TUSTIN COMMUNITY REDEVELOPMENT AGENCY

Annual Financial Report

June 30, 2009

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MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

NEWPORT BEACH
1201 Dove Street, Suite 680
Newport Beach, CA 92660
949.221.0025

SACRAMENTO

OAKLAND

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, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Agency'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, 2009, 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 November 24, 2009, 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 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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

November 24, 2009

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, 2009.

FINANCIAL HIGHLIGHTS

- Agency assets exceeded its liabilities at the close of fiscal year 2008-09 by $72,968,466. Net assets consist of $15,756,553 in capital net assets, $22,720,295 in restricted net assets and $34,491,618 in unrestricted net assets.

- The Agency's total net assets decreased by $2,543,836 during fiscal year ended June 30, 2009. This was mostly due to increased expenditures for various community development and capital improvement projects.

- At the close of fiscal year 2008-09, the Agency's governmental funds reported a combined ending fund balance of $82,268,199, an increase of $2,694,725 from the prior year. Fund balance consists of $49,777,973 reserved for specific purposes and $32,490,226 in unreserved – undesignated.

- Total Agency debt decreased by $11,143,000 during fiscal year 2008-09, 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 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 – 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 – 32 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's combined net assets are $72,968,466 as outlined in Table 1. This is a decrease of $2,543,836 from the prior year balance of $75,512,302.

TABLE 1
Net Assets

	Fy07-08	Fy08-09	% Change
Assets:			
Current and restricted assets	$ 85,381,742	$ 100,120,565	17%
Capital assets	32,557,861	15,756,553	(52%)
Total Assets	117,939,603	115,877,118	(2)%
Liabilities:			
Other liabilities	5,452,301	17,076,552	213%
Long-term liabilities outstanding	36,975,000	25,832,000	(30%)
Total Liabilities	42,427,301	42,908,652	11%
Net Assets:			
Invested in capital assets	32,557,861	15,756,553	(52%)
Restricted	56,628,272	22,270,295	(61%)
Unrestricted	(13,673,831)	34,491,618	(352%)
Total Net Assets	$ 75,512,302	$ 72,968,466	(3%)

Statement of Activities

The statement of activities shows how the government's net assets changed during fiscal year 2008-09. On the following page is a summary of changes in net assets.

During the current fiscal year, the Agency's net assets decreased $2,543,836. This was mostly due to increased expenditures for various community development and capital improvement projects.

TABLE 2
Changes in Net Assets

	Fy07-08	Fy08-09	% Change
Revenues:			
General Revenues:			
Tax increment	$ 16,882,739	$ 19,297,179	14%
Investment and rental	2,878,870	2,138,075	(26%)
Other revenues	27,240	44,349	63%
Total Revenues	19,788,849	21,479,603	9%
Expenses:			
Program Expenses:			
Community development	5,577,908	20,456,657	267%
Interest on long-term debt	4,689,887	3,566,782	(24%)
Total Expenses	10,267,795	24,023,439	134%
Change in net assets	9,521,054	(2,543,836)	(127%)
Net Assets - Beginning of Year	65,991,248	75,512,302	14%
Net Assets - End of Year	$ 75,512,302	$ 72,968,466	(3%)

The 14% increase in Tax Increment Revenues from prior year is due to the increase in base tax increment for the Marine Base Project Area. The 267% increase in Community Development Expenses is due to the completion of an arterial highway extension project that benefited the project areas and transferred to the City of Tustin.

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, 2009, the Agency's governmental funds reported combined ending fund balances of $82,268,199, an increase of $2,694,725 in comparison with the prior year. Of the $82,268,199, $36,568,042 constitutes unreserved - undesignated 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 $1,776,505, (2) to prepaid items of $37,678, (3) to land held for resale of $27,050,000, and (4) for a variety of low income housing purposes of $16,835,974.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of 2009, the Agency had $15,756,553 invested in a broad range of capital assets, including buildings and furniture, fixtures and equipment. The 67% decrease in Land & CIP is due to the completion of an arterial highway extension project that benefited the project areas and transferred to the City of Tustin.

