TUSTIN COMMUNITY REDEVELOPMENT AGENCY

COMPONENT UNIT FINANCIAL STATEMENTS

WITH REPORT ON AUDIT BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2011

TUSTIN COMMUNITY REDEVELOPMENT AGENCY

TABLE OF CONTENTS

June 30, 2011

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Tustin Community Redevelopment Agency
Tustin, California

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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, 2011, 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.

As described in Note 8 to the basic financial statements, the Agency has implemented the provisions of Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011.

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Offices located in Orange and San Diego Counties

As explained further in Note 13, the future operation of redevelopment agencies in the state of California may be impacted by the results of litigation initiated in response to certain legislative actions enacted by the California State Legislature.

In accordance with Government Auditing Standards, we have also issued our report dated November 29, 2011 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 as required supplementary information in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. This information is an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The Computation of Excess Surplus of the South Central, Town Center and Marine Base Low Income Housing Capital Projects Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Agency. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements of the Agency or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

White Nelson Diehl Evans LLP

November 29, 2011
Irvine, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Tustin Community Redevelopment Agency (the 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, 2011.

FINANCIAL HIGHLIGHTS

- Agency assets exceeded its liabilities at the close of fiscal year 2010-11 by $17,831,240. Net assets consist of $240,600 invested in capital assets, $16,031,845 restricted for low and moderate housing, $6,400,412 restricted for debt service, $39,994,885 restricted for redevelopment projects and unrestricted assets of ($44,836,502).
- The Agency's total net assets increased by $5,576,497 during fiscal year ended June 30, 2011. This was mostly due to decreased expenditures for various community development and capital improvement projects.
- At the close of fiscal year 2010-11, the Agency's governmental funds reported a combined ending fund balance of $91,730,173, an increase of $37,674,332 from the prior year. Fund balance consists of nonspendable funds of $20,625,257, $82,094,379 restricted and ($10,989,463) unassigned.
- Total Agency debt increased by $32,634,803 during fiscal year 2010-11, primarily due to the issuance of Tax Allocation 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.

<u>Government-wide financial statements</u>

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.

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).

Government-wide financial statements (Continued)

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 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 -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 17 - 36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The Agency's combined net assets are $17,831,240 as outlined in Table 1. This is an increase of $5,576,497 from the prior year's restated balance of $12,254,743.

TABLE 1
Net Assets

	Fy 09-10 As Restated	Fy10-11	% Change
Assets:			
Current and restricted assets	$ 68,371,780	$ 111,502,760	63%
Capital assets	244,400	240,600	(2%)
Total Assets	68,616,180	111,743,360	63%
Liabilities:			
Other liabilities	12,169,409	17,085,289	40%
Long-term liabilities outstanding	44,192,028	76,826,831	74%
Total Liabilities	56,361,437	93,912,120	67%
Net Assets:			
Invested in capital assets	244,400	240,600	(2%)
Restricted	19,220,695	62,427,142	225%
Unrestricted	(7,210,352)	(44,836,502)	(522%)
Total Net Assets	$ 12,254,743	$ 17,831,240	46%

Statement of Activities

The statement of activities shows how the government's net assets changed during fiscal year 2010-11. On the following page is a summary of changes in net assets.

During the current fiscal year, the Agency's net assets increased $5,576,497. This was mostly due to a decrease in expenditures for various community development and capital improvement projects.

Statement of Activities (Continued)

TABLE 2
Changes in Net Assets

	Fy09-10	Fy10-11	% Change
Revenues:			
General Revenues:			
Tax increment	$ 18,687,536	$ 18,272,685	(2%)
Investment and rental	1,573,918	1,430,756	(9%)
Other revenues	105,363	7,269	(93%)
Total Revenues	20,366,817	19,710,710	(3%)
Expenses:			
Program Expenses:			
Community services	38,437,631	10,322,708	(73%)
Interest on long-term debt	3,259,554	3,811,505	17%
Total Expenses	41,697,185	14,134,213	(66%)
Change in net assets	(21,330,368)	5,576,497	126%
Net Assets - Beginning of Year, as Restated	33,585,111	12,254,743	(64%)
Net Assets - End of Year, as Restated	$ 12,254,743	$ 17,831,240	46%

The 2% and 9% decrease in Tax Increment and Investment and Rental Revenues from prior year is due to the decrease in property values and low interest rates because of the current economic conditions. The 73% decrease in Community Services Expenses is due to a decrease in 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. Refer to pages 10 - 16 for more detail of governmental funds.

