

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**(A Component Unit of the County of Orange, California)**

Independent Auditor's Reports,  
Management's Discussion and Analysis,  
Financial Statements and Supplemental Information

For the period July 1, 2011 through January 31, 2012



**ORANGE COUNTY DEVELOPMENT AGENCY**  
**(A Component Unit of the County of Orange, California)**

For the period July 1, 2011 through January 31, 2012

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Supervisors  
Orange County Development Agency  
Santa Ana, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Development Agency (the Agency), a component unit of the County of Orange, California, as of and for the seven month period ended January 31, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 financial position of the governmental activities and each major fund of the Agency, as of January 31, 2012, and the respective changes in financial position, thereof and the respective budgetary comparison for the OCDA Public Assistance fund for the seven month period then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, Assembly Bill 1X 26 was upheld and declared constitutional by the California Supreme Court on December 29, 2011. As part of its decision, the Supreme Court established the date of dissolution for redevelopment agencies to be February 1, 2012. The redevelopment agencies in California, including the Orange County Development Agency (the Agency), were terminated and successor agencies were appointed to wind down the affairs of the former redevelopment agencies in accordance with the provisions of Assembly Bill 1X 26. The County of Orange has elected to be appointed as Successor Agency for purposes of winding down the affairs of the Agency. As a result, the Agency dissolved on February 1, 2012. The fund balances of the former Orange County Development Agency funds were transferred to a private purpose trust fund of the County of Orange on February 1, 2012. Additionally, as of February 1, 2012, certain assets were transferred to the Orange County Housing Authority.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be 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 required supplementary information 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Varrinck, Trine, Day & Co. LLP*

Laguna Hills, California  
December 18, 2012

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The information presented in the "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview of the financial activities of the Orange County Development Agency (Agency) for the period July 1, 2011 through January 31, 2012. We encourage readers to consider this information in conjunction with the accompanying financial statements, notes and supplemental information.

**FINANCIAL STATEMENT OVERVIEW**

This discussion and analysis is intended to serve as an introduction to the Agency's financial statements. The Agency's financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. In addition to the financial statements this report contains additional supplemental information.

**Government-wide Financial Statements:**

The government-wide financial statements are made up of the following two financial statements: the *Statement of Net Assets* and the *Statement of Activities*. Both of these statements are prepared using accounting methods similar to those used by private-sector companies, the economic resources measurement focus, and the accrual basis of accounting.

The *Statement of Net Assets* provides information regarding all of the Agency's assets and liabilities, with the difference between the two reported as net assets.

The *Statement of Activities* presents information showing the Agency's revenues and expenses for the fiscal year. All revenues and expenses are reported as soon as the underlying event giving rise to them occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and incurred but unpaid interest expense).

The basic services of the Agency are considered to be governmental activities including general government, tax pass-throughs, redevelopment project costs, and interest expenses. All Agency activities are primarily funded by tax increment and its leverage through the issuance of bonds.

The government-wide and governmental funds financial statements can be found on pages 9 through 12 of this report.

**Fund Financial Statements:**

A fund is a grouping of related accounts that is 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. All of the Agency's services are reported in governmental funds. These funds are reported using modified accrual accounting, which recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. The governmental funds statements provide a detailed view of the Agency's operations.

The Agency maintains three individual governmental funds organized according to their type: special revenue, debt service and capital projects. Reconciliations are prepared for both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund

balances to facilitate comparisons between governmental funds and governmental activities. This reconciliation identifies the differences between modified accrual accounting and full accrual accounting. The major differences include recognition of certain accrued expenses, capital assets, and long-term liabilities reported in the Statement of Net Assets and Statement of Activities, which are not reported in the fund financial statements.

The governmental funds can be found on pages 9 through 12 of this report.

**Notes to financial statements:**

The notes provide information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found starting on page 13.

**Supplemental Information:**

This section of the report contains the combining schedules by project area and budgetary comparison schedules for the debt service and capital projects funds and excess surplus calculation. This section is presented to provide additional information that is useful to users of these financial statements.

**AGENCY-WIDE FINANCIAL ANALYSIS**

NET ASSETS		
	Governmental Activities	
	January 31, 2012	June 30, 2011
Current and other assets	\$ 148,243,306	\$ 153,129,545
Capital assets, net	268,912	274,770
<b>Total assets</b>	148,512,218	153,404,315
Long-term liabilities	41,169,511	44,056,212
Other liabilities	5,620,050	16,737,938
<b>Total liabilities</b>	46,789,561	60,794,150
Net assets		
Invested in capital assets	268,912	274,770
Restricted	101,453,745	50,967,447
Unrestricted	-	41,367,948
<b>Total net assets</b>	\$ 101,722,657	\$ 92,610,165

As of January 31, 2012, the Agency's net assets increased by \$9,112,492 compared to the previous fiscal year. The net assets increased due to total revenues exceeding total expenses by \$9,112,492.

Of the Agency's total net assets, \$101,453,745 represents resources that are subject to external restrictions on how they may be used. Such resources are restricted for public assistance, debt service, and specific redevelopment projects.

## Governmental Activities

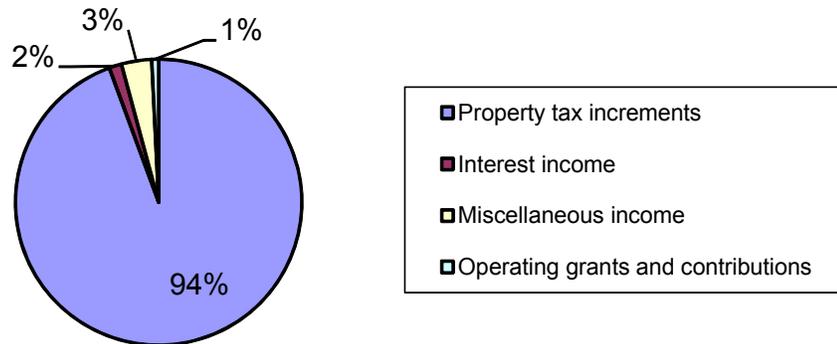
**Revenues:** The Agency's governmental activities rely on several sources of revenue to finance ongoing operations. Property taxes comprised the largest revenue source for the Agency followed by miscellaneous income, interest income, and then operating grants and contributions. At the end of January 31, 2012, total revenue for the governmental activities was \$19,234,279 a decrease of \$13,836,026 from the prior fiscal year. The decrease from the prior year was primarily due to a decrease in property tax increment revenue. Property tax increment revenue decreased \$12,248,178 over the prior year as a result of the dissolution of OCDA as of February 1, 2012. Total revenues only accounted for the period of July 1, 2011 through January 31, 2012.

**Expenses:** Total expenses including transfers for governmental activities were \$10,121,787. The Agency's expenses included tax pass-throughs, redevelopment project costs, interest expense, general government costs, and transfer out (reimburse/fund various counties' departments for redevelopment projects). The net decrease of \$18,830,335 from the prior fiscal year was primarily due to the dissolution of OCDA as of February 1, 2012, resulting in less tax pass-throughs payments, interest expense, redevelopment project costs, and general government costs. Total expenses only accounted for the period of July 1, 2011 through January 31, 2012.

