COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY (A Private-Purpose Trust Fund of the County of Orange, California)

Independent Auditor's Reports, Financial Statements and Supplemental Information

For the period of February 1, 2012 through June 30, 2012

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Vavrinek, Trine, Day & Co., LLP Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Oversight Board County of Orange Redevelopment Successor Agency Santa Ana, California

We have audited the accompanying financial statements of the County of Orange Redevelopment Successor Agency (Successor Agency), a private purpose trust fund of the County of Orange, California, as of June 30, 2012, and for the period of inception (February 1, 2012) to June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Successor Agency's management. Our responsibility is to express an opinion 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 Successor 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 opinion.

As discussed in Note 1, the financial statements present only the Successor Agency and do not purport to, and do not, present fairly the financial position of County of Orange, California, as of June 30, 2012, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Successor Agency, as of June 30, 2012, and the respective change in financial position, thereof for the initial 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 Successor Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 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 evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on financial statements that collectively comprise the Successor Agency's basic financial statements. The supplementary information on page 18 and 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Varrinik, Trine, Day & Co. LLP Laguna Hills, California

December 18, 2012

COUNTY OF ORANGE

REDEVELOPMENT SUCCESSOR AGENCY

Statement of Fiduciary Net Assets June 30, 2012

	Total
<u>Assets</u>	
Pooled cash and investments (Note 3)	\$ 110,381,577
Restricted assets - cash and investments with trustee (Note 3)	2,995,603
Due from other Governmental Agencies	210,703
Interest receivable	212,237
Land and improvements held for resale (Note 4)	616,477
Bond issuance costs	1,004,848
Total assets	115,421,445
<u>Liabilities</u>	
Current liabilities:	
Bond interest payable	734,136
Due to other governmental agencies (Note 8)	22,893,251
Bonds payable, net	2,816,490
Noncurrent liabilities:	
Bonds payable, net	41,239,722
Total liabilities	67,683,599
Net Assets	
Held in trust for other governments	\$ 47,737,846

COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY

Statement of Changes in Fiduciary Net Assets For the Period February 1, 2012 through June 30, 2012

	Total
Additions:	_
Property tax increment	\$ 4,086,206
Investment earnings	214,804
Other	25,000
Total additions	4,326,010
Deductions:	
Administrative expenses	78,001
Program expenses of former redevelopment agency	355,371
Tax pass-throughs (Note 6)	24,882,969
Interest on long-term debt	910,666
Total deductions	26,227,007
Extraordinary gain (Note 9)	69,638,843
Change in net assets	47,737,846
Net Assets - February 1, 2012	
Net Assets - June 30, 2012	\$ 47,737,846

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

On December 29, 2011, the California Supreme Court upheld the constitutionality of AB 1X26 (The "Dissolution Act") eliminating the redevelopment agencies in the State of California effective February 1, 2012. This action impacted the presentation of the Financial Statements of the County of Orange (County) that previously had reported the Orange County Development Agency (OCDA) within the reporting entity of the County as a component unit. A Private-Purpose Trust Fund was established accordingly to account for the assets and liabilities of the former OCDA. The Private-Purpose Trust Fund is administrated by the County acting as Successor Agency (Agency).

The Dissolution Act provides that upon dissolution of a redevelopment agency, either the County 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 Dissolution Act. An Oversight Board was appointed to oversee the dissolution process.

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 Dissolution Act 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.

The accompanying financial statements are not intended to present fairly the financial position or changes in financial position of the County in conformity with the accounting principles generally accepted in the U.S.

Note 1 – Summary of Significant Accounting Policies (continued)

Under GASB Statement Number 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Successor Agency has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989.

Measurement Focus

Fiduciary fund financial statements are used to account for assets held in a trustee or agency capacity and cannot be used to support the County's own programs. Trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with operation of these funds are included on the statement of fiduciary 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.

Fiduciary Fund Financial Statements

The fiduciary fund financial statements provide information about the Agency's funds.

Land and Improvements Held for Resale

Land and improvements transferred to the Successor Agency from the former OCDA 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.

Bond Issuance Costs, Deferred Amount on Bond Refunding and Bond Premium

Bond issuance costs, deferred amount on bond refundings, and bonds premium for OCDA were transferred to the Successor Agency due to the dissolution of OCDA.

