# TUSTIN COMMUNITY REDEVELOPMENT AGENCY

## Annual Financial Report

## June 30, 2008

**TUSTIN COMMUNITY REDEVELOPMENT AGENCY**
**Annual Financial Report**
**June 30, 2008**

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SACRAMENTO
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WALNUT CREEK
LOS ANGELES
SAN MARCOS
SAN DIEGO

The Board of Directors of the
Tustin Community Redevelopment Agency

**Independent Auditor's 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, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2008, 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 11, 2008, 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 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 are not a required part of the basic financial statements, but are 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.

Macias Gini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 11, 2008

TUSTIN COMMUNITY REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Tustin Community 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, 2008.

## FINANCIAL HIGHLIGHTS

- Agency assets exceeded its liabilities at the close of fiscal year 2007-08 by $75,512,302. Net assets consist of $32,557,861 in capital net assets, $17,095,314 in restricted net assets and $25,859,127 in unrestricted net assets.

- The Agency's total net assets increased by $9,521,054 during fiscal year ended June 30, 2008. 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 2007-08, the Agency's governmental funds reported a combined ending fund balance of $79,573,474, an increase of $7,745,999 from the prior year. Fund balance consists of $83,686,234 reserved for specific purposes and $(4,112,760) in unreserved – undesignated deficit.

- Total Agency debt decreased by $1,055,000 during fiscal year 2007-08, which consisted entirely of principal payments.

## 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 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 – 16 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 – 30 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's combined net assets are $75,512,302 as outline in Table 1. This is an increase of $9,521,054 from restated balance of $65,991,248, related to the recognition of prior year deferred revenue in the amount of $403,607.

TABLE 1
Net Assets

| | Fy06-07 | Fy07-08 | % Change |
|---|---|---|---|
| Assets: | | | |
| Current and restricted assets | $ 83,842,431 | $ 85,381,742 | 2% |
| Capital assets | 31,841,586 | 32,557,861 | 2% |
| Total Assets | 115,684,017 | 117,939,603 | 2% |
| Liabilities: | | | |
| Other liabilities | 17,167,376 | 37,276,301 | 117% |
| Long-term liabilities outstanding | 32,929,000 | 5,151,000 | (84%) |
| Total Liabilities | 50,096,376 | 42,427,301 | (15%) |
| Net Assets: | | | |
| Invested in capital assets | 31,841,586 | 32,557,861 | 2% |
| Restricted | 48,657,263 | 56,628,272 | (9%) |
| Unrestricted | (14,911,208) | (13,673,831) | 73% |
| Total Net Assets | $ 65,587,641 | $ 75,512,302 | 15% |

**Statement of Activities**

The statement of activities shows how the government's net assets changed during fiscal year 2007-08. On the following page is a summary of changes in net assets.

During the current fiscal year, the Agency's net assets increased by $9,521,054. This is mostly due to New Tax increment from the Marine Base Project Area and the delay of various capital improvement projects.

TABLE 2
Changes in Net Assets

| | Fy06-07 | Fy07-08 | % Change |
|---|---|---|---|
| Revenues: | | | |
| General Revenues: | | | |
| Tax increment | $ 14,531,149 | $ 16,882,739 | 16% |
| Investment and rental | 3,015,882 | 2,878,870 | (5%) |
| Other revenues | 266,500 | 27,240 | (90%) |
| Total Revenues | 17,813,531 | 19,788,849 | 11% |
| Expenditures: | | | |
| Program Expenses: | | | |
| Community Development | 4,459,945 | 5,577,908 | 25% |
| Interest on long-term debt | 1,610,021 | 4,689,887 | 191% |
| Total Expenses | 6,069,966 | 10,267,795 | 69% |
| Change in net assets | 11,743,565 | 9,521,054 | (19%) |
| Net Assets - Beginning of Year, as restated | 53,844,076 | 65,991,248 | 23% |
| Net Assets – End of Year | $ 65,587,641 | $ 75,512,302 | 15% |

This increase in revenue is related to the new tax increment revenues from the Marine Base Project.

The increase in interest was primary related to the first interest payment to the City on the second deed of trust and a full interest payment was made on the note payable, while in prior year only a partial interest payment was made on note payable.