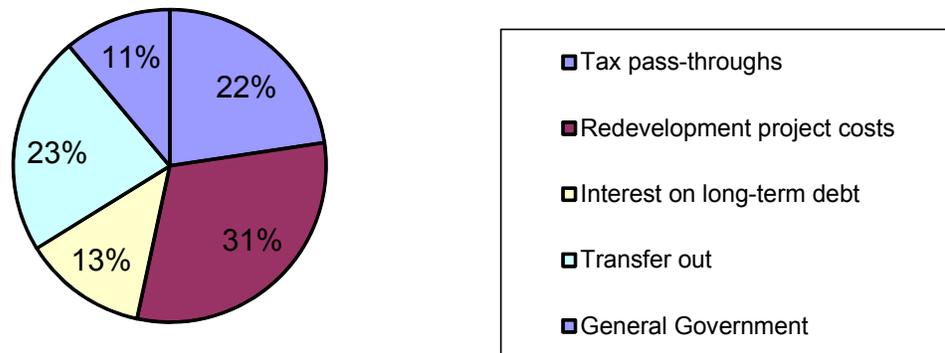
The following table and charts summarize information from the Statement of Activities:

CHANGES IN NET ASSETS		
	Governmental Activities	
	For the Year Ended January 31, 2012	For the Year Ended June 30, 2011
<b>Revenues:</b>		
Program revenues:		
Operating grants and contributions	\$ 150,415	\$ 303,257
General revenues:		
Property tax increments	18,157,639	30,405,817
Interest income	272,724	1,753,058
Miscellaneous	653,501	608,173
<b>Total revenues</b>	<b>19,234,279</b>	<b>33,070,305</b>
<b>Expenses:</b>		
Tax pass-throughs	2,288,485	12,717,450
Interest on long-term debt	1,298,304	2,459,813
Redevelopment project costs	3,110,620	11,704,028
General government	1,123,755	2,070,831
Transfers out	2,300,623	-
<b>Total expenses</b>	<b>10,121,787</b>	<b>28,952,122</b>
<b>Change in net assets</b>	<b>9,112,492</b>	<b>4,118,183</b>
<b>Net assets - July 1, 2011</b>	<b>92,610,165</b>	<b>88,491,982</b>
<b>Net assets - January 31, 2012</b>	<b>\$ 101,722,657</b>	<b>\$ 92,610,165</b>

### Revenue by Sources - Governmental Activities



### Expenses - Governmental Activities



## **FUND FINANCIAL ANALYSIS**

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Such information is useful in assessing the Agency's financial requirements. The governmental funds reported by the Agency are OCDA Public Assistance, NDAPP/SAH Debt Service, and Redevelopment Construction.

At January 31, 2012, the Agency's governmental funds reported combined fund balances of \$145,429,783, an increase of \$6,536,485 compared to the prior year. Total fund balances for the governmental funds are restricted for the purpose that the fund was established for. For example, special revenue funds have either legal or operational requirements to restrict expenditures for specified purposes and debt service funds are restricted for payment of principal and interest on long-term debt; while capital project funds may have funds restricted for specific redevelopment projects within their project areas.

OCDA Public Assistance fund has a total fund balance of \$49,600,925. This special revenue fund is used to account for the portion of tax increment revenue designated for low to moderate-income housing. As required by the Health and Safety Code, the Agency allocates 20% of the tax increment during the year for low to moderate-income housing projects.

Neighborhood Development and Preservation Project (NDAPP)/Santa Ana Heights (SAH) Debt Service fund has a total fund balance of \$45,865,596, a decrease of \$17,831,389 from the prior year; \$4,096,807 is restricted for use in either acquiring certain assets or servicing long-term debt of the Agency as required by the bond indentures. The remainder of the fund balance is restricted for the payment of debt service and specific redevelopment projects.

The Redevelopment Construction fund has a total fund balance of \$49,963,262, which is restricted for specific redevelopment projects. An increase of \$22,738,683 in fund balance during the current year was primarily due to a transfer in of \$28,216,716 from NDAPP Debt Service fund to satisfy obligation for the Community Stabilization Program which was approved by the Board on November 22, 2011.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Agency's investment in capital assets for its governmental activities as of January 31, 2012, amounted to \$268,912, net of accumulated depreciation. The investment in capital assets includes land, structure, and improvements. The majority of the investment in capital assets is made up of land in the amount of \$210,830.

Additional information about the Agency's capital assets can be found in Note 5 to the financial statements.

### **Debt Administration**

At January 31, 2012, the Agency had total long-term debt outstanding of \$44,100,067. The outstanding debt is comprised of \$26,640,416 (Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003 – Santa Ana Heights), and \$17,459,651 (Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001 – NDAPP), net of premium and deferred loss on refunding.

During the year the Agency made scheduled principal payments of \$2,845,000 on the outstanding bonds. The 2001 NDAPP bonds are rated "A" by Standard & Poor's and "A2" by Moody's Investors Service; the bonds are insured by MBIA Insurance Corporation. The 2003 Santa Ana Heights bonds are "Not Rated" by Standard and Poor's and are "Not Rated" by Moody's Investor Service; the bonds are insured by Ambac Assurance Corporation.

Pursuant to AB 1290, the adopted debt limits for the Agency are as follows:

NDAPP - \$500,000,000 bond debt limit of which \$175,000,000 was transferred to Lake Forest.  
SAH - \$205,236,436, which is subject to adjustment by the Consumer Price Index.

Additional information about the Agency's long-term obligations can be found in Note 6 to the financial statements.

## **OTHER SIGNIFICANT MATTERS**

The Agency's management has determined the following matter will impact the Agency's financial position or changes in financial position:

### Assembly Bill 1X 26 – Dissolution and Assembly Bill 1X 27 – Community Remittance Payment

On January 10, 2011, Governor Brown proposed a comprehensive budget to close a \$25.4 billion General Fund shortfall. Under the Governor's proposal, local redevelopment agencies would be eliminated and tax increment funds would be diverted by the State to offset trial courts and State health costs. Any remaining funds would be returned to cities, counties, and non-enterprise special districts. Members of the State Legislature subsequently proposed a variety of budget bills between January and June of 2011 related to redevelopment, eventually adopting Assembly Bills 26 and 27 (AB 1X 26 and AB 1X 27), which became law on June 28, 2011.

AB 1X 26 essentially executes Governor Brown's proposal to eliminate redevelopment agencies throughout the state, by dissolving agencies effective October 1, 2011. AB 1X 27 allows for redevelopment agencies to exempt themselves from the dissolution bill if they agree to make a new annual payment to the State each year, as well as an additional payment to school entities, which is triggered by new indebtedness.

In July 2011, the California Redevelopment Association, the League of California Cities, and two cities filed a legal challenge to both AB 1X 26 and AB 1X 27 directly in the California Supreme Court. On August 11<sup>th</sup>, the Court issued an order indicating that it would exercise jurisdiction over the lawsuit, and set an expedited briefing schedule to allow it to decide the case before the first payment was due on January 15, 2012. The Court also stayed the effectiveness of portions of both bills until ruling could be made.

On December 29, 2011, the California Supreme Court (the Court) issued an opinion in *CRA v. Matosantos* on the constitutionality of AB 1X 26 & 27. In their opinion, the Court upheld the provisions of AB 1X 26, effectively eliminating redevelopment agencies statewide, but struck down AB 1X 27 the legislation that would have allowed redevelopment agencies to continue so long as they provided payments to the State.

See additional information on the impacts of AB 1X 26 at Note 12.

## **Request for Information**

We hope that the preceding information has provided you with a general overview of the Agency's overall financial status. If you have questions or comments concerning information contained in this report or you want to obtain the Successor Agency's financial statements, please contact the County of Orange, 1770 North Broadway, Santa Ana, CA 92706.

