TUSTIN COMMUNITY REDEVELOPMENT AGENCY

Annual Financial Report

June 30, 2007

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December 10, 2007

The Board of Directors of the
Tustin Community Redevelopment Agency

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tustin Community Redevelopment Agency (Agency), a component unit of the City of Tustin, California as of and for the year ended June 30, 2007, 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 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 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 Agency as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2007, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis identified in the accompanying table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moreland & Associates, Inc.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Tustin Redevelopment Agency (Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

- Agency assets exceeded its liabilities at the close of fiscal year 2006-07 by $65,587,641. Net assets consist of $31,841,586 in capital net assets, $18,774,914 in restricted net assets and $14,971,141 in unrestricted net assets.

- The Agency's total net assets increased by $26,768,260 during fiscal year ended June 30, 2007. This was mostly due to new Tax increment from the Marine Base Project Area and delaying the start of various capital improvement projects.

- At the close of fiscal year 2006-07, the Agency's governmental funds reported a combined ending fund balance of $71,827,475, an increase of $33,160,227 from the prior year. Fund balance consists of $67,889,591 reserved for specific purposes and $3,937,884 in unreserved – undesignated deficit.

- Total Agency debt increased by $24,000,000 during fiscal year 2006-07, which consisted entirely of principal payments and a new note issued.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-wide financial statements

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

The statement of net assets presents information on all 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.

Government-wide financial statements (Continued)

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. Thus, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid (e.g., uncollected taxes and earned but unpaid interest expense).

The basic services of the Agency are considered to be governmental activities including Community Development and Interest Expense on Long-term Debt. All Agency activities are financed with property tax increment, rental income and investment income.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements

Fund financial statements are designed to report information about groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to ensure and demonstrate compliance with legal requirements. The Agency only has governmental fund types.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains individual governmental funds organized by their type (debt service and capital projects 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.

The fund financial statements can be found on pages 10 – 17 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 19 – 29 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's combined net assets are $65,587,641 as outline in Table 1. This is an increase of $26,768,260 from $38,819,381.

TABLE 1

	FY 2005-06	FY 2006-07	% Change
Assets:			
Current and restricted assets	$ 48,708,084	$ 83,842,431	72%
Capital assets	14,235,636	31,841,586	124%
Total Assets	62,943,720	115,684,017	84%
Liabilities:			
Other liabilities	8,094,339	17,167,376	112%
Long-term liabilities outstanding	13,030,000	32,929,000	153%
Total Liabilities	21,124,339	50,096,376	108%
Net Assets:			
Invested in capital assets	14,235,636	31,841,586	124%
Restricted	14,502,762	18,774,914	29%
Unrestricted	10,080,983	14,971,141	49%
Total Net Assets	$ 38,819,381	$ 65,587,641	69%

Statement of Activities

The statement of activities shows how the government's net assets changed during fiscal year 2006-07. On the following page is a summary of changes in net assets.

During the current fiscal year, the Agency's net assets increased by $26,768,260. This is mostly due to New Tax increment from the Marine Base Project Area and the delay of various capital improvement projects.

TABLE 2

	FY 2005-06	FY 2006-07	% Change
Revenues:			
General revenues:			
Tax increment	$ 10,186,630	$ 14,531,149	43%
Investment and rental	1,748,321	3,015,882	73%
Other revenues	116,459	266,500	128%
Total Revenues	12,051,410	17,813,531	48%
Expenses:			
Program expenses:			
Community development	3,866,757	4,459,945	15%
Interest on long-term debt	978,209	1,610,021	65%
Total Expenses	4,844,966	6,069,966	25%
Change in Net Assets	7,206,444	11,743,565	39%
Net Assets, Beginning of Year	31,612,937	53,844,076	70%
Net Assets, End of Year	$ 38,819,381	$ 65,587,641	69%

FINANCIAL ANALYSIS OF AGENCY FUNDS

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

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. Refer to pages 10 – 17 for more detail of governmental funds.