As of June 30, 2011, the Agency's governmental funds reported combined ending fund balances of $91,730,173, an increase of $37,674,332 in comparison with the prior year. The primary reason for the increase in the combined fund balances is due to the issuance of tax allocation bonds and the significant (73%) decrease in spending on low to moderate housing activities and other Community Services expenses. Of the $91,730,173, $20,625,257 is nonspendable, $82,094,379 is restricted for low and moderate housing and other activities that benefit the Agency's project areas and ($10,989,463) is unassigned.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's investment in capital assets (net of accumulated depreciation) as of June 30, 2010 and 2011 totaled $244,400 and $240,600, respectively. This investment in capital assets includes the following:

	Fy 09-10	Fy 10-11
Land and improvements	$ 119,000	$ 119,000
Building	190,000	190,000
	309,000	309,000
Less accumulated depreciation	(64,600)	(68,400)
Total	$ 244,400	$ 240,600

Additional information on capital assets may be found on page 26 in the notes to the basic financial statements.

Long-term debt

At the end of fiscal year 2011, the Agency had total bonded debt outstanding of $76,826,831, which is a $32,634,803 increase from the prior year primarily due to the issuance of Tax Allocation Bonds of $44,170,000 in October 2010 to finance capital improvement activities such as the Tustin Ranch Road extension that benefit the Agency's MCAS-Tustin Redevelopment Project area. Outstanding bonded debt can be found on pages 26 - 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.

See independent auditors' report.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

June 30, 2011

	Governmental Activities
ASSETS:	
Cash and investments	$ 40,406,552
Receivables:	
Accounts	216,986
Interest	103,157
Loans	33,520,546
Allowance for uncollectibles	(33,147,347)
Advance to City of Tustin	20,976,317
Prepaid items	35,830
Land held for resale	1,707,677
Deferred bond issuance costs	1,287,745
Restricted assets:	
Cash and investments	39,994,885
Investments with fiscal agent	6,400,412
Capital assets, not depreciated	119,000
Capital assets, net of accumulated depreciation	121,600
TOTAL ASSETS	111,743,360
LIABILITIES:	
Accounts payable	3,071,952
Deposits payable	10,936
Interest payable	1,089,116
Due to the City of Tustin	12,913,285
Noncurrent liabilities:	
Due within one year	2,590,000
Due in more than one year	74,236,831
TOTAL LIABILITIES	93,912,120
NET ASSETS:	
Invested in capital assets	240,600
Restricted for low and moderate income housing	16,031,845
Restricted for debt service	6,400,412
Restricted for redevelopment projects	39,994,885
Unrestricted	(44,836,502)
TOTAL NET ASSETS	$ 17,831,240

See independent auditors' report and notes to basic financial statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Community services	$ 10,322,708	$ 93,961	$ -	$ -	$ (10,228,747)
Interest on long-term debt	3,811,505	-	-	-	(3,811,505)
Total governmental activities	$ 14,134,213	$ 93,961	$ -	$ -	(14,040,252)
GENERAL REVENUES:					
Taxes:					
Tax increment					18,272,685
Investment earnings					1,336,795
Miscellaneous					7,269
Total general revenues					19,616,749
CHANGE IN NET ASSETS					5,576,497
NET ASSETS - BEGINNING OF YEAR, AS RESTATED					12,254,743
NET ASSETS - END OF YEAR					$ 17,831,240