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**Statement of Net Assets and Governmental Funds Balance Sheet**  
**January 31, 2012**

	Governmental Funds			Total	Adjustments (Note 10)	Statement of Net Assets
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction			
<b>Assets</b>						
Pooled cash and investments (Note 3)	\$ 30,795,774	\$ 43,824,193	\$ 47,934,204	\$ 122,554,171	\$ -	\$ 122,554,171
Restricted assets - cash and investments with trustee (Note 3)	-	4,096,807	-	4,096,807	-	4,096,807
Due from other Agency funds	3,330,316	1,531,943	-	4,862,259	(4,862,259)	-
Due from other County funds	6,132	-	89,269	95,401	-	95,401
Interest receivable	28,299	38,386	43,263	109,948	-	109,948
Notes receivable	17,059,969	-	2,668,835	19,728,804	-	19,728,804
Land and improvements held for resale, net (Note 4)	-	-	616,477	616,477	-	616,477
Bond issuance costs	-	-	-	-	1,041,698	1,041,698
Capital assets, nondepreciable (Note 5)	-	-	-	-	210,830	210,830
Capital assets, depreciable, net (Note 5)	-	-	-	-	58,082	58,082
Total assets	<u>\$ 51,220,490</u>	<u>\$ 49,491,329</u>	<u>\$ 51,352,048</u>	<u>\$ 152,063,867</u>	<u>\$ (3,551,649)</u>	<u>\$ 148,512,218</u>

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**Statement of Net Assets and Governmental Funds Balance Sheet**  
**January 31, 2012**

	Governmental Funds			Total	Adjustments (Note 10)	Statement of Net Assets
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction			
<b><u>Liabilities</u></b>						
Liabilities						
Current liabilities:						
Accounts payable	\$ 3,108	\$ -	\$ 504,264	\$ 507,372	\$ -	\$ 507,372
Bond interest payable	-	-	-	-	917,669	917,669
Due to other Agency funds	1,531,943	3,330,316	-	4,862,259	(4,862,259)	-
Due to other County funds	84,514	13,914	859,522	957,950	-	957,950
Due to other governmental agencies	-	281,503	-	281,503	-	281,503
Development deposits	-	-	25,000	25,000	-	25,000
Bonds payable, net (Note 6)	-	-	-	-	2,930,556	2,930,556
Total current liabilities	<u>1,619,565</u>	<u>3,625,733</u>	<u>1,388,786</u>	<u>6,634,084</u>	<u>(1,014,034)</u>	<u>5,620,050</u>
Noncurrent liabilities:						
Bonds payable, net (Note 6)	-	-	-	-	41,169,511	41,169,511
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,169,511</u>	<u>41,169,511</u>
Total liabilities	<u>1,619,565</u>	<u>3,625,733</u>	<u>1,388,786</u>	<u>6,634,084</u>	<u>40,155,477</u>	<u>46,789,561</u>
<b><u>Fund Balances/Net Assets</u></b>						
Fund balances:						
Restricted	49,600,925	45,865,596	49,963,262	145,429,783	(145,429,783)	-
Total fund balances	<u>49,600,925</u>	<u>45,865,596</u>	<u>49,963,262</u>	<u>145,429,783</u>	<u>(145,429,783)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 51,220,490</u>	<u>\$ 49,491,329</u>	<u>\$ 51,352,048</u>	<u>\$ 152,063,867</u>	<u>\$ (105,274,306)</u>	
Net assets:						
Invested in capital assets					268,912	268,912
Restricted					101,453,745	101,453,745
Total net assets					<u>\$ 101,722,657</u>	<u>\$ 101,722,657</u>

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**Statement of Activities and**  
**Governmental Funds Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**For the Period July 1, 2011 through January 31, 2012**

	Governmental Funds			Total	Adjustments (Note 10)	Statement of Activities
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction			
Expenditures/expenses:						
Current:						
General Government:						
Administrative costs	\$ 17,816	\$ 50,988	\$ 1,054,951	\$ 1,123,755	\$ -	\$ 1,123,755
Redevelopment project costs:						
Professional services	328,874	93,355	2,682,533	3,104,762	5,858	3,110,620
Intergovernmental:						
Tax pass-throughs (Note 7)	-	2,288,485	-	2,288,485	-	2,288,485
Debt Service:						
Principal	-	2,845,000	-	2,845,000	(2,845,000)	-
Interest on long-term debt	-	1,171,317	-	1,171,317	126,987	1,298,304
Total expenditures/expenses	<u>346,690</u>	<u>6,449,145</u>	<u>3,737,484</u>	<u>10,533,319</u>	<u>(2,712,155)</u>	<u>7,821,164</u>
Program revenues:						
Operating grants and contributions	-	150,415	-	150,415	-	150,415
Net program expense						<u>7,670,749</u>
General revenues:						
Property tax increments	3,330,315	14,963,472	-	18,293,787	(136,148)	18,157,639
Interest income	105,369	88,596	78,759	272,724	-	272,724
Miscellaneous revenue	72,341	99,845	481,315	653,501	-	653,501
Total general revenues	<u>3,508,025</u>	<u>15,151,913</u>	<u>560,074</u>	<u>19,220,012</u>	<u>(136,148)</u>	<u>19,083,864</u>
Other financing sources (uses)/changes in net assets:						
Transfers-internal activities (Note 8)	(1,532,144)	(26,684,572)	25,916,093	(2,300,623)		(2,300,623)
Net change in fund balances	1,629,191	(17,831,389)	22,738,683	6,536,485	(6,536,485)	-
Change in net assets	-	-	-	-	9,112,492	9,112,492
Fund balances/net assets:						
July 1, 2011	47,971,734	63,696,985	27,224,579	138,893,298	(46,283,133)	92,610,165
January 31, 2012	<u>\$ 49,600,925</u>	<u>\$ 45,865,596</u>	<u>\$ 49,963,262</u>	<u>\$ 145,429,783</u>	<u>\$ (43,707,126)</u>	<u>\$ 101,722,657</u>

*See accompanying notes to the financial statements.*

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**Budgetary Comparison Statement - OCDA Public Assistance - Budget and Actual**  
**For the Period July 1, 2011 through January 31, 2012**

	OCDA Public Assistance			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues:</b>				
Property tax increments	\$ -	\$ -	\$ 3,330,315	\$ 3,330,315
Interest income	300,000	300,000	105,369	(194,631)
Miscellaneous revenue	55,000	55,000	72,341	17,341
Total revenues	<u>355,000</u>	<u>355,000</u>	<u>3,508,025</u>	<u>3,153,025</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Low and moderate-income housing:				
Administrative costs	866,362	3,182,862	17,816	3,165,046
Redevelopment project costs	34,732,425	34,243,661	328,874	33,914,787
Total expenditures	<u>35,598,787</u>	<u>37,426,523</u>	<u>346,690</u>	<u>37,079,833</u>
Excess (deficiency) of revenues over expenditures	<u>(35,243,787)</u>	<u>(37,071,523)</u>	<u>3,161,335</u>	<u>40,232,858</u>
<b>Other financing sources (uses):</b>				
Transfers in	5,311,656	5,311,656	(201)	(5,311,857)
Transfers out	(1,531,944)	(1,531,944)	(1,531,943)	1
Total other financing sources (uses)	<u>3,779,712</u>	<u>3,779,712</u>	<u>(1,532,144)</u>	<u>(5,311,856)</u>
Net change in fund balances	<u>\$ (31,464,075)</u>	<u>\$ (33,291,811)</u>	<u>1,629,191</u>	<u>\$ 34,921,002</u>
Fund balance, July 1, 2011			<u>47,971,734</u>	
Fund balance, January 31, 2012			<u>\$ 49,600,925</u>	

**ORANGE COUNTY DEVELOPMENT AGENCY  
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012**

**Note 1 – County of Orange Bankruptcy**

Background

On December 6, 1994, the County of Orange (County) filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of losses arising out of the Orange County Investment Pool (Pool). The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately \$1.6 billion. This loss was recorded on the County's books and records in fiscal year 1994-95 with approximately \$600 million allocable (on a pro rata basis) to the County's accounts, and substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts. Approximately \$11.3 million of that loss was allocated to the Orange County Development Agency (Agency) and was reported in the year ended June 30, 1995.

