TUSTIN COMMUNITY REDEVELOPMENT AGENCY
(A Component Unit of the City of Tustin, California)

Annual Financial Report

June 30, 2010

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Annual Financial Report
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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, 2010, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, 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 30, 2010 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 to 7 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 30, 2010

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, 2010.

FINANCIAL HIGHLIGHTS

- Agency assets exceeded its liabilities at the close of fiscal year 2009-10 by $51,638,097. Net assets consist of $14,627,754 in capital net assets, $19,220,695 in restricted net assets and $17,789,648 in unrestricted net assets.

- The Agency's total net assets decreased by $21,330,369 during the fiscal year ended June 30, 2010. This was mostly due to increased expenditures for various community development and capital improvement projects contributed to the City of Tustin upon completion.

- At the close of fiscal year 2009-10, the Agency's governmental funds reported combined ending fund balances of $79,055,841, a decrease of $3,212,358 from the prior year. Fund balances consist of $66,206,661 reserved for specific purposes and $12,849,180 in unreserved – undesignated.

- Total Agency debt increased by $18,360,028 during fiscal year 2009-10, primarily due to the issuance of Tax Allocation Housing Bonds.

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 Services 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 funds balance sheet and the governmental funds 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 funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances.

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

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 19 – 32 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The Agency's combined net assets are $51,638,097 as outlined in Table 1. This is a decrease of $21,330,369 from the prior year balance of $72,698,466. A significant decrease in Other liabilities resulted from the Agency's payment of amounts due to the City of Tustin under a short-term working capital agreement.

TABLE 1
Net Assets

	Fy08-09	Fy09-10	% Change
Assets:			
Current and restricted assets	$ 100,120,565	$ 93,371,780	(7%)
Capital assets	15,756,553	14,627,754	(7%)
Total Assets	115,877,118	107,999,534	(7%)
Liabilities:			
Other liabilities	17,076,552	12,169,409	(29%)
Long-term liabilities outstanding	25,832,000	44,192,028	71%
Total Liabilities	42,908,562	56,361,437	31%
Net Assets:			
Invested in capital assets	15,756,553	14,627,754	(7%)
Restricted	16,865,974	19,220,695	14%
Unrestricted	40,345,939	17,789,648	(56%)
Total Net Assets	$ 72,968,466	$ 51,638,097	(29%)

Statement of Activities

The statement of activities shows how the government's net assets changed during fiscal year 2009-10. On the following page is a summary of changes in net assets.

During the current fiscal year, the Agency's net assets decreased $21,330,369. This was mostly due to increased expenditures for various community development and capital improvement projects contributed to the City of Tustin upon completion.

TABLE 2
Changes in Net Assets

	Fy08-09	Fy09-10	% Change
Revenues:			
General Revenues:			
Tax increment	$ 19,297,179	$ 18,687,536	(3%)
Investment and rental	2,138,075	1,573,918	(26%)
Other revenues	44,349	105,363	138%
Total Revenues	21,479,603	20,366,817	5%
Expenses:			
Program Expenses:			
Community services	20,456,657	38,437,632	88%
Interest on long-term debt	3,566,782	3,259,554	(9%)
Total Expenses	24,023,439	41,697,186	74%
Change in net assets	(2,543,836)	(21,330,369)	(739%)
Net Assets - Beginning of Year	75,512,302	72,968,466	(3%)
Net Assets - End of Year	$ 72,968,466	$ 51,638,097	(29%)

The 3% decrease in Tax Increment revenues from prior year is due to the decrease in property values because of the current economic conditions. The 26% decrease in investment and rental income from prior year is due to lower returns on investments because of the current economic condition. The 88% increase in Community Services expenses related to spending on low to moderate income housing activities.

FINANCIAL ANALYSIS OF AGENCY FUNDS

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

Governmental funds

The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Government's net resources available for spending at the end of the fiscal year. Refer to pages 10 – 17 for more detail of governmental funds.

As of June 30, 2010, the Agency's governmental funds reported combined ending fund balances of $79,055,841, a decrease of $3,212,358 in comparison with the prior year. Of the $79,055,841, $12,849,180 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 $1,720,833, (2) to advances $18,881,750 (3) to prepaid items of $38,383, (4) to land held for resale of $26,345,000, and (5) for a variety of low and moderate income housing purposes of $19,220,695.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of 2010, the Agency had $14,627,754 invested in a broad range of capital assets, including buildings and furniture, fixtures and equipment. The 11% decrease in Construction in Progress is due to the completion of the Library that benefited the project areas and was transferred to the City of Tustin.