See independent auditors' report and notes to basic financial statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	Debt Service Funds		
	South Central Project Area	Town Center Project Area	Marine Base Project Area
ASSETS			
Cash and investments	$ 4,993,843	$ 1,649,059	$ -
Investments with fiscal agent	-	1,700,255	2,827,620
Receivables:			
Accounts receivable	46,866	37,057	88,876
Interest receivable	3,813	1,259	-
Loans receivable	-	-	-
Allowance for uncollectibles	-	-	-
Advance to City of Tustin	6,992,106	6,992,106	6,992,105
Prepaid expenses	-	-	-
Land held for resale	-	-	-
TOTAL ASSETS	$ 12,036,628	$ 10,379,736	$ 9,908,601
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	$ 4,681	$ 484	$ 2,472,407
Deposits payable	-	-	-
Deferred revenue	698,188	698,190	698,189
Due to City of Tustin	4,650,000	-	8,263,285
TOTAL LIABILITIES	5,352,869	698,674	11,433,881
FUND BALANCES:			
Nonspendable	6,293,918	6,293,916	6,293,916
Restricted	389,841	3,387,146	2,827,620
Unassigned	-	-	(10,646,816)
TOTAL FUND BALANCES (DEFICIT)	6,683,759	9,681,062	(1,525,280)
TOTAL LIABILITIES AND FUND BALANCES	$ 12,036,628	$ 10,379,736	$ 9,908,601

See independent auditors' report and notes to basic financial statements.

Capital Projects Funds						
South Central Project Area	South Central Low Income Housing	Town Center Project Area	Town Center Low Income Housing	Marine Base Project Area	Marine Base Low Income Housing	Total Governmental Funds
$ 13,743,371	$ 5,903,194	$ 4,649,628	$ 6,427,871	$ 40,153,343	$ 2,881,128	$ 80,401,437
-	624,179	-	624,179	-	624,179	6,400,412
-	12,067	-	9,352	550	22,218	216,986
10,496	25,379	3,553	25,796	30,661	2,200	103,157
-	11,379,097	-	9,394,982	-	12,746,467	33,520,546
-	(11,198,618)	-	(9,202,262)	-	(12,746,467)	(33,147,347)
-	-	-	-	-	-	20,976,317
4,495	15,000	855	15,000	480	-	35,830
1,345,000	145,071	-	72,535	-	145,071	1,707,677
$ 15,103,362	$ 6,905,369	$ 4,654,036	$ 7,367,453	$ 40,185,034	$ 3,674,796	$ 110,215,015
$ 18,323	$ 13,941	$ 11,441	$ 7,928	$ 531,316	$ 11,431	$ 3,071,952
-	7,251	-	2,685	1,000	-	10,936
-	196,169	-	197,933	-	-	2,488,669
-	-	-	-	-	-	12,913,285
18,323	217,361	11,441	208,546	532,316	11,431	18,484,842
1,349,495	160,071	855	87,535	480	145,071	20,625,257
13,735,544	6,527,937	4,641,740	7,071,372	39,994,885	3,518,294	82,094,379
-	-	-	-	(342,647)	-	(10,989,463)
15,085,039	6,688,008	4,642,595	7,158,907	39,652,718	3,663,365	91,730,173
$ 15,103,362	$ 6,905,369	$ 4,654,036	$ 7,367,453	$ 40,185,034	$ 3,674,796	$ 110,215,015

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TUSTIN COMMUNITY REDEVELOPMENT AGENCY

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2011

Fund balances for governmental funds		$ 91,730,173
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds:		
Capital assets	$ 309,000	
Accumulated depreciation	(68,400)	
		240,600
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.		2,488,669
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. Also, bond issuance costs are not recorded as assets under the modified accrual basis of accounting. All liabilities, both current and long-term, are reported in the Statement of Net Assets. Balances at June 30, 2011 are:		
Tax allocation bonds payable	(77,600,000)	
Deferred charges for issuance costs	1,287,745	
Bond discount	872,665	
Bond premium	(99,496)	
		(75,539,086)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(1,089,116)
Net assets of governmental activities		$ 17,831,240

See independent auditors' report and notes to basic financial statements.