## 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 – 16 for more detail of governmental funds.

As of June 30, 2008, the Agency's governmental funds reported combined ending fund balances of $79,573,474, an increase of $7,745,999 in comparison with the prior year. Of the $79,573,474, $(4,112,760) 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 $41,210,047,

(2) to prepaid items of $37,963, (3) to land held for resale of $27,050,000, and (4) for a variety of low income housing purposes of $15,388,224.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital assets

At the end of 2008, the Agency had $32,557,861 invested in a broad range of capital assets, including buildings and furniture, fixtures and equipment.

TABLE 3
Capital Assets at Year-End

| | Fy06-07 | Fy07-08 | % Change |
|---|---|---|---|
| Land & CIP | $ 23,904,164 | $ 24,840,923 | 4% |
| Building | $ 11,024,198 | $ 11,024,198 | 0% |
| Furniture and fixtures, and equipment | 443,998 | 443,998 | 0% |
| Accumulated depreciation | ( 3,530,774) | ( 3,751,258) | 6% |
| Total | $ 31,841,586 | $ 32,557,861 | 2% |

Capital assets had a net increase of $716,275 due to increase in capital improvements. The capital asset note can be found on page 27.

### Long-term debt

At the end of fiscal year 2008, the Agency had total bonded debt outstanding of $36,975,000, which is a $1,055,000 decrease from the prior year. Outstanding bonded debt can be found on pages 27-29 in the notes to the basic financial statements.

## 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, 2008**

| | Governmental Activities |
|---|---|
| **Assets:** | |
| Cash and investments | $ 55,260,676 |
| Receivables: | |
| Taxes receivable | 608,516 |
| Interest receivable | 352,312 |
| Loans receivable | 1,129,117 |
| Notes receivable | 3,614,375 |
| Allowance for uncollectibles | (4,348,307) |
| Prepaid items | 37,963 |
| Land held for resale | 27,050,000 |
| Restricted Assets: | |
| Investments with fiscal agent | 1,677,090 |
| Capital assets, not depreciated | 24,840,923 |
| Capital assets, net of accumulated depreciation | 7,716,938 |
| Total assets | 117,939,603 |
| **Liabilities:** | |
| Accounts payable | 1,404,661 |
| Interest payable | 47,640 |
| Due to the City of Tustin | 4,000,000 |
| Noncurrent liabilities: | |
| Due within one year | 5,151,000 |
| Due in more than one year | 31,824,000 |
| Total liabilities | 42,427,301 |
| **Net assets:** | |
| Invested in capital assets | 32,557,861 |
| Restricted for: | |
| Debt service | 41,210,047 |
| Low and moderate housing | 15,418,225 |
| Unrestricted | (13,673,831) |
| Total net assets | $ 75,512,302 |

See Accompanying Notes to Financial Statements.

**TUSTIN COMMUNITY REDEVELOPMENT AGENCY**
**Statement of Activities**
**For the Year Ended June 30, 2008**

| Functions/Programs: | Expenses | Net (Expenses) Revenue and Changes in Net Assets<br>Governmental Activities |
|---|---|---|
| Governmental activities: | | |
| Community development | $ 5,577,908 | $ (5,577,908) |
| Interest on long term debt | 4,689,887 | (4,689,887) |
| Total governmental activities | $ 10,267,795 | (10,267,795) |
| General revenues: | | |
| Taxes: | | |
| Tax increment | | 16,882,739 |
| Rental income | | 599,746 |
| Investment earnings | | 2,279,124 |
| Gain on disposal of assets | | 27,240 |
| Total general revenues | | 19,788,849 |
| Change in net assets | | 9,521,054 |
| Net assets, beginning of year, as restated | | 65,991,248 |
| Net assets, end of year | | $ 75,512,302 |