TABLE 3
Capital Assets at Year-End

	Fy08-09	Fy09-10	% Change
Construction in progress	$ 8,260,099	$ 7,351,784	(11%)
Building	11,024,198	11,024,198	0%
Furniture and fixtures, and equipment	443,998	443,998	0%
Accumulated depreciation	(3,971,742)	(4,192,226)	6%
Total	$ 15,756,553	$ 14,627,754	(7%)

Long-term debt

At the end of fiscal year 2010, the Agency had total bonded debt outstanding of $44,192,028, which is an $18,360,028 increase from the prior year primarily due to the issuance of Tax Allocation Housing Bonds of $26,170,000 in March 2010 to refinance low and moderate income housing activities throughout the geographic boundaries of the City and, in particular, to repay a reimbursement obligation from the Agency to the City, relating to the City's write down of land for use for affordable housing purposes. Outstanding bonded debt can be found on pages 28-31 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, 2010

	Governmental Activities
Assets:	
Cash and investments	$ 41,474,322
Receivables:	
Accounts receivable	404,850
Interest receivable	160,527
Loans receivable	1,094,306
Allowance for uncollectibles	(720,342)
Advances to City of Tustin	20,112,456
Prepaid expenses	38,383
Land held for resale	26,345,000
Deferred bond issuance costs	889,524
Restricted assets:	
Investments with fiscal agent	3,572,754
Capital assets, not depreciated	7,351,784
Capital assets, net of accumulated depreciation	7,275,970
Total assets	107,999,534
Liabilities:	
Accounts payable	2,574,481
Deposits payable	10,050
Interest payable	418,467
Due to the City of Tustin	9,166,411
Noncurrent liabilities:	
Due within one year	10,659,000
Due in more than one year	33,533,028
Total liabilities	56,361,437
Net assets:	
Invested in capital assets	14,627,754
Restricted for:	
Low and moderate income housing	19,220,695
Unrestricted	17,789,648
Total net assets	$ 51,638,097

See Accompanying Notes to Financial Statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs:	Expenses	Net (Expenses) Revenue and Change in Net Assets Governmental Activities
Governmental activities:		
Community services	$ 38,437,632	$ (38,437,632)
Interest on long-term debt	3,259,554	(3,259,554)
Total governmental activities	$ 41,697,186	(41,697,186)
General revenues:		
Taxes:		
Tax increment		18,687,536
Rental income		100,324
Investment earnings		1,473,594
Miscellaneous		105,363
Total general revenues		20,366,817
Change in net assets		(21,330,369)
Net assets, beginning		72,968,466
Net assets, ending		$ 51,638,097

See Accompanying Notes to Financial Statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds
June 30, 2010

	Debt Service Funds		
	South Central Project Area	**Town Center Project Area**	**Marine Base Project Area**
Assets:			
Cash and investments	$ 2,636,638	$ -	$ -
Investments with fiscal agents	-	1,700,253	-
Receivables:			
Accounts receivable	106,932	21,138	193,309
Interest receivable	8,213	-	-
Loans receivable	-	-	-
Allowance for uncollectibles	-	-	-
Advances to City of Tustin	6,704,153	6,704,152	6,704,151
Prepaid items	-	-	-
Land held for resale	-	-	-
Total assets	$ 9,455,936	$ 8,425,543	$ 6,897,460
Liabilities:			
Accounts payable	$ 2,674	$ 558	$ 2,266,581
Deposits payable	-	-	-
Deferred revenue	414,737	410,236	410,235
Due to City of Tustin	4,650,000	-	4,516,411
Total liabilities	5,067,411	410,794	7,193,227
Fund balances:			
Reserved for:			
Debt service	-	1,720,833	-
Advances	6,293,918	6,293,916	6,293,916
Prepaid items	-	-	-
Land held for resale	-	-	-
Low and moderate income housing	-	-	-
Unreserved - undesignated	(1,905,393)	-	(6,589,683)
Total fund balances (deficits)	4,388,525	8,014,749	(295,767)
Total liabilities and fund balances	$ 9,455,936	$ 8,425,543	$ 6,897,460

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
$ 14,211,044	$ 7,135,398	$ 4,830,627	$ 7,166,894
-	624,167	-	624,167
1,568	27,274	-	5,372
44,274	37,867	15,052	38,004
-	901,187	-	193,119
-	(700,978)	-	(19,364)
-	-	-	-
5,056	15,165	1,416	15,165
1,345,000	-	-	-
$ 15,606,942	$ 8,040,080	$ 4,847,095	$ 8,023,357
$ 96,271	$ 4,627	$ 7,789	$ 2,268
-	6,365	-	2,685
24,268	212,373	8,249	185,994
-	-	-	-
120,539	223,365	16,038	190,947
-	-	-	-
-	-	-	-
5,056	15,165	1,416	15,165
1,345,000	-	-	-
-	7,801,550	-	7,817,245
14,136,347	-	4,829,641	-
15,486,403	7,816,715	4,831,057	7,832,410
$ 15,606,942	$ 8,040,080	$ 4,847,095	$ 8,023,357