The straight line method of amortization is used to amortize the bond issuance costs, and deferred amounts on bond refunding over the life of the OCDA Tax Allocation Refunding Bonds NDAPP, Series 2001 and Santa Ana Heights Project Area, Series 2003.

The effective interest method is used to amortize the bond premiums of the OCDA Tax Allocation Refunding Bonds NDAPP, Series 2001, and Santa Ana Heights Project Area, Series 2003.

The bond issuance costs and deferred amounts on bond refunding are recorded annually as an interest expense. The bond premiums are recorded annually as a reduction of interest expense.

Note 1 – Summary of Significant Accounting Policies (continued)

Property Tax Revenue

ABX 1 26, the state law dissolving California Redevelopment Agencies (RDAs) amended the allocation of property tax revenue to successor agencies. Property Tax Increment that formerly would have been apportioned to OCDA as tax increment are deposited into a trust fund with the County of Orange, known as the Redevelopment Property Tax Trust Fund (RPTTF). The County Auditor – Controller administers the RPTTF on behalf of the former RDA debt holders, and taxing entities that receive pass-through payments and property tax distributions. This fund is used to pay obligations listed on the Recognized Obligation Payment Schedule (ROPS), including bond debt service, approved by the OCDA Successor Oversight Board, and the California Department of Finance. Any remaining monies in the RPTTF after the approved amounts listed on the ROPS have been paid are distributed to the effected taxing entities in the project area.

Note 2 – 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 (OCDA) 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 former OCDA

As described in Note 1, the former OCDA was a component unit of the County of Orange. Due to statutory and regulatory restrictions, revenues generated by the former OCDA are not available for County General Fund purposes. However, as a result of the State legislation described above, the former OCDA shall pay to the County an amount equal to \$4 million per year, for 20 years beginning on July 1, 1996. The former OCDA's long-term debt obligations are obligations of the former OCDA payable solely from a pledge of the net revenues of the former OCDA and a pledge of the funds and accounts

Note 2 – County of Orange Bankruptcy (continued)

established under the trust indenture securing the former OCDA's long-term debt obligations. The former OCDA 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.

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 Recognized Obligation Payment Schedules (ROPS) until 2016 when the obligation expires.

Note 3 – Cash and Investments

The Successor Agency follows the County's policy guidelines for pooling its cash and investments with the County Treasurer. The County Treasurer abides by the Investment Policy Statement (IPS) in investing the Pool's monies.

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 June 30, 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 359 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.

Cash and Investments with Trustee

Cash and investments with trustee represent amounts held by a trustee bank, which are restricted for servicing long-term debt of the Successor 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.

Note 3 – Cash and Investments (continued)

At June 30, 2012, cash and investments of the Successor Agency are summarized as follows:

Cash and investments pooled by	
the County Treasurer	\$ 110,381,577
Investments held by trustee:	
Money market mutual funds	2,995,603
Total	\$ 113,377,180

Investment Disclosures

As of June 30, 2012, the major classes of Successor Agency's investments consisted of the following:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Investment Pool	\$ 110,381,577	\$ -			0.984
Restricted Investment with Trustee:					
Money Market Mutual Funds	2,995,603	2,995,603	Variable	On Demand	-
Total Restricted Investment with Trustee	\$ 2,995,603	\$ 2,995,603			
Portfolio Weighted Average Maturity:					0.958

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 June 30, 2012, the WAM for the Pool approximated 359 days (0.984 years).

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Successor 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 Successor Agency's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

Note 3 – Cash and Investments (continued)

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 June 30, 2012, the cost of land and improvements is \$1,171,694 with an estimated net realizable value of \$616,477. There was no Successor Agency land parcels sold during the year.