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 | $ 19,940,552 | $ 8,172,024 | $ 11,875,815 |
| Investments with fiscal agents | - | 1,677,090 | - |
| Receivables: | | | |
| Taxes receivable | 120,629 | 47,331 | 315,977 |
| Interest receivable | 115,667 | 56,962 | 71,924 |
| Loans receivable | - | - | - |
| Notes receivable | - | - | - |
| Allowance for uncollectibles | - | (8,422) | - |
| Prepaid items | - | - | - |
| Land held for resale | - | - | - |
| Total assets | $ 20,176,848 | $ 9,944,985 | $ 12,263,716 |
| **Liabilities:** | | | |
| Accounts payable | $ - | $ - | $ 1,175,502 |
| Deferred revenue | - | - | - |
| Due to City of Tustin | - | - | - |
| Total liabilities | - | - | 1,175,502 |
| **Fund balances:** | | | |
| Reserved for: | | | |
| Debt service | 20,176,848 | 9,944,985 | 11,088,214 |
| Prepaid items | - | - | - |
| Land held for resale | - | - | - |
| Low income housing | - | - | - |
| Unreserved - undesignated | - | - | - |
| Total fund balances (deficits) | 20,176,848 | 9,944,985 | 11,088,214 |
| Total liabilities and fund balances | $ 20,176,848 | $ 9,944,985 | $ 12,263,716 |

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 |
| $ 97,213 | $ 6,635,179 | $ - | $ 6,860,112 |
| - | - | - | - |
| - | 32,428 | - | 12,955 |
| 733 | 46,264 | - | 47,609 |
| - | 923,943 | - | 205,174 |
| - | 1,114,375 | - | - |
| - | (1,808,851) | | (31,034) |
| 5,411 | 15,000 | 1,276 | 15,000 |
| 1,345,000 | 705,000 | - | - |
| $ 1,448,357 | $ 7,663,338 | $ 1,276 | $ 7,109,816 |
| $ 148,388 | $ 11,594 | $ 5,916 | $ 4,034 |
| - | 229,467 | | 174,140 |
| 4,000,000 | - | - | - |
| 4,148,388 | 241,061 | 5,916 | 178,174 |
| - | - | - | - |
| 5,411 | 15,000 | 1,276 | 15,000 |
| 1,345,000 | 705,000 | - | - |
| - | 6,702,277 | - | 6,916,642 |
| (4,050,442) | - | (5,916) | - |
| (2,700,031) | 7,422,277 | (4,640) | 6,931,642 |
| $ 1,448,357 | $ 7,663,338 | $ 1,276 | $ 7,109,816 |

(Continued)

**TUSTIN COMMUNITY REDEVELOPMENT AGENCY**
**Balance Sheet**
**Governmental Funds (Continued)**
**June 30, 2008**

| | Capital Projects Funds | | |
|---|---|---|---|
| | Marine Base Project Area | Marine Base Low Income Housing | Total Governmental Funds |
| **Assets:** | | | |
| Cash and investments | $ - | $ 1,679,781 | $ 55,260,676 |
| Investments with fiscal agents | - | - | 1,677,090 |
| Receivables: | | | |
| Taxes receivable | 202 | 78,994 | 608,516 |
| Interest receivable | - | 13,153 | 352,312 |
| Loans receivable | - | - | 1,129,117 |
| Notes receivable | - | 2,500,000 | 3,614,375 |
| Allowance for uncollectibles | - | (2,500,000) | (4,348,307) |
| Prepaid items | 1,276 | - | 37,963 |
| Land held for resale | 25,000,000 | - | 27,050,000 |
| Total assets | $ 25,001,478 | $ 1,771,928 | $ 85,381,742 |
| **Liabilities:** | | | |
| Accounts payable | $ 56,604 | $ 2,623 | $ 1,404,661 |
| Deferred revenue | - | - | 403,607 |
| Due to City of Tustin | - | - | 4,000,000 |
| Total liabilities | 56,604 | 2,623 | 5,808,268 |
| **Fund balances:** | | | |
| Reserved for: | | | |
| Debt service | - | - | 41,210,047 |
| Prepaid items | 1,276 | - | 37,963 |
| Land held for resale | 25,000,000 | - | 27,050,000 |
| Low income housing | - | 1,769,305 | 15,388,224 |
| Unreserved - undesignated | (56,402) | - | (4,112,760) |
| Total fund balances (deficits) | 24,944,874 | 1,769,305 | 79,573,474 |
| Total liabilities and fund balances | $ 25,001,478 | $ 1,771,928 | $ 85,381,742 |