As of June 30, 2007, the Agency's governmental funds reported combined ending fund balances of $71,827,475, an increase of $33,160,227 in comparison with the prior year. Of the $71,827,475, $3,937,884 constitutes unreserved - undesignated deficit fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service of $31,559,866, (2) to land held for resale of $27,050,000, and (3) for a variety of low income housing purposes of $17,155,493.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of 2007, the Agency had $31,841,586 invested in a broad range of capital assets, including buildings and furniture, fixtures and equipment.

Long-term debt

At the end of fiscal year 2007, the Agency had total bonded debt outstanding of $38,030,000, which is a $24,000,000 increase from the prior year. This is all attributable to principal reduction payments and new debt of $25,000,000. Outstanding bonded debt can be found on pages 26-27 in the notes to the basic financial statements.

TABLE 3
Capital Assets at Year End

	FY 2005-06	FY 2006-07	% Change
Land & CIP	$ 20,312,425	$ 23,904,164	18%
Building	11,814,198	11,024,198	(7%)
Furniture, fixtures and equipment	443,998	443,998	0%
Accumulated depreciation	(3,310,290)	(3,530,774)	7%
Total Capital Assets	$ 29,260,331	$ 31,841,586	(9%)

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Agency finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Director, City of Tustin, 300 Centennial Way, Tustin, California, 92780, or call (714) 573-3060.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Cash and investments	$ 53,159,920
Taxes receivable	360,309
Interest receivable	448,964
Loans receivable	1,142,081
Prepaid items	3,640
Land held for resale	27,050,000
Restricted Assets:	
Investments with fiscal agent	1,677,517
Capital assets, not depreciated	23,904,164
Capital assets, net of accumulated depreciation	7,937,422
Total Assets	115,684,017
Liabilities	
Accounts payable	2,859,286
Interest payable	51,420
Unearned revenue	1,150,240
Due to the City of Tustin	8,005,430
Noncurrent Liabilities:	
Due within one year	5,101,000
Due in more than one year	32,929,000
Total Liabilities	50,096,376
Net Assets	
Invested in capital assets	31,841,586
Restricted for:	
Debt service	1,677,517
Community development	17,097,397
Unrestricted	14,971,141
Total Net Assets	$ 65,587,641

See Accompanying Notes to Financial Statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Statement of Activities
For the Year Ended June 30, 2007

Functions/Programs:	Expenses	Net (Expenses) Revenue and Changes in Net Assets Governmental Activities
Governmental activities:		
Community development	$ 4,459,945	$ (4,459,945)
Interest on long term debt	1,610,021	(1,610,021)
Total Governmental Activities	$ 6,069,966	(6,069,966)
General revenues:		
Taxes:		
Tax increment		14,531,149
Rental income		184,276
Investment earnings		2,831,606
Gain on disposal of assets		266,500
Total General Revenues		17,813,531
Change in Net Assets		11,743,565
Net Assets, Beginning of Year, as Restated		53,844,076
Net Assets, End of Year		$ 65,587,641

See Accompanying Notes to Financial Statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds
June 30, 2007

	Debt Service Funds		
	South Central Project Area	Town Center Project Area	Marine Base Project Area
Assets			
Cash and investments	$ 15,975,062	$ 6,482,632	$ 8,726,897
Investments with fiscal agents		1,677,517	
Taxes receivable	118,624	43,121	67,238
Interest receivable	164,432	61,996	68,041
Loans receivable			
Prepaid items			
Land held for resale			
Total Assets	$ 16,258,118	$ 8,265,266	$ 8,862,176
Liabilities			
Accounts payable and accrued liabilities			$ 1,817,535
Due to City of Tustin			
Deferred revenue		$ 8,159	
Total Liabilities		8,159	1,817,535
Fund Balances			
Reserved for:			
Debt service	$ 16,258,118	8,257,107	7,044,641
Land held for resale			
Low income housing			
Unreserved - undesignated			
Total Fund Balances (Deficits)	16,258,118	8,257,107	7,044,641
Total Liabilities and Fund Balances	$ 16,258,118	$ 8,265,266	$ 8,862,176

See Accompanying Notes to Financial Statements.