In response to the bankruptcy, the County prepared a comprehensive recovery plan, which incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, and various methods to raise funds. The County obtained State legislation consisting of Chapters 745, 746, 747 and 748 of the 1995 Statutes to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's General Fund.

The United States Bankruptcy Court for the Central District of California in its Order Confirming Modified Second Amended Plan of Adjustment entered May 16, 1996, confirmed the Plan. On June 12, 1996, the Plan became effective and the County emerged from bankruptcy.

Impact of County Bankruptcy on the Agency

As described in Note 2, the Agency is a component unit of the County of Orange. Due to statutory and regulatory restrictions, revenues generated by the Agency are not available for County General Fund purposes. However, as a result of the State legislation described above, the Agency shall pay to the County an amount equal to \$4 million per year, for 20 years beginning on July 1, 1996. The Agency's long-term debt obligations are obligations of the Agency payable solely from a pledge of the net revenues of the Agency and a pledge of the funds and accounts established under the trust indenture securing the Agency's long-term debt obligations. The Agency did not file for bankruptcy protection; however, it was and will be significantly impacted by the County's bankruptcy because of investment losses and the reallocation of \$4 million of its revenue each year until the diversion of funds ends in fiscal year 2015-16.

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**Note 1 – County of Orange Bankruptcy (continued)**

Impact of Legislation on County Bankruptcy

On December 29, 2011, the California Supreme Court (the Court) issued an opinion in *CRA v. Matosantos* on the constitutionality of AB 1X 26 & 27. In their opinion, the Court upheld the provisions of AB 1X 26, effectively eliminating redevelopment agencies statewide, but struck down AB 1X 27 the legislation that would have allowed redevelopment agencies to continue so long as they provided payments to the State.

Effective February 1, 2012, the Orange County Development Agency (OCDA) was eliminated under the provisions of AB 1X 26. As a result of the elimination of OCDA, property tax revenues began being used to pay required payments on existing bonds, other obligations, and pass-through payments to local governments. However, since the County's Bankruptcy Recovery Plan predates AB 1X 26, no interruption to the existing payment schedules is anticipated. In addition, this obligation will be listed on all applicable Enforceable Obligation Payment Schedules (EOPS) and Recognized Obligation Payment Schedules (ROPS) until the obligation is paid in full. See Note 11.

**Note 2 – Summary of Significant Accounting Policies**

Reporting Entity

The Agency was established in February 1982 pursuant to the State of California Health and Safety Code, Section 38000 et seq., entitled *Community Redevelopment Law*. As such, the Agency acts as a legal entity, separate and distinct from the County, even though members of the Board of Supervisors of the County also serve as members of the Agency's governing board.

The actions of the Agency are binding, and business, including the incurrence of long-term debt is routinely transacted in the Agency's name by its appointed representatives. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the County through acquisition and development of property, public improvements, and revitalization activities in those areas of the County determined to be in a declining condition, which are in a redevelopment project area.

The financial statements of the Agency include the operations of the Orange County Financing Authority (Authority), established on May 19, 1992, pursuant to a Joint Powers Agreement by and between the Agency and the Orange County Housing Authority to assist in the financing of certain Agency projects. The Authority is considered to be a blended component unit of the Agency because the activities of the Authority provide services solely to the Agency and the governing board of the Authority is the same as the Agency's.

The Agency is a blended component unit of the County and, accordingly, its funds are blended in the basic financial statements of the County.

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**Note 2 – Summary of Significant Accounting Policies (continued)**

Reporting Entity (continued)

The Agency is currently administering Redevelopment Plans for the following Project Areas:

*The Santa Ana Heights Project Area ("SAH")* - This project was adopted in July 1986 to promote land use compatibility in the Santa Ana Heights area with the expanded operations at John Wayne Airport. Activities include installing acoustical insulation in the residences, and promoting the conversion of land uses located in the noise impact area from residential to Business Park. The Agency also adopted the Purchase Assurance Program to assist eligible owners to relocate from the Santa Ana Heights area by assuring a buyer for their property.

*The Neighborhood Development and Preservation Project Area ("NDAPP")* – This project was adopted in June 1988 to help rehabilitate neighborhoods in 14 unincorporated areas of the County and to support affordable housing projects and programs for low and moderate income people.

The Agency utilizes bond proceeds, as well as the 20% tax increment set-aside to rehabilitate housing, to construct infrastructure and public facilities, and to provide affordable housing.

Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

All governmental funds are accounted for on a spending or "financial flow" measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues and other governmental fund type financial resources increments (i.e. bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property tax increments, intergovernmental revenue, and interest income. Generally, only current assets and current liabilities are included on their balance sheets, with the exception of noncurrent portions of long-term receivables, which are reported on their balance sheets, offset by fund balance reserve accounts. Statements of revenues, expenditures, and changes in fund balances for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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**Note 2 – Summary of Significant Accounting Policies (continued)**

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the Agency. These statements include the financial activities of the overall government.

The statement of activities presents a comparison between direct expenses and program revenues for activities of the Agency. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Revenues that are not classified as program revenues, including all taxes are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Agency reports the following major governmental funds:

OCDA Public Assistance Special Revenue Fund is used to account for the 20% portion of tax increment revenues that are restricted to expenditure for specified purposes (low and moderate-income housing projects) other than debt service and capital projects.

NDAPP/SAH Debt Service Fund is used to account for tax increment revenues, interest income on invested funds, and bond proceeds that are restricted or committed to expenditure for principal and interest.

Redevelopment Construction Capital Project Fund is used to account for bond proceeds available for project improvements and interest income on invested funds that are committed to expenditure for capital outlays.

Notes Receivable

Notes receivable are loans made for the development of low-income affordable housing projects or for property improvements in redevelopment project areas. These receivables are collateralized by deeds of trust. These loans are recorded as restricted fund balance for the net balance of notes receivable at January 31, 2012.

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NOTES TO THE FINANCIAL STATEMENTS  
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**Note 2 – Summary of Significant Accounting Policies (continued)**

Land and Improvements Held for Resale

Land and improvements acquired by the Agency and held for resale are recorded as an asset at the time of purchase. The property is carried at the lower of acquisition cost or estimated net realizable value.

Capital Assets

Capital assets are recorded at cost and reported in the governmental activities column in the government-wide statement of net assets. Capital assets include land and structures and improvements that are held by the Agency for future development. The capitalization thresholds are as follows:

Land	\$0
Structures and Improvements	\$150,000

Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of structures and improvements are as follows:

Structures and Improvements	10 to 50 years
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Bond Issuance Costs, Original Issue Discounts and Premiums, and Deferred Gains or Losses on Refundings

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs, premiums and discounts, and gains or losses occurring from refundings are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and are amortized into the appropriate functional expense category. Bonds payable are reported net of the applicable bond premiums, discounts and deferred amounts on refunding and are amortized as a component of interest expense.

In the fund financial statements, governmental funds recognize bond issuance costs and premiums and discounts during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures and all other amounts are reported as other financing sources or uses.