**TUSTIN COMMUNITY REDEVELOPMENT AGENCY**
**Reconciliation of the Balance Sheet of Governmental Funds**
**to the Statement of Net Assets**
**June 30, 2008**

| | | |
|---|---|---|
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Fund balance for governmental funds | | $ 79,573,474 |
| 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 | $ 31,841,586 | |
| Current year additions | 948,058 | |
| Current year deletions | (11,299) | |
| Current year depreciation | (220,484) | |
| Ending Balance, Net of Depreciation | | 32,557,861 |
| Recognition of deferred revenue from prior years related to homebuyers loans. | | 403,607 |
| 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. | | (36,975,000) |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | | (47,640) |
| Net assets of governmental activities | | $ 75,512,302 |

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 | $ 3,562,482 | $ 3,416,125 | $ 6,117,343 |
| Use of money and property | 760,644 | 350,730 | 447,588 |
| Rental income | - | - | - |
| Other revenue | - | - | - |
| Total revenues | 4,323,126 | 3,766,855 | 6,564,931 |
| **Expenditures:** | | | |
| Current: | | | |
| Community services | 237,949 | 266,064 | 544,132 |
| Capital outlay | - | - | - |
| Debt service: | | | |
| Principal retirement | - | 1,055,000 | - |
| Interest and fiscal charges | 166,447 | 597,658 | 1,568,648 |
| Total expenditures | 404,396 | 1,918,722 | 2,112,780 |
| Excess of revenues over (under) expenditures | 3,918,730 | 1,848,133 | 4,452,151 |
| **Other financing sources (uses):** | | | |
| Transfers in | - | - | - |
| Transfers out | - | (160,255) | (408,578) |
| Total other financing sources (uses) | - | (160,255) | (408,578) |
| Net change in fund balances | 3,918,730 | 1,687,878 | 4,043,573 |
| Fund balances (deficits), beginning of year | 16,258,118 | 8,257,107 | 7,044,641 |
| Fund balances (deficits), end of year | $ 20,176,848 | $ 9,944,985 | $ 11,088,214 |

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 |
| $ - | $ 890,621 | $ - | $ 854,031 |
| 11,849 | 300,723 | - | 313,288 |
| 15,000 | 83,586 | - | - |
| - | 25,596 | 48 | 1,596 |
| 26,849 | 1,300,526 | 48 | 1,168,915 |
| 119,231 | 1,226,767 | 107,266 | 56,269 |
| 355,528 | - | 55,389 | - |
| - | - | - | - |
| - | - | - | - |
| | 720,000 | | 720,000 |
| 474,759 | 1,946,767 | 162,655 | 776,269 |
| (447,910) | (646,241) | (162,607) | 392,646 |
| - | - | 160,255 | - |
| - | - | - | - |
| - | - | 160,255 | - |
| (447,910) | (646,241) | (2,352) | 392,646 |
| (2,252,121) | 8,068,518 | (2,288) | 6,538,996 |
| $ (2,700,031) | $ 7,422,277 | $ (4,640) | $ 6,931,642 |

(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 | $ - | $ 2,042,137 | $ 16,882,739 |
| Use of money and property | 4,966 | 89,336 | 2,279,124 |
| Rental income | 501,160 | - | 599,746 |
| Other revenue | - | - | 27,240 |
| Total revenues | 506,126 | 2,131,473 | 19,788,849 |
| **Expenditures:** | | | |
| Current: | | | |
| Community services | 96,434 | 2,694,233 | 5,348,345 |
| Capital outlay | 534,921 | - | 945,838 |
| Debt service: | | | |
| Principal retirement | - | - | 1,055,000 |
| Interest and fiscal charges | - | 920,914 | 4,693,667 |
| Total expenditures | 631,355 | 3,615,147 | 12,042,850 |
| Excess of revenues over (under) expenditures | (125,229) | (1,483,674) | 7,745,999 |
| **Other financing sources (uses):** | | | |
| Transfers in | 408,578 | - | 568,833 |
| Transfers out | - | - | (568,833) |
| Total other financing sources (uses) | 408,578 | - | - |
| Net change in fund balances | 283,349 | (1,483,674) | 7,745,999 |
| Fund balances (deficits), beginning of year | 24,661,525 | 3,252,979 | 71,827,475 |
| Fund balances (deficits), end of year | $ 24,944,874 | $ 1,769,305 | $ 79,573,474 |