Capital Projects Funds			
South Central Project Area	South Central Low Income Housing	Town Center Project Area	Town Center Low Income Housing
	$ 7,263,320		$ 6,480,289
	44,722	$ 1,065	26,530
	56,762		33,853
	938,773		203,308
$ 3,640			
1,345,000	705,000		
$ 1,348,640	$ 9,008,577	$ 1,065	$ 6,743,980
$ 599,675	$ 200	$ 2,267	$ 590
3,001,086	1,086	1,086	1,086
	938,773		203,308
3,600,761	940,059	3,353	204,984
1,345,000	705,000		
	7,363,518		6,538,996
(3,597,121)		(2,288)	
(2,252,121)	8,068,518	(2,288)	6,538,996
$ 1,348,640	$ 9,008,577	$ 1,065	$ 6,743,980

(Continued)

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds (Continued)
June 30, 2007

	Capital Projects Funds		
	Marine Base Project Area	Marine Base Low Income Housing	Total Governmental Funds
Assets			
Cash and investments	$ 4,769,223	$ 3,462,497	$ 53,159,920
Investments with fiscal agents			1,677,517
Taxes receivable	42,200	16,809	360,309
Interest receivable	37,322	26,558	448,964
Loans receivable			1,142,081
Prepaid items			3,640
Land held for resale	25,000,000		27,050,000
Total Assets	$ 29,848,745	$ 3,505,864	$ 83,842,431
Liabilities			
Accounts payable and accrued liabilities	$ 186,134	$ 252,885	$ 2,859,286
Due to City of Tustin	5,001,086		8,005,430
Deferred revenue			1,150,240
Total Liabilities	5,187,220	252,885	12,014,956
Fund Balances			
Reserved for:			
Debt service			31,559,866
Land held for resale	25,000,000		27,050,000
Low income housing		3,252,979	17,155,493
Unreserved - undesignated	(338,475)		(3,937,884)
Total Fund Balances (Deficits)	24,661,525	3,252,979	71,827,475
Total Liabilities and Fund Balances	$ 29,848,745	$ 3,505,864	$ 83,842,431

See Accompanying Notes to Financial Statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2007

Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Fund balance for governmental funds		$ 71,827,475
When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the Agency as a whole.		
Beginning balance, net of depreciation	$ 29,260,331	
Current year additions	4,891,739	
Current year deletions	(2,090,000)	
Current year depreciation	(220,484)	
Ending Balance, Net of Depreciation		31,841,586
Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets.		(38,030,000)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(51,420)
Net Assets of Governmental Activities		$ 65,587,641

See Accompanying Notes to Financial Statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	Debt Service Funds		
	South Central Project Area	Town Center Project Area	Marine Base Project Area
Revenues:			
Taxes	$ 3,057,831	$ 3,165,387	$ 5,061,499
Use of money and property	1,010,717	428,946	391,655
Rental income			
Other revenue			
Total Revenues	4,068,548	3,594,333	5,453,154
Expenditures:			
Current:			
Community services	634,397	245,619	144,423
Capital outlay			
Debt service:			
Principal retirement		1,000,000	
Interest and fiscal charges	153,613	645,340	774,776
Total Expenditures	788,010	1,890,959	919,199
Excess of Revenues Over (Under) Expenditure	3,280,538	1,703,374	4,533,955
Other Financing Sources (Uses):			
Proceeds from debt issuance			
Transfers in			
Transfers out	(3,514,862)	(280,832)	
Proceeds from sale of land			
Total Other Financing Sources (Uses)	(3,514,862)	(280,832)	
Net Change in Fund Balances	(234,324)	1,422,542	4,533,955
Fund Balances (Deficits), Beginning of Year	16,492,442	6,834,565	2,510,686
Fund Balances (Deficits), End of Year	$ 16,258,118	$ 8,257,107	$ 7,044,641

See Accompanying Notes to Financial Statements.