TUSTIN COMMUNITY REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended June 30, 2011

	Debt Service Funds		
	South Central Project Area	Town Center Project Area	Marine Base Project Area
REVENUES:			
Taxes	$ 2,806,680	$ 3,981,348	$ 7,337,551
Investment income	36,215	109,021	2,952
Rental income	-	-	-
Other revenue	-	-	-
TOTAL REVENUES	2,842,895	4,090,369	7,340,503
EXPENDITURES:			
Current:			
Community services	518,057	772,722	2,536,276
Debt service:			
Principal retirement	-	1,205,000	8,199,000
Interest and fiscal charges	29,604	446,334	662,241
Bond issuance costs	-	-	429,731
TOTAL EXPENDITURES	547,661	2,424,056	11,827,248
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,295,234	1,666,313	(4,486,745)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	-	-	(24,057)
Discount on bonds	-	-	(888,711)
Issuance of debt	-	-	4,170,000
TOTAL OTHER FINANCING SOURCES (USES)	-	-	3,257,232
NET CHANGE IN FUND BALANCES	2,295,234	1,666,313	(1,229,513)
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR, AS RESTATED	4,388,525	8,014,749	(295,767)
FUND BALANCES (DEFICIT) - END OF YEAR	$ 6,683,759	$ 9,681,062	$ (1,525,280)

See independent auditors' report and notes to basic financial statements.

Capital Projects Funds							
South Central Project Area	South Central Low Income Housing	Town Center Project Area	Town Center Low Income Housing	Marine Base Project Area	Marine Base Low Income Housing	Total Governmental Funds
$ -	$ 701,670	$ -	$ 995,337	$ -	$ 2,450,099	$ 18,272,685
49,537	18,178	16,351	21,730	271,296	9,770	535,050
15,000	74,561	-	-	4,400	-	93,961
-	400	-	399	6,470	-	7,269
64,537	794,809	16,351	1,017,466	282,166	2,459,869	18,908,965
453,758	873,814	200,686	681,803	3,032,103	1,229,630	10,298,849
-	418,334	-	418,333	-	418,333	10,659,000
12,143	631,368	4,127	590,833	1,251	750,441	3,128,342
-	-	-	-	-	-	429,731
465,901	1,923,516	204,813	1,690,969	3,033,354	2,398,404	24,515,922
(401,364)	(1,128,707)	(188,462)	(673,503)	(2,751,188)	61,465	(5,606,957)
-	-	-	-	24,057	-	24,057
-	-	-	-	-	-	(24,057)
-	-	-	-	-	-	(888,711)
-	-	-	-	40,000,000	-	44,170,000
-	-	-	-	40,024,057	-	43,281,289
(401,364)	(1,128,707)	(188,462)	(673,503)	37,272,869	61,465	37,674,332
15,486,403	7,816,715	4,831,057	7,832,410	2,379,849	3,601,900	54,055,841
$ 15,085,039	$ 6,688,008	$ 4,642,595	$ 7,158,907	$ 39,652,718	$ 3,663,365	$ 91,730,173

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, 2011

Net change in fund balances - total governmental funds		$ 37,674,332
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital expense exceeded depreciation in the current period:		
Depreciation expense		(3,800)
Deferred revenue does not provide for current financial resources and, therefore, is not reported as revenues in the governmental funds.		813,196
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. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. These amounts are the net effect of theses differences in the treatment of long-term debt and related items:		
Bond issuance	$ (44,170,000)	
Discount on bond issuance	888,711	
Bond issuance costs	429,731	
Principal repayments	10,659,000	
Amortization of bond discount	(16,046)	
Amortization of bond premium	3,532	
Amortization of bond issuance costs	(31,510)	
		(32,236,582)
The Statement of Net Assets include accrued interest on long-term debt. The change is reflected in the Statement of Activities.		(670,649)
Change in net assets of governmental activities		$ 5,576,497

See independent auditors' report and notes to basic financial statements.