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, 2008**

| | |
|---|---|
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Net change in fund balances - total governmental funds | $ 7,745,999 |
| 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 $948,058 exceeded deletions $11,299 and depreciation $220,484 in the current period. | 716,275 |
| 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 amount of repayment of principal in the current period. | 1,055,000 |
| 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 | 3,780 |
| Change in net assets of governmental activities | $ 9,521,054 |

See Accompanying Notes to Financial Statements.

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## (1) 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.

### *(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.

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 determined at the date of an executed disposition and developers agreement. 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 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.

## (2) 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 $2,700,031 and $4,640, respectively. These deficits are expected to be relieved from future tax increment revenues.

## *(3) Detailed Notes on All Funds*

### *(a) Cash And Investments*

Investments held by fiscal agents are owned separately by the Agency. Except for the cash held in escrow consideration accounts, the Agency's cash and investments not held by fiscal agents are pooled with the City of Tustin. The Agency does not own specifically identifiable securities in the City of Tustin Pool. See the City of Tustin annual report for the year ended June 30, 2008 for additional disclosures on deposits and investments.

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

| | |
|---|---|
| **Statement of net assets:** | |
| Cash and investments - unrestricted | $ 55,260,676 |
| Cash and investments with fiscal agent | 1,677,090 |
| Total cash and investments | $ 56,937,766 |

Cash and investments as of June 30, 2008 consist of the following:

| | |
|---|---|
| Cash pooled with City of Tustin | $ 55,260,676 |
| Investments | 1,677,090 |
| Total cash and investments | $ 56,937,766 |

***Investments Authorized by the Agency's Investment Policy***

The table below identifies the investment types that are authorized by the Agency's investment policy. The table also identifies certain provisions of the Agency's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency's, rather than the general provision of the Agency investment policy.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Allowed | Maximum Investment in One Issuer |
|---|---|---|---|
| Local Agency Bonds | 5 years | None | None |
| U. S. Treasury Obligations | 5 years | None | None |
| U. S. Agency Securities | 5 years | 50% | None |
| Banker's Acceptances | 180 days | 25% | 30% |
| Commercial Paper | 90 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Corporate Notes | 5 years | 10% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Funds | N/A | 20% | 10% |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |

*Investments Authorized by Debt Agreements*

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| U.S. Agency Securities | None | None | None |
| Banker's Acceptances | 180 days | None | None |
| Commercial Paper | 270 days | None | None |
| U.S. Treasury | None | None | None |
| Money Market Funds | N/A | None | None |
| Investment Contracts | 30 years | None | None |

*Disclosures Relating to Interest Rate Risk*

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

| Authorized Investment Type | Amount | Remaining Maturity (in Months) |
|---|---|---|
| Investment in City Pool | $ 55,260,676 | less than 6 months |
| Held by fiscal agent: | | |
| Money Market Funds | 1,677,090 | less than 12 months |

*Disclosures Relating to Credit Risk*

Generally, credit risk is the risk that an issue of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

| Investment Type | Amount | Minimum Legal Rating | Rating as of Year End Not Rated |
|---|---|---|---|
| Investment in City Pool | $ 55,260,676 | Not rated | $ 55,260,676 |
| Held by fiscal agent: | | | |
| Money Market Funds | 1,677,090 | N/A | 1,677,090 |
| | $ 56,937,766 | | $ 56,937,766 |

***Concentration of Credit Risk***

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2008, the Agency had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments.

***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state of local governmental units by pledging securities in an undivided collateral pool half by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial initiations to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

***(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, 2008, was $348,281.

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, 2008, was $70,273. An allowance of $70,273 has been recorded to reflect the amount of the loans not expected to be collectible.

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 2016, or when the homeowner sells or refinances. The loans provided in the Tustin Grove Development are due when the homeowner sells or refinances. If the homeowner does not sell or refinance before July 2015, the loan is forgiven. The total outstanding balance as of June 30, 2008, was $710,563. An allowance of $655,237 has been recorded to reflect the amount of loans not expected to be collectible.