Capital Projects Funds			
South Central Project Area	South Central Low Income Housing	Town Center Project Area	Town Center Low Income Housing
	$ 764,458		$ 791,347
	405,816		184,252
$ 10,774	61,090	$ 8,036	2,009
	21,947		1,647
10,774	1,253,311	8,036	979,255
96,586	230,460	201,020	208,499
5,726,054		90,136	
	38,375		
5,822,640	268,835	291,156	208,499
(5,811,866)	984,476	(283,120)	770,756
3,514,862		280,832	
			1,566,500
3,514,862		280,832	1,566,500
(2,297,004)	984,476	(2,288)	2,337,256
44,883	7,084,042		4,201,740
$ (2,252,121)	$ 8,068,518	$ (2,288)	$ 6,538,996

(Continued)

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds (Continued)
For the Year Ended June 30, 2007

	Capital Projects Funds		
	Marine Base Project Area	Marine Base Low Income Housing	Total Governmental Funds
Revenues:			
Taxes		$ 1,690,627	$ 14,531,149
Use of money and property	$ 259,099	151,121	2,831,606
Rental income	78,773		160,682
Other revenue			23,594
Total Revenues	337,872	1,841,748	17,547,031
Expenditures:			
Current:			
Community services	105,684	87,659	1,954,347
Capital outlay	570,663		6,386,853
Debt service:			
Principal retirement			1,000,000
Interest and fiscal charges			1,612,104
Total Expenditures	676,347	87,659	10,953,304
Excess of Revenue Over (Under) Expenditure	(338,475)	1,754,089	6,593,727
Other Financing Sources (Uses):			
Proceeds from debt issuance	25,000,000		25,000,000
Transfers in			3,795,694
Transfers out			(3,795,694)
Proceeds from sale of land			1,566,500
Total Other Financing Sources (Uses)	25,000,000		26,566,500
Net Change in Fund Balances	24,661,525	1,754,089	33,160,227
Fund Balances (Deficits), Beginning of Year		1,498,890	38,667,248
Fund Balances (Deficits), End of Year	$ 24,661,525	$ 3,252,979	$ 71,827,475

See Accompanying Notes to Financial Statements.

TUSTIN COMMUNITY 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, 2007

Amounts reported for governmental activities in the Statement of Activities are different because:	
Net change in fund balances - total governmental funds	$ 33,160,227
When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which asset additions $4,891,738 exceeded deletions ($2,090,000) and depreciation ($220,484) in the current period.	2,581,254
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. This is the amounts by which the issuance of debt ($25,000,000) exceeded repayment of principal $1,000,000 in the current period.	(24,000,000)
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 the governmental funds:	
Net change in accrued interest for the current period	2,084
Change in Net Assets of Governmental Activities	$ 11,743,565

See Accompanying Notes to Financial Statements.

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I. Summary of Significant Accounting Policies

A. Description of Reporting Entity

The Tustin Community Redevelopment Agency (Agency), a component unit of the City of Tustin, (City) was established October 20, 1976, pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law". Its purpose is to prepare and carry out plans for improvement, rehabilitation, and redevelopment of blighted areas within the territorial limits of the City of Tustin. The City provides management assistance to the Agency, and the members of the City Council also act as the governing body of the Agency.

In accordance with GASB Code Section 2100, "Defining the Reporting Entity", the Agency's financial activities will be included (blended) with the financial activities of the City of Tustin for reporting purposes.

Tax Increment Financing

The Agency's primary source of revenue, other than loans and advances from the City, comes from property taxes. Property taxes allocated to the Agency are computed in the following manner:

(a) The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.