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES:

   a. Description of the 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.

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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:

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.

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   c. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

Measurement Focus (Continued)

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. 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 available for use, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

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.

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   c. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

Basis of Accounting (Continued)

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.

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.

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.

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   c. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued):

Description of Funds (Continued)

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 the tax increment revenues and expenditures of the Town Center Project Area.

The Marine Base Project Area Debt Service Fund is used to account for the 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 $1,525,280 at June 30, 2011. This deficit is expected to be relieved from future revenues or transfers.

3. CASH AND INVESTMENTS:

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments - unrestricted	$ 40,406,552
Cash and investments - restricted	39,994,885
Investments with fiscal agent	6,400,412
Total Cash and Investments	$ 86,801,849

Cash and investments as of June 30, 2011 consist of the following:

Cash and investments pooled with City of Tustin	$ 40,208,860
Investments	40,192,577
Investments with fiscal agent	6,400,412
Total Cash and Investments	$ 86,801,849

See independent auditors' report.

3. CASH AND INVESTMENTS (CONTINUED):

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
United States Government	Yes	5 years	None	None

N/A - Not Applicable

3. CASH AND INVESTMENTS (CONTINUED):

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

N/A - Not Applicable

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. The Agency's investments consist of investment in LAIF, which has remaining maturity of less than twelve months. The Agency's investments held by bond trustee consist of $4,723,400 in money market mutual funds, and $1,677,012 in guaranteed investment contracts, which has remaining maturity of less than twelve months and over sixty months, respectively.

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. The Agency's investments consist of investment in LAIF, which is not rated. The Agency's investments held by bond trustee consist of $4,723,400 in money market mutual funds, which are rated AAA by Standard and Poor's and $1,677,012 in guaranteed investment contracts, which are not rated.

3. CASH AND INVESTMENTS (CONTINUED):

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.

Disclosures Related to Interest Rate Risk, Credit Risk and Custodial Credit Risk

The Agency's cash and investments are pooled with the City of Tustin's cash and investments. Additional disclosures regarding $40,208,860 pooled investments related to interest rate risk, credit risk and custodial credit risk are available in the City of Tustin's Comprehensive Annual Financial Report. The Agency's investment in LAIF is due within 12 months. The restricted cash and investments held by the bond trustee consist of investments in money market mutual funds and guaranteed investment contracts and are not subject to interest rate risk.

4. 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, 2011, 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, 2011, was $67,468. An allowance of $67,468 has been recorded to reflect the amount of the loans not expected to be collectible.

4. LOANS RECEIVABLE (CONTINUED):

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, 2011, was $680,926. An allowance of $655,237 has been recorded to reflect the amount of loans not expected to be collectible.

5. CAPITAL ASSETS:

The following is a summary of the capital asset activity for the year ended June 30, 2011:

	Balance at July 1, 2010 (As Restated) (See Note 12)	Additions	Deletions	Balance at June 30, 2011
Capital assets, not being depreciated:				
Land and improvements	$ 119,000	$ -	$ -	$ 119,000
Capital assets, being depreciated:				
Buildings	190,000	-	-	190,000
Less accumulated depreciation	(64,600)	(3,800)	-	(68,400)
Total capital assets being depreciated, net	125,400	(3,800)	-	121,600
Total capital assets, net	$ 244,400	$ (3,800)	$ -	$ 240,600

Depreciation expense of $3,800 was allocated to community services function.