### *(c) Capital Assets*

The following is a summary of the capital asset activity for the year ended June 30, 2008:

| | Balance at July 1, 2007 | Additions | Deletions | Balance at June 30, 2008 |
|---|---|---|---|---|
| **Capital assets, not being depreciated:** | | | | |
| Construction in progress | $ 23,904,164 | $ 948,058 | $ 11,299 | $ 24,840,923 |
| Total capital assets, not being depreciated | 23,904,164 | 948,058 | 11,299 | 24,840,923 |
| **Capital assets, being depreciated:** | | | | |
| Building - Civic Center | 11,024,198 | - | - | 11,024,198 |
| Furniture, fixtures and equipment | 443,998 | - | - | 443,998 |
| Total capital assets, being depreciated | 11,468,196 | - | - | 11,468,196 |
| **Less accumulated depreciation** | (3,530,774) | (220,484) | - | (3,751,258) |
| Total capital assets, being depreciated, net | 7,937,422 | (220,484) | - | 7,716,938 |
| Governmental activities capital assets, net | $ 31,841,586 | $ 727,574 | $ 11,299 | $ 32,557,861 |

### *(d) Long-Term Liabilities*

The following is a summary of the long-term liability activity for the year ended June 30, 2008:

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 | Due Within One Year |
|---|---|---|---|---|---|
| Tax allocation bonds | $ 13,030,000 | $ - | $ 1,055,000 | $ 11,975,000 | $ 1,105,000 |
| Note payable | 25,000,000 | - | - | 25,000,000 | 4,046,000 |
| | $ 38,030,000 | $ - | $ 1,055,000 | $ 36,975,000 | $ 5,151,000 |

*Tax Allocation Bonds:*

Serial bonds are payable in annual installments ranging from $775,000 to $1,315,000 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. $11,975,000

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

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 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 | 1,315,000 | 323,771 | 1,638,771 |
| 2014-2017 | 5,945,000 | 597,979 | 6,542,979 |
| Total | $ 11,975,000 | $ 2,795,050 | $ 14,770,050 |

*Notes 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 |
|---|---|---|---|
| 2009 | $ 4,046,000 | $ 1,506,495 | $ 5,552,495 |
| 2010 | 5,992,000 | 2,127,904 | 8,119,904 |
| 2011 | 6,763,000 | 1,752,268 | 8,515,268 |
| 2012 | 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 a loan to the South Central Project Area. The total amount of the loan outstanding is $4,000,000 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, 2008 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 notes 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. Interest is payable annually by the Agency to the City at the rate of 5% of the amount outstanding under the reimbursement agreement. The Agency reimbursed the City in the amount of $3,614,375 during the fiscal year and obtained ownership of promissory notes in this amount. The promissory notes are considered notes receivable in the financial statements. An allowance of $3,614,375 has been recorded to reflect the amount of the notes not expected to be collectible. Interest paid by the Agency to the City under the reimbursement agreement during the fiscal year was $2,360,914.

### *(h) Restatement of Net Assets*

| | |
|---|---|
| Net Assets as of June 30, 2007 | $ 65,587,641 |
| Recognize deferred revenue from homebuyers loans | 403,607 |
| Net Assets as of June 30, 2008 | $ 65,991,248 |

This entry was necessary to reclassify a liability to net assets that was incorrectly recorded in prior years.

### *(i) Subsequent Event*

The State Legislature passed AB 1389, which became effective September 30, 2008. The bill includes a requirement for a payment to the Educational Revenue Augmentation Fund (ERAF) by each redevelopment agency by May 10, 2009. The California Redevelopment Association's estimate of the Agency payment is $1,280,850.

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OAKLAND
WALNUT CREEK
LOS ANGELES
SAN MARCOS
SAN DIEGO

The Board of Directors of the
Tustin Community Redevelopment Agency

**Independent Auditor's 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 (Agency), a component unit of the City of Tustin, California as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

we noted other control deficiencies that we have reported to management of the City of Tustin in a separate letter dated December 11, 2008 relating to both the City and the Agency.

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, management and others within 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.

Macias Gini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 11, 2008