TABLE 3
Capital Assets at Year-End

	Fy07-08	Fy08-09	% Change
Land & CIP	$ 24,840,923	$ 8,260,099	(67%)
Building	11,024,198	11,024,198	0%
Furniture and fixtures, and equipment	443,998	443,998	0%
Accumulated depreciation	(3,751,258)	(3,971,742)	6%
Total	$ 32,557,861	$ 15,756,553	(52%)

Long-term debt

At the end of fiscal year 2009, the Agency had total bonded debt outstanding of $25,832,000, which is an $11,143,000 decrease from the prior year. Outstanding bonded debt can be found on pages 29-30 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, 2009

	Governmental Activities
Assets:	
Cash and investments	$ 50,850,592
Receivables:	
Taxes receivable	698,721
Interest receivable	120,913
Loans receivable	1,116,170
Notes receivable	4,575,980
Allowance for uncollectibles	(5,290,790)
Advances to City of Tustin	19,284,171
Prepaid items	37,678
Land held for resale	27,050,000
Restricted assets:	
Investments with fiscal agent	1,677,130
Capital assets, not depreciated	8,260,099
Capital assets, net of accumulated depreciation	7,496,454
Total assets	115,877,118
Liabilities:	
Accounts payable	2,560,113
Deposits payable	2,510
Interest payable	43,588
Due to the City of Tustin	14,470,441
Noncurrent liabilities:	
Due within one year	7,913,000
Due in more than one year	17,919,000
Total liabilities	42,908,652
Net assets:	
Invested in capital assets	15,756,553
Restricted for:	
Debt service	5,854,321
Low and moderate housing	16,865,974
Unrestricted	34,491,618
Total net assets	$ 72,968,466

See Accompanying Notes to Financial Statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Statement of Activities
For the Year Ended June 30, 2009

		Net (Expenses) Revenue and Change in Net Assets
Functions/Programs:	**Expenses**	**Governmental Activities**
Governmental activities:		
Community services	$ 20,456,657	$ (20,456,657)
Interest on long term debt	3,566,782	(3,566,782)
Total governmental activities	$ 24,023,439	(24,023,439)
General revenues:		
Taxes:		
Tax increment		19,297,179
Rental income		583,962
Investment earnings		1,554,113
Miscellaneous		44,349
Total general revenues		21,479,603
Change in net assets		(2,543,836)
Net assets, beginning		75,512,302
Net assets, ending		$ 72,968,466

See Accompanying Notes to Financial Statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds
June 30, 2009

	Debt Service Funds		
	South Central Project Area	Town Center Project Area	Marine Base Project Area
Assets:			
Cash and investments	$ 1,485,715	$ 1,203	$ 2,296
Investments with fiscal agents	-	1,677,130	-
Receivables:			
Taxes receivable	64,823	23,281	486,525
Interest receivable	32,085	2,655	4,647
Loans receivable	-	-	-
Notes receivable	-	-	-
Allowance for uncollectibles	-	-	-
Advances to City of Tustin	6,428,058	6,428,057	6,428,056
Prepaid items	-	-	-
Land held for resale	-	-	-
Total assets	$ 8,010,681	$ 8,132,326	$ 6,921,524
Liabilities:			
Accounts payable	$ -	$ -	$ 2,331,236
Deposits payable	-	-	-
Deferred revenue	139,119	134,553	134,861
Due to City of Tustin	4,650,000	5,365,014	4,455,427
Total liabilities	4,789,119	5,499,567	6,921,524
Fund balances:			
Reserved for:			
Debt service	3,221,562	2,632,759	-
Prepaid items	-	-	-
Land held for resale	-	-	-
Low income housing	-	-	-
Unreserved - undesignated	-	-	-
Total fund balances (deficits)	3,221,562	2,632,759	-
Total liabilities and fund balances	$ 8,010,681	$ 8,132,326	$ 6,921,524

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
$ 15,492,305	$ 6,719,206	$ 9,930,612	$ 7,106,549
-	-	-	-
450	17,258	450	10,164
4,647	26,159	7,745	27,265
-	912,119	-	204,051
-	1,434,910	-	320,535
-	(2,119,424)	-	(350,831)
-	-	-	-
4,986	15,000	1,346	15,000
1,345,000	705,000	-	-
$ 16,847,388	$ 7,710,228	$ 9,940,153	$ 7,332,733
$ 68,967	$ 7,150	$ 3,447	$ 5,468
-	-	-	2,510
721	230,043	1,202	176,365
-	-	-	-
69,688	237,193	4,649	184,343
-	-	-	-
4,986	15,000	1,346	15,000
1,345,000	705,000	-	-
-	6,753,035	-	7,133,390
15,427,714	-	9,934,158	-
16,777,700	7,473,035	9,935,504	7,148,390
$ 16,847,388	$ 7,710,228	$ 9,940,153	$ 7,332,733