6. LONG-TERM LIABILITIES:

The following is a summary of the long-term liability activity for the year ended June 30, 2011:

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011	Due Within One Year
Tax allocation bonds	$ 35,890,000	$ 44,170,000	$ (2,460,000)	$ 77,600,000	$ 2,590,000
Unamortized premium	103,028	-	(3,532)	99,496	-
Unamortized discount	-	(888,711)	16,046	(872,665)	-
Tax allocation bonds, net	35,993,028	43,281,289	(2,447,486)	76,826,831	2,590,000
Notes payable	8,199,000	-	(8,199,000)	-	-
Total long-term liabilities	$ 44,192,028	$ 43,281,289	$(10,646,486)	$ 76,826,831	$ 2,590,000

See independent auditors' report.

6. LONG-TERM LIABILITIES:

Tax Allocation Bonds Payable

1998 Town Center 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. At June 30, 2011, the 1998 Bonds outstanding balance was $8,515,000.

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

Year Ending June 30,	Principal	Interest	Total
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	1,445,000	188,138	1,633,138
2016	1,525,000	113,888	1,638,888
2017	1,595,000	37,881	1,632,881
Totals	$ 8,515,000	$ 1,307,217	$ 9,822,217

See independent auditors' report.

6. LONG-TERM LIABILITIES (CONTINUED):

Tax Allocation Bonds Payable (Continued)

2010 Housing Tax Allocation Bonds

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. At June 30, 2011, the 2010 Housing Bonds outstanding balance was $24,915,000.

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

Year Ending June 30,	Principal	Interest	Total
2012	$ 695,000	$ 1,121,331	$ 1,816,331
2013	715,000	1,100,181	1,815,181
2014	735,000	1,078,431	1,813,431
2015	760,000	1,054,106	1,814,106
2016	785,000	1,025,106	1,810,106
2017 - 2021	4,420,000	4,619,031	9,039,031
2022 - 2026	5,415,000	3,595,753	9,010,753
2027 - 2031	4,620,000	2,251,125	6,871,125
2032 - 2036	3,375,000	1,352,531	4,727,531
2037 - 2040	3,395,000	367,894	3,762,894
Totals	$ 24,915,000	$ 17,565,489	$ 42,480,489

6. LONG-TERM LIABILITIES (CONTINUED):

Tax Allocation Bonds Payable (Continued)

2010 MCAS Tax Allocation Bonds

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. At June 30, 2011, the 2010 MCAS Bonds outstanding balance was $44,170,000.

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

Year Ending June 30,	Principal	Interest	Total
2012	$ 640,000	$ 2,025,375	$ 2,665,375
2013	805,000	2,006,900	2,811,900
2014	830,000	1,982,375	2,812,375
2015	855,000	1,957,100	2,812,100
2016	880,000	1,931,075	2,811,075
2017 - 2021	4,870,000	9,157,700	14,027,700
2022 - 2026	5,955,000	8,035,881	13,990,881
2027 - 2031	7,520,000	6,422,431	13,942,431
2032 - 2036	9,585,000	4,302,625	13,887,625
2037 - 2040	12,230,000	1,588,000	13,818,000
Totals	$ 44,170,000	$ 39,409,462	$ 83,579,462

6. LONG-TERM LIABILITIES (CONTINUED):

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 balances of the notes were paid off in fiscal year 2011.

Pledged Revenues

The tax allocation bonds are secured and to be serviced from tax increment revenues and dedicated housing tax increment, through the fiscal year 2041. Total debt service requirements for tax allocation bonds through 2041 are $135,882,168 consisting of principal payments of $77,600,000 and interest payments of $58,282,168. Pledged tax increment revenue recognized during the year was $18.3 million against the total debt service payment of $12.9 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.

7. DUE TO CITY OF TUSTIN:

The City made loans to the South Central Project Area, Town Center Project Area, and Marine Base Project Area Debt Service Funds to provide short-term loans to fund operations. The total amount of the loan outstanding is $12,913,285 and is to be paid within one year.

8. FUND BALANCES:

The fund balances reported on the fund statements consist of the following categories:

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

Restricted Fund Balance - This includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance - This includes amounts that can be used only for the specific purposes determined by a formal action of the board.