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds (Continued)
June 30, 2010

	Capital Projects Funds		
	Marine Base Project Area	**Marine Base Low Income Housing**	**Total Governmental Funds**
Assets:			
Cash and investments	$ 2,555,256	$ 2,938,465	$ 41,474,322
Investments with fiscal agents	-	624,167	3,572,754
Receivables:			-
Accounts receivable	8,669	40,588	404,850
Interest receivable	7,962	9,155	160,527
Loans receivable	-	-	1,094,306
Allowance for uncollectibles	-	-	(720,342)
Advances to City of Tustin	-	-	20,112,456
Prepaid items	1,581	-	38,383
Land held for resale	25,000,000	-	26,345,000
Total assets	$ 27,573,468	$ 3,612,375	$ 92,482,256
Liabilities:			
Accounts payable	$ 188,256	$ 5,457	$ 2,574,481
Deposits payable	1,000	-	10,050
Deferred revenue	4,363	5,018	1,675,473
Due to City of Tustin	-	-	9,166,411
Total liabilities	193,619	10,475	13,426,415
Fund balances:			
Reserved for:			
Debt service	-	-	1,720,833
Advances	-	-	18,881,750
Prepaid items	1,581	-	38,383
Land held for resale	25,000,000	-	26,345,000
Low and moderate income housing	-	3,601,900	19,220,695
Unreserved - undesignated	2,378,268	-	12,849,180
Total fund balances (deficits)	27,379,849	3,601,900	79,055,841
Total liabilities and fund balances	$ 27,573,468	$ 3,612,375	$ 92,482,256

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, 2010

Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Fund balances for governmental funds		$ 79,055,841
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	$ 15,756,553	
Current year additions	1,242,824	
Current year deletions	(2,151,139)	
Current year depreciation	(220,484)	
Ending balance, net of depreciation		14,627,754
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.		1,675,473
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.		(44,192,028)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(418,467)
Bond issuance costs are not deferred in governmental funds, but rather are recorded an expenditure.		889,524
Net assets of governmental activities		$ 51,638,097

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, 2010

	Debt Service Funds		
	South Central Project Area	**Town Center Project Area**	**Marine Base Project Area**
Revenues:			
Taxes	$ 3,496,027	$ 3,841,365	$ 7,106,272
Investment income	-	102,491	-
Rental income	-	-	-
Other revenue	-	-	-
Total revenues	3,496,027	3,943,856	7,106,272
Expenditures:			
Current:			
Community services	2,282,799	1,956,846	3,036,457
Capital outlay	-	-	-
Debt service:			
Principal retirement	-	1,150,000	6,763,000
Interest and fiscal charges	46,265	500,452	219,798
Total expenditures	2,329,064	3,607,298	10,019,255
Excess of revenues over (under) expenditures	1,166,963	336,558	(2,912,983)
Other financing sources (uses):			
Transfers in	-	5,045,432	2,617,216
Transfers out	-	-	-
Premium on bonds	-	-	-
Bond proceeds	-	-	-
Total other financing sources (uses)	-	5,045,432	2,617,216
Net change in fund balances	1,166,963	5,381,990	(295,767)
Fund balances, beginning	3,221,562	2,632,759	-
Fund balances (deficits), ending	$ 4,388,525	$ 8,014,749	$ (295,767)

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
$ -	$ 888,199	$ -	$ 971,150
184,207	77,352	88,704	82,039
15,000	85,324	-	-
-	13,601	-	13,602
199,207	1,064,476	88,704	1,066,791
235,780	8,648,983	147,719	8,352,379
1,254,724	-	-	-
-	-	-	-
-	829,882	-	788,460
1,490,504	9,478,865	147,719	9,140,839
(1,291,297)	(8,414,389)	(59,015)	(8,074,048)
-	-	-	-
-	-	(5,045,432)	-
-	34,735	-	34,735
-	8,723,334	-	8,723,333
-	8,758,069	(5,045,432)	8,758,068
(1,291,297)	343,680	(5,104,447)	684,020
16,777,700	7,473,035	9,935,504	7,148,390
$ 15,486,403	$ 7,816,715	$ 4,831,057	$ 7,832,410

(Continued)