(Continued)

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds (Continued)
June 30, 2009

	Capital Projects Funds		
	Marine Base Project Area	Marine Base Low Income Housing	Total Governmental Funds
Assets:			
Cash and investments	$ 7,257,288	$ 2,855,418	$ 50,850,592
Investments with fiscal agents	-	-	1,677,130
Receivables:			
Taxes receivable	450	95,320	698,721
Interest receivable	8,408	7,302	120,913
Loans receivable	-	-	1,116,170
Notes receivable	-	2,820,535	4,575,980
Allowance for uncollectibles	-	(2,820,535)	(5,290,790)
Advances to City of Tustin	-	-	19,284,171
Prepaid items	1,346	-	37,678
Land held for resale	25,000,000	-	27,050,000
Total assets	$ 32,267,492	$ 2,958,040	$ 100,120,565
Liabilities:			
Accounts payable	$ 136,487	$ 7,358	$ 2,560,113
Deposits payable	-	-	2,510
Deferred revenue	1,305	1,133	819,302
Due to City of Tustin	-	-	14,470,441
Total liabilities	137,792	8,491	17,852,366
Fund balances:			
Reserved for:			
Debt service	-	-	5,854,321
Prepaid items	1,346	-	37,678
Land held for resale	25,000,000	-	27,050,000
Low income housing	-	2,949,549	16,835,974
Unreserved - undesignated	7,128,354	-	32,490,226
Total fund balances (deficits)	32,129,700	2,949,549	82,268,199
Total liabilities and fund balances	$ 32,267,492	$ 2,958,040	$ 100,120,565

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, 2009

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Fund balances for governmental funds		$ 82,268,199
When capital assets 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	$ 32,557,861	
Current year additions	732,622	
Current year deletions	(17,313,446)	
Current year depreciation	(220,484)	
Ending balance, net of depreciation		15,756,553
Deferred revenues which are deferred because they are not currently available are taken into revenue in the Statement of Activities and, accordingly, increases the net assets on the Statement of Net Assets.		819,302
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.		(25,832,000)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(43,588)
Net assets of governmental activities		$ 72,968,466

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, 2009

	Debt Service Funds		
	South Central Project Area	**Town Center Project Area**	**Marine Base Project Area**
Revenues:			
Taxes	$ 3,564,558	$ 4,470,290	$ 6,761,962
Use of money and property	388,035	174,219	134,591
Rental income	-	-	-
Other revenue	-	-	2,100
Total revenues	3,952,593	4,644,509	6,898,653
Expenditures:			
Current:			
Community services	632,000	254,085	157,000
Capital outlay	-	-	-
Debt service:			
Principal retirement	-	1,105,000	10,038,000
Interest and fiscal charges	99,030	550,665	781,470
Total expenditures	731,030	1,909,750	10,976,470
Excess of revenues over (under) expenditures	3,221,563	2,734,759	(4,077,817)
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	(20,176,849)	(10,046,985)	(7,010,397)
Total other financing sources (uses)	(20,176,849)	(10,046,985)	(7,010,397)
Net change in fund balances	(16,955,286)	(7,312,226)	(11,088,214)
Fund balances (deficits), beginning	20,176,848	9,944,985	11,088,214
Fund balances (deficits), ending	$ 3,221,562	$ 2,632,759	$ -

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
$ -	$ 939,605	$ -	$ 1,139,482
24,086	144,962	31,430	152,761
15,000	104,762	-	-
4,343	11,128	-	1,128
43,429	1,200,457	31,430	1,293,371
141,412	436,476	136,504	363,400
601,135	-	1,767	-
-	-	-	-
-	713,223	-	713,223
742,547	1,149,699	138,271	1,076,623
(699,118)	50,758	(106,841)	216,748
20,176,849	-	10,046,985	-
-	-	-	-
20,176,849	-	10,046,985	-
19,477,731	50,758	9,940,144	216,748
(2,700,031)	7,422,277	(4,640)	6,931,642
$ 16,777,700	$ 7,473,035	$ 9,935,504	$ 7,148,390