(b) Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency. All taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts.

The Agency has no power to levy and collect taxes, and any legislative property tax reduction might correspondingly reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on, long-term debt. Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on long-term debt.

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncement. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

B. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements for the Agency's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental funds. All funds of the Agency are reported as major funds.

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

1. Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the fund financial statements, all governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available spendable 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 are reported on the governmental fund balance sheets in spite of their 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 are deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as a fund asset. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

2. Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used, regardless of timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency in general considers revenues available if they are collected within six months after year end except for property taxes, which the Agency considers available if they are collected within 60 days after year end.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

Investments

Investments are stated at fair value (the value at which a financial instrument would be exchanged in a current transaction between willing parties other than a forced or liquidation sale), except for certain investments which have a remaining life of less than one year when purchased, which are stated at amortized cost.

Capital Assets

Capital assets are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of contribution. Generally, capital asset purchases in excess of $5,000 are capitalized if they have an expected useful life of 1 year or more.

The Agency does not own any infrastructure assets.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the Government-wide Financial Statements. The range of lives used for depreciation purposes of each capital asset class are:

Building	50 years
Furniture, fixtures and equipment	10 years

Land Held for Resale

Land held for resale is carried at the lower of cost or estimated realizable value. Fund balances are reserved in amounts equal to the carrying value of land held for resale because such assets are not available to finance the Agency's current operations.

3. Description of Funds

The Agency reports the following funds:

Debt Service Funds are used to account for the current interest and principal payments on the long-term debt of the Agency.

Capital Projects Funds are used to account for resources used in developing the project areas as well as the administrative costs incurred in sustaining Agency activities.

The Agency's major governmental funds are as follows:

The South Central Project Area Debt Service Fund is used to account for the tax increment revenues and expenditures of the South Central Project Area.

The Town Center Project Area Debt Service Fund is used to account for tax increment revenues and expenditures of the Tustin Center Project Area.

The Marine Base Project Area Debt Service Fund is used to account for tax increment revenues and expenditures of the Marine Base Project Area.

The South Central Project Area Capital Projects Fund is used to account for the fiscal activity of the South Central Project Area.

The South Central Low Income Housing Capital Projects Fund is used to account for the redevelopment requirement to set-aside 20% of available tax increment, and to use those funds only for the benefit of providing low and moderate income housing to residents of the South Central Project Area.

The Town Center Project Area Capital Projects Fund is used to account for the fiscal activities of the Town Center Project Area.

The Town Center Low Income Housing Capital Projects Fund is used to account for the redevelopment requirement to set aside 20% of available tax increment, and to use those funds only for the benefit of providing low and moderate income housing to residents of the Town Center Project Area.

The Marine Base Project Area Capital Projects Fund is used to account for the fiscal activities of the Marine Base Project Area.

The Marine Base Low Income Housing Capital Projects Fund is used to account for the redevelopment requirement to set-aside 20% of available tax increment, and to use those funds only for the benefit of providing low and moderate income housing to residents of the Marine Base Project Area.

II. Stewardship, Compliance and Accountability

A. Budgetary Data

The budgets of the Agency are primarily "long-term" budgets which emphasize capital outlay plans extending over one year. Because of the long-term nature of redevelopment projects, "annual" budget comparisons are not considered meaningful and, accordingly, no budgetary information is included in the accompanying financial statements.

B. Deficit Fund Balances/Net Assets

The South Central Project Area and Town Center Project Area Capital Projects Funds had deficit fund balances of $2,252,121 and $2,288, respectively. These deficits are expected to be relieved from future tax increment revenues.

III. Detailed Notes on All Funds

A. Cash And Investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments	$	53,159,920
Restricted Assets:		
Investments with fiscal agent		1,677,517
	$	54,837,437

The Agency's funds are pooled with the City of Tustin's cash and investments in order to generate optimum investment income.