Tax Increment Revenue

The Redevelopment Law provides the means for financing redevelopment projects based upon an allocation of taxes collected within project areas. The taxable valuation of project areas prior to adoption of the redevelopment plans, or base roll, is established and, except for any period during which the taxable valuation drops below the base roll level, the taxing agencies thereafter receive only the taxes produced by the levy of the then current tax rate upon the base roll. Tax revenues collected upon any increase in taxable valuation over the base roll ("tax increment") are allocated to the Agency and may be pledged by the Agency for the repayment of any indebtedness incurred in financing or refinancing redevelopment projects. The Agency has no authority to levy property taxes and must look specifically to the allocation of taxes produced as described.

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**Note 2 – Summary of Significant Accounting Policies (continued)**

The following are significant dates on the property tax calendar:

	California Revenue & Taxation Code Section
Supplemental assessments are effective on the 1 <sup>st</sup> day of the month following the new construction or ownership change.	75.41
Property tax lien date is January 1.	2192
Assessor delivers roll to Auditor-Controller July 1.	616, 617
Tax roll is delivered to the Tax Collector on or before the levy date (the 4 <sup>th</sup> Monday in September).	2601
Secured tax payment due dates are:	
1 <sup>st</sup> Installment – November 1, and	2605
2 <sup>nd</sup> Installment – February 1.	2606
Secured tax delinquent dates (last day to pay without a penalty) are:	
1 <sup>st</sup> Installment – December 10, and	2617
2 <sup>nd</sup> Installment – April 10.	2618
Declaration of default for unpaid taxes occurs July 1.	3436
Power to sell is effective five years after tax default.	3691

**Budget Adoption and Revision**

Fiscal year budgets are prepared in accordance with the statutory requirements of the State of California Health and Safety Code. Preliminary budgets are prepared by the Agency and submitted to the Agency Board for approval. The final budget is adopted during a public hearing process before the Board of Supervisors sitting as the Redevelopment Agency. The final budget is compiled and entered into the accounting records. The annual budget may be amended as determined by the Agency at a public hearing. Adjustments are then entered into the accounting records. The legal level of budgetary control is maintained at the fund level.

**Policy Regarding Use of Restricted vs. Unrestricted Resources**

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first and then unrestricted resources, as they are needed.

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**Note 2 – Summary of Significant Accounting Policies (continued)**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fund Balance

The Agency has implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" (GASB 54) for financial statement purposes. The intent of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The balance sheet reports the following classification of fund balance:

*Restricted Fund Balance*

Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

**Note 3 – Cash and Investments**

The Agency's investment policy guidelines provide for pooling its cash and investments with the County Treasurer and allow for the same types of investments as the County.

Pooled Cash and Investments

The County Treasurer maintains the County Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. At January 31, 2012, the Pool contains deposits and investments in U.S. government agencies, negotiable certificates of deposits, bankers' acceptances, commercial paper, medium-term notes, repurchase agreements, and money market mutual funds with an average maturity of approximately 302 days. Pooled investments are stated at fair value. The County Treasurer contracts with an outside service to provide pricing for the fair value of investments in the portfolio. The investments are marked to market and the net asset value is calculated for the County Pool each business day. Securities listed or traded on a national securities exchange are valued at the last quoted sales price. Short-term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing. Interest is apportioned to individual funds based generally on the average daily balances on deposit with the County Treasurer.

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**Note 3 – Cash and Investments (continued)**

Cash and Investments with Trustee

Cash and investments with trustee represent amounts held by a trustee bank, which are restricted for use in either acquiring certain assets or servicing long-term debt of the Agency as required by the bond indentures. The trustee as fiscal agent is mandated by the bond indentures as to the types of authorized investments. All investments with trustee are recorded at fair value.

At January 31, 2012, cash and investments of the Agency are summarized as follows:

Cash and investments pooled by the County Treasurer	\$ 122,554,171
Investments held by trustee:	
Money market mutual funds	4,096,807
Total	<u>\$ 126,650,978</u>

*Investment Disclosures*

As of January 31, 2012, the major classes of Agency's investments consisted of the following:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Investment Pool	<u>\$ 122,554,171</u>	\$ -			0.827
Restricted Investment with Trustee:					
Money Market Mutual Funds	<u>4,096,807</u>	<u>4,096,807</u>	Variable	On Demand	-
Total Restricted Investment with Trustee	<u>\$ 4,096,807</u>	<u>\$ 4,096,807</u>			
Portfolio Weighted Average Maturity:					0.8

*Interest Rate Risk*

Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. The Agency manages exposure to declines in fair value by limiting the weighted average maturity (WAM) in accordance with the Investment Policy Statement (IPS). At January 31, 2012, the WAM for the Pool approximated 302 days (0.827 years).

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**Note 3 – Cash and Investments (continued)**

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, the Agency's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

*Credit Risk*

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (Standard & Poor's), P-1 (Moody's), or F-1 (Fitch). For an issuer of long-term debt, the rating must be no less than an "A".

**Note 4 – Land and Improvements Held for Resale**

Land and improvements held for resale is recorded at the lower of acquisition cost or estimated net realizable value. At January 31, 2012, the cost of land and improvements is \$1,171,694 with an estimated net realizable value of \$616,477, therefore; this asset is recorded at \$616,477. There was no OCDA land parcels sold during the year.

**Note 5 – Changes in Capital Assets**

The changes in capital assets include assets of the Agency other than those accounted for in Land and Improvements Held for Resale. Increases and decreases in the Agency's capital assets during the fiscal year were as follows:

	Balance July 1, 2011	Increases	Decreases	Balance January 31, 2012
Capital assets, nondepreciable:				
Land	\$ 210,830	\$ -	\$ -	\$ 210,830
Total capital assets, nondepreciable	210,830	-	-	210,830
Capital assets, depreciable:				
Structures and improvements	183,984	-	-	183,984
Total capital assets, depreciable	183,984	-	-	183,984
Less accumulated depreciation:				
Structures and improvements	(120,044)	(5,858)	-	(125,902)
Total capital assets depreciated, net	63,940	(5,858)	-	58,082
Total capital assets, net	\$ 274,770	\$ (5,858)	\$ -	\$ 268,912

Depreciation expense of \$5,858 for the period July 1, 2011 through January 31, 2012 was charged to the Redevelopment Projects function.

OCDA was dissolved on February 1, 2012. OCDA's capital assets were transferred to the Orange County Housing Authority in accordance with Health and Safety Code Section 34176.

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**Note 6 – Long-Term Liabilities**

The following is a summary of changes in long-term liabilities for the period July 1, 2011 through January 31, 2012:

	Balance July 1, 2011	Issuances, Premiums, Deferred Amounts on Refundings, and Accretions	Retirements	Balance January 31, 2012	Due Within One Year
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003-SAH	\$ 28,200,000	\$ -	\$ (1,625,000)	\$ 26,575,000	\$ 1,700,000
Bond premium on Tax Allocation Refunding Bonds, Series 2003-SAH	1,231,603	(74,241)	-	1,157,362	41,873
Deferred amount on refunding (1993 Orange County Development Agency Revenue Bonds)	(1,145,398)	53,452	-	(1,091,946)	(91,632)
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001-NDAPP	19,130,000	-	(1,220,000)	17,910,000	1,285,000
Bond premium on Tax Allocation Refunding Bonds, Series 2001- NDAPP	248,766	(72,618)	-	176,148	50,191
Deferred amount on refunding (1992 Orange County Development Agency Revenue Bonds)	(658,508)	32,011	-	(626,497)	(54,876)
Total long-term liabilities:	<u>\$ 47,006,463</u>	<u>\$ (61,396)</u>	<u>\$ (2,845,000)</u>	<u>\$ 44,100,067</u>	<u>\$ 2,930,556</u>

OCDA was dissolved on February 1, 2012. The balances outstanding were transferred to a private purpose trust fund and are reflected on the June 30, 2012 OCDA Successor Agency Financial Statements and County of Orange's CAFR.

Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003 – Santa Ana Heights

The Agency issued these bonds on November 13, 2003, in the original principal amount of \$38,465,000 at a premium of \$1,660,485. The proceeds of the bonds and other available monies were used to refund and defease the outstanding 1993 Tax Allocation Revenue Bonds, fund a reserve account for the new bonds, and pay the cost of issuing the bonds. The SAH Refunding Bonds, payable through September 2023, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Santa Ana Heights Project Area. The bonds are due in annual principal installments ranging from \$1,340,000 to \$2,855,000 beginning September 1, 2004 through 2023, at interest rates ranging from 2.00% to 5.250%. The principal amount outstanding at January 31, 2012 is \$26,575,000. For the period July 1, 2011 through January 31, 2012, principal and interest paid and total tax increment revenues were \$2,309,114 and \$6,072,319, respectively.

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**Note 6 – Long-Term Liabilities (continued)**

Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001 – NDAPP

The Agency issued these bonds on July 11, 2001, in the original principal amount of \$26,160,000 at a premium of \$326,700. A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease \$26,140,000 of the \$27,072,000 outstanding NDAPP Series A 1992 Tax Allocation Revenue Bonds. The NDAPP Refunding Bonds, payable through September 2022, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Neighborhood Development and Preservation Project Area. The bonds are due in annual principal installments ranging from \$280,000 to \$2,005,000 beginning September 1, 2002 through 2022, at interest rates ranging from 4.00% to 5.50%. The principal amount outstanding at January 31, 2012 is \$17,910,000. For the period July 1, 2011 through January 31, 2012, principal and interest paid and total tax increment revenues were \$1,707,203 and \$8,891,153, respectively.

The annual requirements to amortize outstanding bonds included in the Statement of Net Assets as of January 31, 2012, including interest, are as follows:

Period/Years Ending June 30	2003 Tax Allocation Bonds		2001 Tax Allocation Bonds Series A	
	Principal	Interest	Principal	Interest
2/1/12-6/30/12	\$ -	\$ 647,551	\$ -	\$ 453,653
2013	1,700,000	1,265,353	1,285,000	879,197
2014	1,760,000	1,202,603	1,340,000	814,238
2015	1,825,000	1,123,978	1,415,000	740,244
2016	1,915,000	1,028,084	1,485,000	664,119
2017-2021	11,190,000	3,480,763	8,685,000	2,056,069
2022-2024	8,185,000	601,543	3,700,000	177,250
Total	\$ 26,575,000	\$ 9,349,875	\$ 17,910,000	\$ 5,784,770

Pursuant to AB 1290, the adopted debt limits for the Agency are as follows:

NDAPP - \$500,000,000 bond debt limit of which \$175,000,000 was transferred to Lake Forest.  
SAH - \$205,236,436, which is subject to adjustment by the Consumer Price Index.

**Note 7 – Pass-Through Agreements**

The Agency has entered into agreements with various governmental entities to "pass-through" applicable portions of property tax revenues received by the Santa Ana Heights and NDAPP project areas attributable to these entities to the extent that their territorial limits reside within the Agency's project areas. At January 31, 2012, tax pass-throughs also include the \$2,000,000 revenue reallocation related to the County's bankruptcy (Note 1).

**ORANGE COUNTY DEVELOPMENT AGENCY  
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**Note 8 – Transfers In/Out**

The amount transferred to the Redevelopment Construction Fund from the NDAPP/SAH Debt Service Fund for project improvements and rehabilitation for the redevelopment projects was \$28,216,716. In addition, the OCDA Public Assistance Fund transferred to the NDAPP/SAH Debt Service Fund \$1,531,943 to meet the debt service requirements of these projects.

**Note 9 – Related Party Transactions**

The Agency reimbursed a total of \$5,123,730 to various County departments who administer various functions/areas of the Agency and they are as follows:

OC Community Services, a department of the County of Orange, is responsible for affordable housing projects and activities within the NDAPP Project Area including housing rehabilitation, public works improvements, and is also responsible for overall Agency administration and policy. OC Public Works is responsible for some activities within the SAH Project Area including various public works type projects.

County Counsel provides legal support on a variety of issues. OC Public Works acts as project manager on most public works type projects, and its Corporate Real Estate Unit provides projects support on real estate issues.

**Note 10 – Adjustments Between Fund Financial Statements and Government-Wide Financial Statements**

Adjustments between the Governmental Funds Balance Sheet and the Statement of Net Assets

*Interfund Receivables and Payables*

Interfund receivables and payables at January 31, 2012, are as follows:

	Due from other Funds	Due to other Funds
OCDA Public Assistance Fund	\$ 3,330,316	\$ 1,531,943
NDAPP/SAH Debt Service Fund	1,531,943	3,330,316
	\$ 4,862,259	\$ 4,862,259

Both interfund payable balances relate to the FY 2012 20% Low/Mod Set Aside transfer required to each fund. These interfund balances are excluded in the government-wide statements.

*Bond Issuance Costs*

Bond issuance costs of \$1,041,698 are not included in the fund financial statements but are included in the statement of net assets because Government-wide statements focus on economic resources and require these assets to be included.

**ORANGE COUNTY DEVELOPMENT AGENCY  
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**Note 10 – Adjustments Between Fund Financial Statements and Government-Wide Financial Statements (continued)**

*Capital Assets*

Capital assets used in the operations of governmental activities are not financial resources and therefore are not reported in the funds balance sheet. Such assets must be included in the statement of net assets for purpose of government-wide reporting. These assets consist of:

Land	\$ 210,830
Structures and improvements	183,984
Accumulated depreciation	<u>(125,902)</u>
Total capital assets, net	<u>\$ 268,912</u>

*Liabilities*

Governmental funds report only those liabilities that expect to be liquidated with current available financial sources. Thus, governmental funds typically do not report any liability for the unmatured portion of long-term debt and interest payable on long-term debt. However, all debt must be reported in the government-wide financial statements. Long-term liabilities include:

Bonds payable, net - current	\$ 2,930,556
Bonds payable, net - noncurrent	41,169,511
Accrued interest payable on bonds	917,669

Adjustments between the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds and the Statement of Activities

*Long-Term Liabilities*

Long-term debt transactions, including the repayment of bond principal, are reported as expenditures in governmental funds. In the statement of net assets, such transactions reduce or increase the Agency's long-term liabilities, therefore, increasing or reducing fund balance as follows:

Bond principal payments	\$ 2,845,000
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*Expenses*

Governmental funds report capital outlays as expenditures. In the statement of activities the cost of assets used in the operations of the Agency is allocated over their estimated useful lives and is reported as depreciation expense. Depreciation for the period July 1, 2011 through January 31, 2012 totaled \$5,858.

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the fund. They are as follows:

Accrued interest expense, amortization of bond issuance cost, premiums and deferred amounts on refunding	\$ 126,987
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**ORANGE COUNTY DEVELOPMENT AGENCY  
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NOTES TO THE FINANCIAL STATEMENTS  
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**Note 11 – Going Concern**

*Property Tax Revenue*

Property tax revenue related to prior years that is available in the current year is reported as revenue in the governmental funds. In contrast, revenue that is earned but unavailable in the current year is deferred in the governmental funds. Therefore, the changes in the deferred revenue accounts are analyzed to determine the revenue on a full accrual basis of accounting. The decrease in revenue of \$(136,148) in the statement of activities reflects the change in the deferred revenue accounts related to collected, delinquent property taxes.