Assigned Fund Balance - This includes amounts that are designated by the board for specific purposes.

Unassigned Fund Balance - This is the residual classification that includes all spendable amounts not contained in the other classifications

	South Central Project Area Debt Service Fund	Town Center Project Area Debt Service Fund	Marine Base Project Area Debt Service Fund	South Central Project Area Capital Projects Fund	South Central Low Income Housing Capital Projects Fund
Fund balances (deficit):					
Nonspendable:					
Prepaid items	$ -	$ -	$ -	$ 4,495	$ 15,000
Advance to City of Tustin	6,293,918	6,293,916	6,293,916	-	-
Land held for resale	-	-	-	1,345,000	145,071
Restricted for:					
Low income housing projects	-	-	-	-	5,903,758
Redevelopment projects	389,841	1,686,891	-	13,735,544	-
Debt service	-	1,700,255	2,827,620	-	624,179
Unassigned	-	-	(10,646,816)	-	-
Total fund balances (deficit)	$ 6,683,759	$ 9,681,062	$ (1,525,280)	$ 15,085,039	$ 6,688,008

See independent auditors' report.

8. FUND BALANCES (CONTINUED):

	Town Center Project Area Capital Projects Fund	Town Center Low Income Housing Capital Projects Fund	Marine Base Project Area Capital Projects Fund	Marine Base Low Income Housing Capital Projects Fund	Total
Fund balances (deficit):					
Nonspendable:					
Prepaid items	$ 855	$ 15,000	$ 480	$ -	$ 35,830
Advance City of Tustin	-	-	-	-	18,881,750
Land held for resale	-	72,535	-	145,071	1,707,677
Restricted for:					
Low income housing projects	-	6,447,193	-	2,894,115	15,245,066
Redevelopment projects	4,641,740	-	39,994,885	-	60,448,901
Debt service	-	624,179	-	624,179	6,400,412
Unassigned	-	-	(342,647)	-	(10,989,463)
Total fund balances (deficit)	$ 4,642,595	$ 7,158,907	$ 39,652,718	$ 3,663,365	$ 91,730,173

9. INTERFUND TRANSFERS:

The Marine Base Project Area Debt Service Fund transferred $24,057 to the Marine Base Project Area Capital Projects Fund to transfer residual debt proceeds for capital projects.

10. 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, 2011.

See independent auditors' report.

11. CITY AND AGENCY REIMBURSEMENT AGREEMENT:

Reimbursement Agreement

In order to assist the Agency in meeting its affordable housing obligations, the City 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. 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 affordable housing subsidy (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).

On June 5, 2007, the City and Agency executed a Reimbursement Agreement whereby the Agency agrees to reimburse the City for the affordable housing subsidy from tax increment revenues, including but not limited to the Agency's Low and Moderate-Income Housing Set-Aside deposits from the MCAS Tustin Project Area, Town Center and South Central Project Areas as determined on an annual basis as part of the budget process. As of the date of the agreement, the total subsidy 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. During the fiscal year 2011, the Agency reimbursed the City $3,229,742, including interest of $819,659. This obligation is expected to increase in future years as the City anticipates reselling additional property to developers and affordability subsidy for these additional affordable housing units is estimated at $195,658,760. Since the obligation is contingent upon future tax increment revenues, only actual payments by the Agency to the City are recorded in the accompanying financial statements.

As a result of the reimbursement agreement, any payments received from the promissory notes that are held in the City's name will be turned over to the Agency. As a result, the Agency recorded a receivable with offsetting allowance for the amounts that have been paid to the City to date. The outstanding balance of the receivable at June 30, 2011 was $32,424,643.