(Continued)

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds (Continued)
For the Year Ended June 30, 2009

	Capital Projects Funds		
	Marine Base Project Area	**Marine Base Low Income Housing**	**Total Governmental Funds**
Revenues:			
Taxes	$ -	$ 2,421,282	$ 19,297,179
Use of money and property	35,263	53,071	1,138,418
Rental income	464,200	-	583,962
Other revenue	25,650	-	44,349
Total revenues	525,113	2,474,353	21,063,908
Expenditures:			
Current:			
Community services	279,355	580,886	2,981,118
Capital outlay	71,329	-	674,231
Debt service:			
Principal retirement	-	-	11,143,000
Interest and fiscal charges	-	713,223	3,570,834
Total expenditures	350,684	1,294,109	18,369,183
Excess of revenues over (under) expenditures	174,429	1,180,244	2,694,725
Other financing sources (uses):			
Transfers in	7,010,397	-	37,234,231
Transfers out	-	-	(37,234,231)
Total other financing sources (uses)	7,010,397	-	-
Net change in fund balances	7,184,826	1,180,244	2,694,725
Fund balances (deficits), beginning	24,944,874	1,769,305	79,573,474
Fund balances (deficits), ending	$ 32,129,700	$ 2,949,549	$ 82,268,199

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, 2009

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds		$ 2,694,725
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. Capital asset activities for the fiscal year are as follows:		
Capital asset additions	732,622	
Capital asset transfer to City	(17,313,446)	
Depreciation expense	(220,484)	
		(16,801,308)
Deferred revenue does not provide for current financial resources and, therefore, is not reported as revenues in the governmental funds.		415,695
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.		11,143,000
Interest on long-term debt is not due and payable in the current period and, therefore, is not reported in the governmental funds.		4,052
Change in net assets of governmental activities		$ (2,543,836)

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 Governmental Accounting Standards Board (GASB) Code Section 2100, "Defining the Reporting Entity", the Agency's financial activities are 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 activities) 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. Property tax revenue is recognized in the fiscal year for which taxes have been levied. Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

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. For this purpose, the Agency considers levied property tax increment revenues, investment income and rental income to be available if they are collected within 60 days of the end of the current fiscal period.

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).

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 one 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 development 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 Town 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.

(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.

(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's annual report for the year ended June 30, 2009 for additional disclosures on deposits and investments.

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments - unrestricted	$ 50,850,592
Cash and investments with fiscal agent	1,677,130
Total cash and investments	$ 52,527,722

Cash and investments as of June 30, 2009 consist of the following:

Cash pooled with City of Tustin	$ 50,850,592
Investments	1,677,130
Total cash and investments	$ 52,527,722

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's 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 investing in eligible securities	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

Investments 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	$ 50,850,592	less than 6 months
Held by fiscal agent:		
Money Market Funds	1,677,130	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	Actual Rating at Year End Not Rated
Investment in City Pool	$ 50,850,592	N/A	$ 50,850,592
Held by fiscal agent:			
Money Market Funds	1,677,130	N/A	1,677,130
	$ 52,527,722		$ 52,527,722

Concentration of Credit Risk

The investment policy of the Agency 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, 2009, 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's 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/ Notes 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, 2009, was $347,510.

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, 2009, was $59,573. An allowance of $59,573 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, 2009, was $709,087. An allowance of $655,237 has been recorded to reflect the amount of loans not expected to be collectible.

Notes Receivable: The City of Tustin is holding second deeds of trust on low and moderate income homes located in the Tustin Legacy development. The Agency will purchase these notes from the City as funds are readily available. Total outstanding balance as of June 30, 2009 was $4,575,980. An allowance of $4,575,980 has been recorded in the fund statements.

(c) Interfund Transfers

Transfers Out	Transfers In: South Central Project Area Capital Projects Fund	Town Center Project Area Capital Projects Fund	Marine Base Project Area Capital Projects Fund	Totals
South Central Project Area Debt Service Fund	$ 20,176,849	$ -	$ -	$ 20,176,849
Town Center Project Area Debt Service Fund	-	10,046,985	-	10,046,985
Marine Base Project Area Debt Service Fund	-	-	7,010,397	7,010,397
	$ 20,176,849	$ 10,046,985	$ 7,010,397	$ 37,234,231

Transfers from Debt Service Funds were made to Capital Projects Funds to provide funding for current and future capital projects in South Central, Town Center, and Marine Base Project Areas.