On December 29, 2011, the California Supreme Court (the Court) issued an opinion in *CRA v. Matosantos* on the constitutionality of AB 1X 26 & 27. In their opinion, the Court upheld the provisions of AB 1X 26, effectively eliminating redevelopment agencies statewide, but struck down AB 1X 27 the legislation that would have allowed redevelopment agencies to continue so long as they provided payments to the State.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the County elected to become the Successor Agency to the Redevelopment Agency in accordance with the Bill. As of February 1, 2012, net assets of \$32,083,814 were transferred to the Orange County Housing Authority in accordance with Health and Safety Code Section 34176.

On January 24, 2012, the Orange County Development Agency (OCDA) adopted its last Enforceable Obligation Payment Schedule (EOPS) for the purposes of memorializing those financial obligations that remained through June 30, 2012. This action also authorized the use of former redevelopment funds to pay those obligations as listed on the EOPS, pending the establishment of an Oversight Board as required by AB 1X 26. OCDA ceased to exist as of February 1, 2012. However, no adjustments were made as of January 31, 2012. See Note 12.

**Note 12 – Subsequent Events**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the County of Orange that previously had reported a redevelopment agency within the reporting entity of the County as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, the County elected to become the Successor Agency to the Redevelopment Agency in accordance with the Bill. Also on January 24, 2012, the County elected the Orange County Housing Authority as the "Housing Successor" to retain the housing assets and functions previously performed by the redevelopment agency in accordance with Health and Safety Code section 34176.

**ORANGE COUNTY DEVELOPMENT AGENCY  
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

**Note 12 – Subsequent Events (continued)**

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill 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 the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the County are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The County's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the County.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the OCDA and the County of Orange. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the County of Orange.

Effective February 1, 2012, the Orange County Development Agency (OCDA) was dissolved under the provisions of AB 1X 26. As a result of the dissolution of OCDA, a fiduciary fund (private-purpose trust fund) was created accordingly to accept the role serving as a successor agency with respect to the assets and liabilities of the former OCDA.

The transfer of the assets and liabilities of the former OCDA as of February 1, 2012 from governmental funds of OCDA to the County's Housing Authority fund (in accordance with Health and Safety Code Section 34176) and fiduciary funds was reported in the County of Orange's Comprehensive Annual Financial Report as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of February 1, 2012 was reported in the private-purpose trust fund as an extraordinary gain.

**ORANGE COUNTY DEVELOPMENT AGENCY  
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD JULY 1, 2011 THROUGH JANUARY 31, 2012 (CONTINUED)**

**Note 12 – Subsequent Events (continued)**

The following is a summary of the transfer of the assets and liabilities of the former OCDA as of February 1, 2012:

	Redevelopment Agency 7 Months Ended 1/31/2012	Transferred to Housing Authority Special Revenue Fund 2/1/2012	Transferred to Successor Agency Private Purpose Trust Fund 2/1/2012
<b>Assets</b>			
Cash	\$ 122,554,171	\$ (12,117,888)	\$ (110,436,283)
Cash Investments With Trustee	4,096,807	-	(4,096,807)
Interest Receivable	109,948	(59,060)	(50,888)
Notes Receivable	19,728,804	(19,640,108)	(88,696)
Land Held For Resale	616,477	-	(616,477)
Due From Other County Funds	95,401	-	(95,401)
Bond Issuance Costs	1,041,698	-	(1,041,698)
Capital Assets	268,912	(268,912)	-
<b>Total Assets</b>	<b>\$ 148,512,218</b>	<b>\$ (32,085,968)</b>	<b>\$ (116,426,250)</b>
<b>Liabilities</b>			
Accounts Payable	\$ 507,372	\$ -	\$ (507,372)
Due To Other County Funds	957,950	(2,154)	(955,796)
Due To Other Governmental Agencies	281,503	-	(281,503)
Development Deposits	25,000	-	(25,000)
Bond Interest Payable	917,669	-	(917,669)
Bond Payable	44,100,067	-	(44,100,067)
<b>Total Liabilities</b>	<b>\$ 46,789,561</b>	<b>\$ (2,154)</b>	<b>\$ (46,787,407)</b>
<b>Net Assets</b>	<b>\$ 101,722,657</b>	<b>\$ (32,083,814)</b>	<b>\$ (69,638,843)</b>

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**NDAPP/SAH Debt Service Fund**  
**Combining Balance Sheet by Project Area**  
**January 31, 2012**

	Santa Ana Heights	NDAPP	Total
<b><u>Assets</u></b>			
Pooled cash and investments	\$ 10,411,248	\$ 33,412,945	\$ 43,824,193
Restricted assets - cash and investments with trustee	3,643,154	453,653	4,096,807
Due from other Agency funds	241,264	1,290,679	1,531,943
Interest receivable	9,414	28,972	38,386
Total assets	<u>\$ 14,305,080</u>	<u>\$ 35,186,249</u>	<u>\$ 49,491,329</u>
<b><u>Liabilities and Fund Balances</u></b>			
Liabilities:			
Due to other Agency funds	\$ 1,537,529	\$ 1,792,787	\$ 3,330,316
Due to other County funds	6,409	7,505	13,914
Due to other governmental agencies	143,174	138,329	281,503
Total liabilities	<u>1,687,112</u>	<u>1,938,621</u>	<u>3,625,733</u>
Fund balances:			
Restricted	12,617,968	33,247,628	45,865,596
Total fund balances	<u>12,617,968</u>	<u>33,247,628</u>	<u>45,865,596</u>
Total liabilities and fund balances	<u>\$ 14,305,080</u>	<u>\$ 35,186,249</u>	<u>\$ 49,491,329</u>

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**NDAPP/SAH Debt Service Fund**  
**Combining Schedule of Revenues, Expenditures**  
**and Changes in Fund Balances by Project Area**  
**For the Period July 1, 2011 through January 31, 2012**

	<u>Santa Ana Heights</u>	<u>NDAPP</u>	<u>Total</u>
Revenues:			
Property tax increments	\$ 6,072,319	\$ 8,891,153	\$ 14,963,472
Interest income	14,697	73,899	88,596
Operating grants and contributions	14,559	135,856	150,415
Miscellaneous revenue	64,451	35,394	99,845
	<u>6,166,026</u>	<u>9,136,302</u>	<u>15,302,328</u>
Expenditures:			
Current:			
General government:			
Administrative costs	3,054	47,934	50,988
Redevelopment project costs:			
Professional services	49,371	43,984	93,355
Intergovernmental:			
Tax pass-throughs	2,139,896	148,589	2,288,485
Debt service:			
Principal	1,625,000	1,220,000	2,845,000
Interest	684,114	487,203	1,171,317
	<u>4,501,435</u>	<u>1,947,710</u>	<u>6,449,145</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,664,591</u>	<u>7,188,592</u>	<u>8,853,183</u>
Other financing sources (uses):			
Transfers in	241,264	1,290,679	1,531,943
Transfers out	103	(28,216,618)	(28,216,515)
Total other financing (uses)	<u>241,367</u>	<u>(26,925,939)</u>	<u>(26,684,572)</u>
Net change in fund balances	1,905,958	(19,737,347)	(17,831,389)
Fund balances, July 1, 2011	<u>10,712,010</u>	<u>52,984,975</u>	<u>63,696,985</u>
Fund balances, January 31, 2012	<u>\$ 12,617,968</u>	<u>\$ 33,247,628</u>	<u>\$ 45,865,596</u>

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**Redevelopment Construction Capital Project Fund**  
**Combining Balance Sheet by Project Area**  
**January 31, 2012**