11. CITY AND AGENCY REIMBURSEMENT AGREEMENT (CONTINUED):

Cooperative Agreement

On February 1 2011, the Agency entered into a cooperation agreement with the City, whereby the City will help the Agency and cooperate with the Agency to expeditiously implement the projects outlined in the five year implementation plans adopted by the Agency. As consideration for City's help, the Agency agreed to pay the City an amount equal to the cost to the City to carry out the projects, including without limitation all costs incurred by the City for the planning, acquisition and disposition, financing, development, permitting, design, site testing, bidding, construction and construction management for the projects. The Agency's obligation under the cooperation agreement constitutes an indebtedness of the Agency for the purpose of carrying out the redevelopment of the Project Areas. The obligation will be payable out of net available tax increments. During the fiscal year, the City did not incur any costs covered by this agreement. Therefore, no reimbursements were made by the Agency.

12. RESTATEMENT OF BEGINNING BALANCES:

The balance of net assets at July 1, 2010 was restated as follows:

Net assets at July 1, 2010, as previously reported	$	51,638,097
Remove capital assets that are owned by City of Tustin		(14,383,354)
Remove land held for resale that is owned by City of Tustin		(25,000,000)
Net assets at July 1, 2010, as restated	$	12,254,743

The fund balance of the Marine Base Project Area Capital Projects Fund at July 1, 2010 was restated by $25,000,000 from $27,379,849 to $2,379,849 to remove land held for resale that is owned by City of Tustin.

13. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES:

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Tustin intends to use tax increment allocable to its redevelopment agency for this purpose. The amounts to be paid after fiscal year 2011-12 and 2012-13 have yet to be determined by the state legislature.

See independent auditors' report.

13. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible with a loss recognized by the advancing funds. Funds of the City may also be impacted by the elimination of reimbursements previously paid to the City by the redevelopment agency for shared administrative services.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

13. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

The City adopted Urgency Ordinance No. 1404 and Ordinance 1405 on July 19,2011 and August 2, 2011, respectively, indicating that the Agency will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the agency is estimated to be $7,105,796 with one half due on January 15, 2012 and the other half due May 15, 2012. The amounts to be paid after fiscal year 2011-12 and 2012-13 have yet to be determined by the state legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any new debt is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that fiscal year are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts of the California State legislature may create new challenges to the existence and funding of redevelopment agencies in view of the California State legislature's declared intent to eliminate redevelopment agencies and to reduce their funding.

SUPPLEMENTARY INFORMATION

TUSTIN COMMUNITY REDEVELOPMENT AGENCY

COMPUTATION OF THE EXCESS SURPLUS OF THE
SOUTH CENTRAL, TOWN CENTER AND MARINE BASE
INCOME HOUSING CAPITAL PROJECTS FUNDS

July 1, 2010

		All Project Areas
OPENING FUND BALANCE - JULY 1, 2010		$ 19,251,025
LESS UNAVAILABLE AMOUNTS:		
Encumbrances		(16,393,177)
AVAILABLE LOW/MODERATE INCOME HOUSING FUNDS		2,857,848
LIMITATION (GREATER OF $1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for last four years:		
2009 - 2010	$ 4,243,872	
2008 - 2009	4,500,369	
2007 - 2008	3,786,789	
2006 - 2007	3,246,432	
TOTAL SET-ASIDE FOR LAST FOUR YEARS	$ 15,777,462	
Base limitation	$ 1,000,000	
GREATER AMOUNT		15,777,462
COMPUTED EXCESS SURPLUS - JULY 1, 2010		$ -

See independent auditors' report.

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE

The Board of Directors
Tustin Community Redevelopment Agency
Tustin, California

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Tustin Community Redevelopment Agency has occurred. An audit includes examining, on a test basis, evidence about Tustin Community Redevelopment Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Tustin Community Redevelopment Agency's compliance with those requirements. In our opinion, Tustin Community Redevelopment Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

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Offices located in Orange and San Diego Counties

Internal Control Over Compliance

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

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

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

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Tustin Community Redevelopment Agency's Directors and management of the Tustin Community Redevelopment Agency and is not intended to be and should not be used by anyone other than these specific parties

White Nelson Diehl Evans LLP

November 29, 2011
Irvine, California