,387,425	27,735,000	20,113,690				
2021 - 2026	11,180,000	2,603,101	36,760,000	11,490,196				
2026 - 2031	2,330,000	77,181	16,190,000	1,204,326				
Totals	\$ 28,980,000	\$ 15,144,001	\$ 104,335,000	\$ 58,355,326				

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 5: Commitments and Contingencies

At June 30, 2011, the Agency was a defendant in a number of lawsuits arising in the ordinary course of operations, which allege liability on the part of the Agency in connection with workers compensation and general liability matters. Management believes that potential losses relating to these lawsuits will not materially affect the financial position of the Agency.

The Agency is part of the City's self-insured workers' compensation and general liability program. The liability for such claims, including claims incurred but not reported, is transferred to the City in consideration of self-insurance premiums paid by the Agency. Costs relating to the litigation of claims are charged to expense as incurred. Premiums for workers' compensation are paid to the City based on an allocation of payroll burden. Premiums for general liability are charged to the City based on historical claims data.

County of Orange All Persons Interested in the Matter of the Redevelopment Plan for the Merged Fullerton Redevelopment Project Area

On July 14, 2009, the City Council adopted an ordinance approving the First Amendment to the Merged Redevelopment Plan for the Fullerton Redevelopment Project Area (the "Plan Amendment"). The Plan Amendment adds in excess of 1,100 acres of land area to the City's adopted Merged Redevelopment Plan. The County of Orange and various organizations and individuals objected to the Plan Amendment prior to its adoption.

In early September 2009, the City and the County finalized a settlement agreement that would resolve all claims between the City and County concerning the Plan Amendment. The settlement agreement calls for the City to lease from the County the County's animal shelter facility, to make rental payments to the County equal to the amount of tax increment revenues allocated to the Agency that would have been received by the County but for the adoption of the Plan Amendment, to make an advance rent payment of \$4.0 million at the outset of the lease term equal to the estimated rent to be paid over the first 10 years of the lease and commencing in year 11 of the lease to make annual rent payments to the county through the balance of the lease term. The settlement agreement further requires the City to judicially validate the terms of the settlement agreement, however, and, pending the resolution of the settlement agreement validation action, authorizes the County to file a separate lawsuit challenging the validity of the Plan Amendment.

On September 23, 2009, the county filed its validation action challenging the validity of the Plan Amendment (the "County Action").

On September 30, 2009, a local organization and an individual resident and taxpayer in the City of Fullerton filed a second lawsuit challenging the validity of the Plan Amendment. The City and Agency have no settlement agreement in place with respect to this second lawsuit.

The plaintiffs in both lawsuits allege that the 1,100 acres included in the Plan Amendment are not "blighted" within the meaning of the California Community Redevelopment Law and seek judgments invalidating the Plan Amendment.

On November 16, 2010, the trial court determined that the plaintiffs in the second lawsuit failed to comply with State law in submitting documents in support of their action and entered judgment in favor of Fullerton. The case is currently in the State Court of Appeal.

If the City's lawsuit validating the settlement agreement is successful, the County has agreed to dismiss the County Action with prejudice. Until the appeal is decided, the City will not make any payments to the County.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 6: Transactions with the State of California

SERAF Shift for fiscal year 2009-2010 and 2010-2011

On July 23, 2009, the State adopted legislation, requiring a shift of monies during fiscal years 2009-2010 and 2010-2011 to be deposited into the County "Supplemental" Educational Revenue Augmentation Fund (SERAF). These monies were to be distributed to meet the State's Prop 98 obligations to schools. The California Redevelopment Association (CRA) and its member agencies filed a legal action in an attempt to stop these amounts from having to be paid; however, in May 2010 the Sacramento Superior Court upheld the legislation. This decision is in the process of being appealed by CRA and its member agencies. The payment of the SERAF was due on May 10, 2011, for fiscal year 2010-2011 and it was made in the amount of \$1,373,413. The legislation allowed this payment to be made from any available monies present in any project area(s). Subsequent legislation was passed which even allowed the funding for this payment to be borrowed from the Low and Moderate Income Housing Fund with appropriate findings from its legislative body. Any amounts borrowed from Low and Moderate Income Housing (including any suspended set-aside amounts) are to be repaid by June 30, 2015. If those amounts are not repaid, by that date, then the set-aside percentage to Low and Moderate Income Housing will increase from 20% to 25% for the remainder of the life of the Agency.

The agency had sufficient funds in the tax increment fund and the 2010-2011 SERAF payments of \$1,373,413 was paid and shown in other financing sources and uses.

Note 7: California Redevelopment Agency Uncertainty

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB1X 26 and 27. AB1X 26 dissolves redevelopment agencies effective October 1, 2011. AB1X 27, give redevelopment agencies an option to avoid dissolution if it commits to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amount to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments total \$400 million, annually. Each city or county's share of these payments is determined based on its proportionate share of state-wide tax increment.

CRA and the League contend that AB1X 26 and 27 are unconstitutional because they violate Proposition 22 which was passed by the voters in November, 2010. The effect of the legislation is to achieve a possible unconstitutional result, the use of redevelopment agencies' tax increment funds to benefit the State and other units of local government, by way of threatening of the dissolution of redevelopment agencies.

Therefore, the CRA and the League have requested that the Court issue a stay, suspending the effectiveness of AB1X 26 and 27 until the Court can rule on its constitutionality. CRA and the League also asked the Court to expedite the briefing and hearing of the case so that a decision can be rendered by the Court before January 15, 2012, when the first payments are due. On August 11th, the California Supreme Court agreed to hear the case and granted a partial stay which was subsequently clarified.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 7: California Redevelopment Agency Uncertainty (Continued)

As of the time of the issuance of this report, the outcome of AB1X 26 and 27 upon the Agency is unknown and consequently the status and even future existence of the Agency is uncertain as such. In accordance with AB1X 27, the Agency has passed a resolution of intent to continue and will be required to make a payment to the State by January 15, 2012, to avoid dissolution. The Department of Finance issued their estimated payment amounts and the Agency filed an appeal regarding the calculation. The Department of Finance reviewed the Agency's appeal regarding the calculation and on October 15, 2011, determined the initial estimated payment was accurate and the initial estimate of \$6,209,319 will sustain.

COMPUTATION OF LOW AND MODERATE INCOME HOUSING FUNDS EXCESS/SURPLUS

	Low and I Housing Funds - A July 1,	All Project Areas	Low and I Housing Funds - A July 1,	All Project Areas
Opening Fund Balance		\$25,037,773		\$ 55,667,966
Less Unavailable Amounts: Land held for resale Prepaid Encumbrances (Section 33334.12 (g)(2)) Unspent debt proceeds (Section 33334.12 (g)(3)(B) Loans receivable	\$ (9,625,085) - (36,691))) - (6,820,883)	(16,482,659)	\$(11,651,456) (28,944) - (28,399,919) (6,660,803)	(46,741,122)
Available Low and Moderate Income Housing Fun Limitation (greater of \$1,000,000 or four years se		8,555,114		8,926,844
Set-Aside for last four years: 2010 - 2011 2009 - 2010	3,843,143		3,630,919 3,843,144	
2008 - 2009 2007 - 2008 2006 - 2007	3,709,083 3,597,041 3,343,368		3,709,083 3,597,041	
Total	\$14,492,635		\$ 14,780,187	
Base Limitation	\$ 1,000,000		\$ 1,000,000	
Greater amount		14,492,635		14,780,187
Computed Excess/Surplus		None		None