B. Loans Receivable

Multi-Family Development Loan: The Agency provided a Bridge Loan to Senior Apartment Developer to assist in the development of 53 affordable rental units. The total outstanding balance as of June 30, 2007, was $350,000.

Home Improvement Loans: The Agency has provided deferred home improvement loans to low and moderate income households (rental and ownership). These deferred loans are due upon sale, refinance, or when the rental units are no longer available as affordable units. Term is 30 years. The total outstanding balance as of June 30, 2007, was $146,845.

Homebuyer Program Loans: The Agency has provided down payment assistance to qualified first time homebuyers. The loans provided in the Ambrose Lane Development are due beginning in 2029, or when the homeowner sells or refinances. The loans provided in the Tustin Grove Development are due beginning in 2015, or when the homeowner sells or refinances. The total outstanding balance as of June 30, 2007, was $645,236.

C. Capital Assets

The following is a summary of the capital asset activity for the year ended June 30, 2007:

	Restated Balance at July 1, 2006	Additions	Deletions	Balance at June 30, 2007
Capital Assets, not Being Depreciated:				
Land and improvements	$ 1,300,000		$ 1,300,000	
Construction in progress	19,012,425	* $ 4,891,739		$ 23,904,164
Total Capital Assets, not Being Depreciated	20,312,425	4,891,739	1,300,000	23,904,164
Capital Assets, Being Depreciated:				
Building - Civic Center	11,814,198		790,000	11,024,198
Furniture, fixtures and equipment	443,998			443,998
Total Capital Assets, Being Depreciated	12,258,196		790,000	11,468,196
Less Accumulated Depreciation	(3,310,290)	(220,484)		(3,530,774)
Total Capital Assets, Being Depreciated, Net	8,947,906	(220,484)	790,000	7,937,422
Governmental Activities Capital Assets, Net	$ 29,260,331	$ 4,671,255	$ 2,090,000	$ 31,841,586

* Restated for inclusion of construction in progress. See footnote G.

D. Long-Term Liabilities

The following is a summary of the long-term liability activity for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
Tax allocation bonds	$ 14,030,000		$ 1,000,000	$ 13,030,000	$ 1,055,000
Note payable		$ 25,000,000		25,000,000	4,046,000
	$ 14,030,000	$ 25,000,000	$ 1,000,000	$ 38,030,000	$ 5,101,000

Tax Allocation Bonds:

Serial bonds are payable in annual installments ranging from $775,000 commencing on December 1, 1998. Interest is payable semiannually on June 1 and December 1, with rates ranging from 3.5% to 5.0% per annum. The bonds maturing on or after

December 1, 2009, are subject to redemption prior to maturity as a whole or in part, at the option of the Agency, on any date on or after December 1, 2008 at prices ranging from 100% to 101% of principal. $13,030,000

The annual requirements to amortize the tax allocation refunding bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 1,055,000	$ 594,358	$ 1,649,358
2009	1,105,000	547,365	1,652,365
2010	1,150,000	497,180	1,647,180
2011	1,205,000	443,289	1,648,289
2012	1,255,000	385,466	1,640,466
2013-2017	7,260,000	921,750	8,181,750
Total	$ 13,030,000	$ 3,389,408	$ 16,419,408

Note Payable:

On April 1, 2007, the Tustin Community Redevelopment Agency entered into two related Note Purchase Agreements in the amount of $19,900,000 Series B (Tax-exempt) and $5,100,000 Series A (Taxable) with Citigroup Global Markets, Inc. for the acquisition of a thirty-seven acre parcel of land adjacent to the Marine Base Project Area that will provide freeway access to and from the Marine Base Project Area. Principal is payable in annual payments due in November of each year. Interest payments are payable monthly during the Initial Note Period with a fixed interest rate of 4.32% through November 2008. After the Initial Note Period variable rate interest payments are payable monthly based upon the current Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) on the 2007 Series A Note and the London Interbank Offered Rate (LIBOR) for the 2007 Series B Note. Interest payments after the Initial Note Period has been calculated based upon the maximum interest rate of 12% per the Note Agreement.