TUSTIN COMMUNITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds (Continued)
For the Year Ended June 30, 2010

	Capital Projects Funds		
	Marine Base Project Area	Marine Base Low Income Housing	Total Governmental Funds
Revenues:			
Taxes	$ -	$ 2,384,523	$ 18,687,536
Investment income	49,656	32,974	617,423
Rental income	-	-	100,324
Other revenue	78,159	-	105,362
Total revenues	127,815	2,417,497	19,510,645
Expenditures:			
Current:			
Community services	2,260,316	9,132,829	36,054,108
Capital outlay	-	-	1,254,724
Debt service:			
Principal retirement	-	-	7,913,000
Interest and fiscal charges	134	1,390,385	3,775,376
Total expenditures	2,260,450	10,523,214	48,997,208
Excess of revenues over (under) expenditures	(2,132,635)	(8,105,717)	(29,486,563)
Other financing sources (uses):			
Transfers in	-	-	7,662,648
Transfers out	(2,617,216)	-	(7,662,648)
Premium on bonds	-	34,735	104,205
Bond proceeds	-	8,723,333	26,170,000
Total other financing sources (uses)	(2,617,216)	8,758,068	26,274,205
Net change in fund balances	(4,749,851)	652,351	(3,212,358)
Fund balances, beginning	32,129,700	2,949,549	82,268,199
Fund balances (deficits), ending	$ 27,379,849	$ 3,601,900	$ 79,055,841

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, 2010

Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balances - total governmental funds		$ (3,212,358)
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 year are as follows:		
Capital asset additions	$ 1,242,824	
Capital asset transfer to City	(2,151,139)	
Depreciation expense	(220,484)	(1,128,799)
Deferred revenue does not provide for current financial resources and, therefore, is not reported as revenues in the governmental funds.		856,171
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. Long-term debt activities for the fiscal year are as follows:		
Bond issuance	$ (26,170,000)	
Premium on bond issuance	(104,205)	
Principal repayments	7,913,000	
Amortization of bond premium	1,177	(18,360,028)
Issuance costs on long-term debt is not deferred and amortized in the current period and, therefore, is reported as interest expense in the governmental funds.		889,524
Interest on long-term debt is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(374,879)
Change in net assets of governmental activities		$ (21,330,369)

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. 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 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

Deficit Fund Balance

The Marine Base Project Area Debt Service Fund had deficit fund balance of $295,767 at June 30, 2010. This deficit is expected to be relieved from future revenues or transfers.

(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, 2010, for additional disclosures on deposits and investments.

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments - unrestricted	$ 41,474,322
Cash and investments with fiscal agent	3,572,754
Total cash and investments	$ 45,047,076

Cash and investments as of June 30, 2010 consist of the following:

Cash pooled with City of Tustin	$ 41,474,322
Investments	3,572,754
Total cash and investments	$ 45,047,076

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 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, rather than the general provision of the Agency's investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy	Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	90 days	15%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	15%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	None	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other Investment Pools)	Yes	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	$ 41,474,322	less than 6 months
Held by fiscal agent:		
Money market funds	1,895,741	less than 12 months
Investment contract	1,677,013	77 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 AAA	Actual Rating at Year End Not Rated
Investment in City Pool	$ 41,474,322	N/A	$ -	$ 41,474,322
Held by fiscal agent:				
Money market funds	1,895,741	N/A	1,895,741	-
Investment contract	1,677,013	N/A	-	1,677,013
	$ 45,047,076		$ 1,895,741	$ 43,151,335

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, 2010, 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

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, 2010, 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, 2010, was $65,104. An allowance of $65,104 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, 2010, was $681,692. An allowance of $655,238 has been recorded to reflect the amount of loans not expected to be collectible.

(c) ***Interfund Transfers***

	Transfers In		
Transfers Out	Town Center Project Area Capital Projects Fund	Marine Base Project Area Capital Projects Fund	Totals
Town Center Project Area Debt Service Fund	$ 5,045,432	$ -	$ 5,045,432
Marine Base Project Area Debt Service Fund	-	2,617,216	2,617,216
	$ 5,045,432	$ 2,617,216	$ 7,662,648

Transfers from Capital Project Funds were made to Debt Service Funds to provide funding for operations.