<u>Assets</u>	Santa Ana Heights	NDAPP	Total
Pooled cash and investments	\$ 19,935,452	\$ 27,998,752	\$ 47,934,204
Due from other County funds	87,771	1,498	89,269
Notes receivable	-	2,668,835	2,668,835
Interest receivable	19,586	23,677	43,263
Land and improvements held for resale, net	616,477	-	616,477
Total assets	<u>\$ 20,659,286</u>	<u>\$ 30,692,762</u>	<u>\$ 51,352,048</u>
<b><u>Liabilities and Fund Balances</u></b>			
Liabilities:			
Accounts payable	\$ 121,505	\$ 382,759	\$ 504,264
Due to other County funds	209,184	650,338	859,522
Development deposits	25,000	-	25,000
Total liabilities	<u>355,689</u>	<u>1,033,097</u>	<u>1,388,786</u>
Fund balances:			
Restricted	<u>20,303,597</u>	<u>29,659,665</u>	<u>49,963,262</u>
Total fund balances	<u>20,303,597</u>	<u>29,659,665</u>	<u>49,963,262</u>
Total liabilities and fund balances	<u>\$ 20,659,286</u>	<u>\$ 30,692,762</u>	<u>\$ 51,352,048</u>

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**Redevelopment Construction Capital Project Fund**  
**Combining Schedule of Revenues, Expenditures**  
**and Changes in Fund Balances by Project Area**  
**For the Period July 1, 2011 through January 31, 2012**

	Santa Ana Heights	NDAPP	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Revenues:			
Interest income	\$ 53,280	\$ 25,479	\$ 78,759
Miscellaneous revenue	398,980	82,335	481,315
Total revenues	<u>452,260</u>	<u>107,814</u>	<u>560,074</u>
Expenditures:			
Current:			
General government:			
Administrative costs	580,295	474,656	1,054,951
Redevelopment project costs:			
Professional services	22,006	5,104	27,110
Project improvement costs	696,809	1,958,614	2,655,423
Total expenditures	<u>1,299,110</u>	<u>2,438,374</u>	<u>3,737,484</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(846,850)</u>	<u>(2,330,560)</u>	<u>(3,177,410)</u>
Other financing sources (uses):			
Transfers in	-	28,216,716	28,216,716
Transfers out	-	(2,300,623)	(2,300,623)
Total other financing sources (uses)	<u>-</u>	<u>25,916,093</u>	<u>25,916,093</u>
Net change in fund balances	(846,850)	23,585,533	22,738,683
Fund balances, July 1, 2011	<u>21,150,447</u>	<u>6,074,132</u>	<u>27,224,579</u>
Fund balances, January 31, 2012	<u>\$ 20,303,597</u>	<u>\$ 29,659,665</u>	<u>\$ 49,963,262</u>

**ORANGE COUNTY DEVELOPMENT AGENCY**  
**Budgetary Comparison Schedules**  
**Capital Projects and Debt Service Funds - Budget and Actual**  
**For the Period July 1, 2011 through January 31, 2012**

	Redevelopment Construction Capital Project				NDAPP/SAH Debt Service			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:								
Property tax increments	\$ -	\$ -	\$ -	\$ -	\$ 30,241,670	\$ 30,241,670	\$ 14,963,472	\$ (15,278,198)
Interest income	119,300	119,300	78,759	(40,541)	410,000	410,000	88,596	(321,404)
Intergovernmental revenue	-	-	-	-	306,000	306,000	150,415	(155,585)
Miscellaneous revenue	388,895	388,895	481,315	92,420	69,000	69,000	99,845	30,845
Total revenues	<u>508,195</u>	<u>508,195</u>	<u>560,074</u>	<u>51,879</u>	<u>31,026,670</u>	<u>31,026,670</u>	<u>15,302,328</u>	<u>(15,724,342)</u>
Expenditures:								
Current:								
General Government	8,128,050	34,676,104	1,054,951	33,621,153	17,195,054	18,880,852	50,988	18,829,864
Redevelopment project costs	12,828,111	16,653,056	2,682,533	13,970,523	-	-	93,355	(93,355)
Intergovernmental:								
Pass-throughs	-	-	-	-	11,186,152	11,186,152	2,288,485	8,897,667
Debt service:								
Principal	-	-	-	-	2,845,000	2,845,000	2,845,000	-
Interest	-	-	-	-	2,272,524	2,272,524	1,171,317	1,101,207
Total expenditures	<u>20,956,161</u>	<u>51,329,160</u>	<u>3,737,484</u>	<u>47,591,676</u>	<u>33,498,730</u>	<u>35,184,528</u>	<u>6,449,145</u>	<u>28,735,383</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,447,966)</u>	<u>(50,820,965)</u>	<u>(3,177,410)</u>	<u>47,643,555</u>	<u>(2,472,060)</u>	<u>(4,157,858)</u>	<u>8,853,183</u>	<u>13,011,041</u>
Other financing sources (uses):								
Transfers in	2,000,000	30,216,716	28,216,716	(2,000,000)	1,531,944	1,531,944	1,531,943	(1)
Transfers out	-	-	(2,300,623)	(2,300,623)	(15,112,492)	(35,528,372)	(28,216,515)	7,311,857
Total other financing sources (uses)	<u>2,000,000</u>	<u>30,216,716</u>	<u>25,916,093</u>	<u>(4,300,623)</u>	<u>(13,580,548)</u>	<u>(33,996,428)</u>	<u>(26,684,572)</u>	<u>7,311,856</u>
Net change in fund balances	<u>\$ (18,447,966)</u>	<u>\$ (20,604,249)</u>	<u>22,738,683</u>	<u>\$ 43,342,932</u>	<u>\$ (16,052,608)</u>	<u>\$ (38,154,286)</u>	<u>(17,831,389)</u>	<u>\$ 20,322,897</u>
Fund balances, July 1, 2011			<u>27,224,579</u>			<u>63,696,985</u>		
Fund balances, January 31, 2012			<u>\$ 49,963,262</u>			<u>\$ 45,865,596</u>		



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Board of Supervisors  
Orange County Development Agency  
Santa Ana, California

We have audited the financial statements of the governmental activities and each major fund of the Orange County Development Agency (the Agency), a component unit of the County of Orange, as of and for the seven month period ended January 31, 2012, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 18, 2012. Our report includes an emphasis of matter paragraph noting that Assembly Bill 1X 26 was upheld and declared constitutional by the California Supreme Court on December 29, 2011. As part of its decision, the Supreme Court established the date of dissolution for redevelopment agencies was established to be February 1, 2012. The redevelopment agencies in California, including the Orange County Development Agency (the Agency), were terminated and successor agencies were appointed to wind down the affairs of the former redevelopment agencies in accordance with the provisions of Assembly Bill 1X 26. The County of Orange has elected to be appointed as Successor Agency for purposes of winding down the affairs of the Agency. As a result, the Agency dissolved on February 1, 2012. The fund balances of the former Orange County Development Agency funds were transferred to a private purpose trust fund of the County of Orange on February 1, 2012. Additionally, as of February 1, 2012, certain assets were transferred to the Orange County Housing Authority. Our report also included an explanatory paragraph stating that the financial statements present only the Orange County Development Agency and do not purport to, and do not, present fairly the financial position of the County of Orange, California, as of June 30, 2012, and the changes in its financial position, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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**

Management of the Agency is responsible for establishing and maintaining effective 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 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 previously.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's 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. 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 and use of the Board of Supervisors, the Audit Oversight Committee, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Vaurinik, Trine, Day & Co. LLP

Laguna Hills, California  
December 18, 2012