The Notes are secured by a lien on the aggregate tax increment revenue generated in the Marine Base Project Area. In addition, any proceeds from sale of land are pledged to the repayment of the notes. $25,000,000

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	$ 4,046,000	$ 1,506,495	$ 5,552,495
2009	5,992,000	2,127,904	8,119,904
2010	6,763,000	1,752,268	8,515,268
2011	8,199,000	765,240	8,964,240
Total	$ 25,000,000	$ 6,151,907	$ 31,151,907

E. Due to City of Tustin

The City made loans to the South Central Project Area and the Marine Base Project Area. The total amount of the loans outstanding is $8,005,430 and is expected to be paid with future tax increment revenue.

F. Commitments and Contingencies

The California Health and Safety Code requires redevelopment agencies to set aside 20 percent of their tax increment from project areas established before 1976 for low and moderate income housing. Between fiscal years 1985-86 and 1991-92, the Tustin Community Redevelopment Agency deferred a total of $2,776,042 from its low and moderate-income housing obligation. On February 1, 1993, the Agency adopted a plan to eliminate the deficit in subsequent years.

G. City and Agency Reimbursement Agreement

On June 5, 2007, the City and Tustin Community Redevelopment Agency executed a Reimbursement Agreement for reimbursement to the City to assist the Agency in meeting obligations to provide affordable housing under the MCAS Redevelopment Plan and the MCAS Tustin Specific Plan. In order to assist the Agency in meeting its affordable housing obligations the City has entered into an agreement to sell property at a discount sufficient to permit developers to economically develop the required number of affordable housing units and has encumbered the sale of the properties and units with covenants, promissory notes and deeds of trust to ensure maintaining the affordability of those units in accordance with the California Community Redevelopment Law.

As of June 30, 2007 approximately five hundred sixty-five new units have been constructed in the Marine Base Tustin Project Area, including one hundred eighteen affordable units, which reflect an average subsidy of $351,000 per unit to secure the long-term affordability covenants. The affordable units are located at Tustin Fields I and II and are comprised of thirty-three very low, twenty-three low and sixty-two moderate income units which are secured by promissory notes and deeds of trusts by the City that reflect an average of approximately $502,600 for very low-income units, $485,900 for low-income units and $279,100 for moderate-income units. The City's promissory notes and deeds of trust reflect the difference between the fair market value of the dwelling unit at the time of purchase and the affordable housing purchase price of the units. The total promissory noted value associated with the production of the affordable housing units is $23,585,726 on Tustin Field I and $22,822,010 on Tustin Field II, for a total of $46,407,736.

Reimbursements are to be paid from tax increment revenues, including but not limited to the Agency's Low and Moderate-Income Housing Set-Aside deposits from the Marine Base Tustin Project Area, Town Center and South Central Project Areas as determined on an annual basis as part of the budget process.

H. Restatement of Beginning Net Assets

The Agency added the construction in progress at July 01, 2006 which was erroneously excluded from capital assets and the government-wide financial statements.

Beginning Net Assets, July 1, 2006	$ 38,819,381
Construction in Progress	15,024,695
Beginning Net Assets, July 1, 2006, as Restated	$ 53,844,076

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December 10, 2007

The Board of Directors of the
Tustin Community Redevelopment Agency

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance (Including the Provisions Contained in the Guidelines for Compliance Audits of Redevelopment Agencies) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the governmental activities and each major fund of the Tustin Community Redevelopment Agency, a component unit of the City of Tustin, California as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 10, 2007. 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 Tustin Community Redevelopment Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Tustin Community Redevelopment Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant

agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies issued by the State Controller's Office, Division of Accounting and Reporting. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Board of Directors and management of the Tustin Community Redevelopment Agency and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Moreland & Associates, Inc.