(d) Capital Assets

The following is a summary of the capital asset activity for the year ended June 30, 2010:

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Capital assets, not being depreciated:				
Construction in progress	$ 8,260,099	$ 1,242,824	$ 2,151,139 *	$ 7,351,784
Total capital assets, not being depreciated	8,260,099	1,242,824	2,151,139	7,351,784
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	(3,971,742)	(220,484)	-	(4,192,226)
Total capital assets, being depreciated, net	7,496,454	(220,484)	-	7,275,970
Governmental activities capital assets, net	$ 15,756,553	$ 1,022,340	$ 2,151,139	$ 14,627,754

* 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, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
Tax allocation bonds	$ 10,870,000	$ 26,170,000	$ 1,150,000	$ 35,890,000	$ 2,460,000
Unamortized premium	-	104,205	1,177	103,028	-
Tax allocation bonds, net	10,870,000	26,274,205	1,151,177	35,993,028	2,460,000
Notes payable	14,962,000	-	6,763,000	8,199,000	8,199,000
	$ 25,832,000	$ 26,274,205	$ 7,914,177	$ 44,192,028	$ 10,659,000

Tax Allocation Bonds:

On July 1, 1998, the Tustin Community Redevelopment Agency issued $20,805,000 Tax Allocation Refunding Bonds to refund the Agency's Town Center Area Redevelopment Project Tax Allocation Refunding Bonds, Series 1987, in aggregate principal amount of $5,145,000 and the Agency's Town Center Area Redevelopment Project Subordinate Tax Allocation Bonds, Series 1991 in aggregate principal amount of $12,880,000. As of June 30, 2006, the 1987 and 1991 bonds have been fully redeemed.

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. $9,720,000

On March 1, 2010, the Tustin Community Redevelopment Agency issued $26,170,000 Tax Allocation Housing Bonds, Series 2010 to refinance low and moderate income housing activities throughout the geographic boundaries of the City and, in particular, to repay a reimbursement obligation from the Agency to the City, relating to the City's write down of land for use for affordable housing purposes. Serial bonds are payable in annual installments ranging from $550,000 to $1,300,000 commencing on September 1, 2010. Interest is payable semiannually on March 1 and September 1, with rates ranging from 2% to 5% per annum. $26,170,000

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

Year Ending June 30,	Principal	Interest	Total
2011	$ 2,460,000	$ 1,577,955	$ 4,037,955
2012	1,950,000	1,506,798	3,456,798
2013	2,030,000	1,423,952	3,453,952
2014	2,115,000	1,336,504	3,451,504
2015	2,205,000	1,242,244	3,447,244
2016-2020	7,370,000	4,944,200	12,314,200
2021-2025	5,190,000	3,831,534	9,021,534
2026-2030	5,220,000	2,497,125	7,717,125
2031-2035	3,210,000	1,524,663	4,734,663
2036-2040	4,140,000	565,688	4,705,688
Total	$ 35,890,000	$ 20,450,663	$ 56,340,663

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 year-end interest rates of 1.03% for Series A and 4.56% for Series B. The remaining balance of the notes are due in fiscal year 2011.

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. $8,199,000

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 8,199,000	$ 145,383	$ 8,344,383
Total	$ 8,199,000	$ 145,383	$ 8,344,383

Pledged Revenues:

The tax allocation bonds and notes payable are secured and to be serviced from tax increment revenues and dedicated housing tax increment, through the fiscal year 2040. Total debt service requirements for tax allocation bonds through 2040 are $56,340,663 consisting of principal payments of $35,890,000 and interest payments of $20,450,663, and total debt service requirements for notes payable through 2011 are $8,344,383 consisting of principal payments of $8,199,000 and interest payments of $145,383 Pledged tax increment revenue recognized during the year was $18.7 million against the total debt service payment of $8.6 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 to provide short-term loans to fund operations. The total amount of the loan outstanding is $9,166,411 and is to be paid within one year.

(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, and is the amount outstanding as of June 30, 2010.

(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 Marine Corps Air Station (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, 2010, 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 $25,438,579 during the fiscal year.

(4) SUBSEQUENT EVENT

$44,170,000 Tustin Community Redevelopment Agency Tax Allocation Bonds, Series 2010

On October 27, 2010, the Tustin Community Redevelopment Agency issued $44,170,000 Tax Allocation Bonds, Series 2010 for the purpose of financing redevelopment activities within or for the benefit of the Agency's MCAS-Tustin Redevelopment Project Area. The bonds are payable in annual installments ranging from $640,000 to $12,230,000 commencing on September 1, 2011. Interest is payable semiannually on March 1 and September 1, with rates ranging from 2.0% to 5.0% per annum. The bonds maturing on or after September 1, 2019, are subject to optional redemption prior to maturity, as a whole or in part, from any available source of funds, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

The Board of Directors of the
Tustin Community Redevelopment Agency

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, 2010, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated November 30, 2010 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 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's basic financial statements 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 solely for the information of the Board of Directors and management of the Agency 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 30, 2010