(d) Capital Assets

The following is a summary of the capital asset activity for the year ended June 30, 2009:

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
Capital assets, not being depreciated:				
Construction in progress	$ 24,840,923	$ 732,622	$ 17,313,446 *	$ 8,260,099
Total capital assets, not being depreciated	24,840,923	732,622	17,313,446	8,260,099
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	(3,751,258)	(220,484)	-	(3,971,742)
Total capital assets, being depreciated, net	7,716,938	(220,484)	-	7,496,454
Governmental activities capital assets, net	$ 32,557,861	$ 512,138	$ 17,313,446	$ 15,756,553

* This amount was contributed to the City of Tustin upon the completion of the various projects.

(e) Long-Term Liabilities

The following is a summary of the long-term liability activity for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Due Within One Year
Tax allocation bonds	$ 11,975,000	$ -	$ 1,105,000	$ 10,870,000	$ 1,150,000
Notes payable	25,000,000	-	10,038,000	14,962,000	6,763,000
	$ 36,975,000	$ -	$ 11,143,000	$ 25,832,000	$ 7,913,000

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. $10,870,000

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

Year Ending June 30,	Principal	Interest	Total
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	1,380,000	258,073	1,638,073
2015-2017	4,565,000	339,906	4,904,906
Total	$ 10,870,000	$ 2,247,685	$ 13,117,685

Notes Payable:

On April 1, 2007, the Tustin Community Redevelopment Agency entered into two related Note Purchase Agreements in the amounts 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 have 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. $14,962,000

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	$ 6,763,000	$ 1,752,268	$ 8,515,268
2011	8,199,000	765,240	8,964,240
Total	$ 14,962,000	$ 2,517,508	$ 17,479,508

Pledged Revenues:

The tax allocation refunding bonds are secured and to be serviced from tax increment revenues excluding dedicated housing tax increment, through the fiscal year 2017. Total debt service requirements through 2017 are $13,117,685 consisting of principal payments of $10,870,000 and interest payments of $2,247,685. Pledged tax increment revenue recognized during the year was $14.6 million against the total debt service payment of $13.7 million.

The notes payable are secured and to be serviced from the Marine Base Project Area tax increment revenues excluding dedicated housing tax increment, through the fiscal year 2011. Total debt service requirements through 2011 are $17,479,508 consisting of principal payments of $14,962,000 and interest payments of $2,517,508. Pledged tax increment revenue recognized during the year was $6.8 million against the total debt service payment of $10.8 million.

Although the incremental property taxes were projected to produce sufficient revenues to meet the debt service requirements over the life of the bonds, certain conditions could have a material, adverse impact on revenues allocated to the Agency. These include future decreases in the assessed valuation of the project areas, decreases in the applicable tax rates or collection rates, general decline in the economic condition of the project areas, or a change in the law reducing the tax increment received by the Agency.

(f) Due to City of Tustin

The City made loans to the South Central Project Area, Town Center Project Area, and Marine Base Project Area. The total amount of the loan outstanding is $14,470,441 and is expected to be paid with future tax increment revenue.

(g) 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.

(h) 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, 2009, approximately five hundred sixty-five new units have been constructed in the Marine Base 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 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 $961,605 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 $961,605 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 $2,139,668.

(4) SUBSEQUENT EVENT

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of $2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of $2.05 billion will be made over two years, $1.7 billion in fiscal year 2009-2010 and $350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately $6,191,557 in fiscal year 2009-2010 and $1,274,732 in fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to AB 26 4x, the Agency intends to make the required payments from tax increment revenues from the South Central (27.39%) Town Center (26.46%) and Marine Base Project Areas (46.15%) in May 2010 and 2011.

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate AB 26 4x, similar to last year's successful lawsuit challenging the constitutionality of AB 1389. CRA filed its lawsuit on October 20, 2009. The lawsuit asserts that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserts impairment of contract and gift of public funds arguments. While the State made adjustments in AB 26 4x to address the constitutional issues raised by the Superior Court over last year's lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional.

MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

NEWPORT BEACH
1201 Dove Street, Suite 680
Newport Beach, CA 92660
949.221.0025

SACRAMENTO

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, 2009, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated November 24, 2009. 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 November 24, 2009 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

November 24, 2009