Note 5 – Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the period February 1, 2012 through June 30, 2012:

	Balance February 1, 2012	oruary 1, Re		Retirements	Balance June 30, 2012	Due Within One Year
Orange County Development Agency						
Tax Allocation Refunding Bonds,						
Series 2003-SAH	\$ -	\$26,575,000	\$ -	\$ -	\$ 26,575,000	\$1,700,000
Bond premium on Tax Allocation						
Refunding Bonds, Series 2003–SAH	-	1,157,362	(53,029)	-	1,104,333	(19,125)
Deferred amount on refunding						
(1993 Orange County Development						
Agency Revenue Bonds)	-	(1,091,946)	38,179	-	(1,053,767)	(91,632)
Orange County Development Agency						
Tax Allocation Refunding Bonds,		.=				
Series 2001-NDAPP	-	17,910,000	-	-	17,910,000	1,285,000
Bond premium on Tax Allocation		176 140	(51.970)		124.270	(2.979)
Refunding Bonds, Series 2001–NDAPP	-	176,148	(51,870)	-	124,278	(2,878)
Deferred amount on refunding (1992 Orange County Development						
Agency Revenue Bonds)	-	(626,497)	22,865	_	(603,632)	(54,875)
Total long-term liabilities:	\$ -	\$ 44,100,067	\$ (43,855)	\$ -	\$ 44,056,212	\$ 2,816,490

Note 5 – Long-Term Liabilities (continued)

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

The former OCDA 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 June 30, 2012 is \$26,575,000. For the period February 1, 2012 through June 30, 2012, interest paid and total tax increment revenues were \$551,427 and \$2,347,552, respectively.

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

The former OCDA 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 June 30, 2012 is \$17,910,000. For the period February 1, 2012 through June 30, 2012, interest paid and total tax increment revenues were \$359,239 and \$1,738,654, respectively.

On December 29, 2011, the California Supreme Court issued an opinion in California Redevelopment Association (CRA) v. Matosantos, upholding the constitutionality of AB 1X 26, eliminating Redevelopment Agencies (RDA) statewide effective February 1, 2012. Under AB 1X 26, a successor agency was created for each dissolved RDA, including OCDA, and charged with winding down the dissolved RDA's operations and performing enforceable obligations, which include bond debt obligations. The fiscal year 2011-12 SAH and NDAPP Refunding Bonds debt service obligations appeared on the OCDA Successor Agency Recognized Obligation Payment Schedule (ROPS) and were approved by the Successor Agency Oversight Board, the State Department of Finance, and were paid to bondholders according to debt service schedules.

Effective with the OCDA dissolution on February 1, 2012, the assets and liabilities (including bond debt) were transferred to and reported in a private-purpose trust fund of the County. This transfer and reporting structure reflect the custodial role accepted by the Successor Agency.

The annual requirements to amortize outstanding bonds included in the Statement of Fiduciary Net Assets as of June 30, 2012, including interest, are as follows:

Note 5 – Long-Term Liabilities (continued)

Years Ending	2003 Tax Allocation Bonds					2001 Tax Allocation Bonds Series A			
June 30		Principal		Interest		Principal		Interest	
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		2,015,000		924,921		1,570,000		582,944	
2018-2022		11,780,000		2,884,964		9,120,000		1,608,000	
2023-2024		5,580,000		272,420		1,695,000		42,375	
Total	\$	26,575,000	\$	8,702,323	\$	17,910,000	\$	5,331,117	

Note 6 – Pass-Through Agreements

The former OCDA 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 former OCDA's project areas. For the period February 1, 2012 through June 30, 2012, tax pass-throughs also include a \$2,000,000 revenue reallocation related to the County's bankruptcy (Note 2).

Note 7 – Related Party Transactions

The Agency reimbursed a total of \$203,838 to various County departments who assist in the administration of the County's Successor Agency.

OC Community Services, a department of the County of Orange, is the primary administrative support to the County's Successor Agency, and is responsible for preparation of all payment schedules, financial reports, and project related matters. OC Community Services also oversees the Orange County Housing Authority, the entity elected to be the County's Housing Successor Agency. County Counsel provides all legal support services, and OC Public Works' Corporate Real Estate Unit provides project support on real estate issues. All debt service related matters are handled through the CEO's Public Finance Unit.

Note 8 – Due To Other Governmental Agencies

Of the Successor Agency's \$22,893,251 total due to other governmental agencies, \$20,415,754 represents the former OCDA's Low and Moderate Income Housing Fund (LMIHF) balance available for distribution to the affected taxing entities. In addition, \$2,467,215 represents the AB 1484 demand for payment.

Note 9 - Extraordinary Gain/Loss

Extraordinary items are significant transactions or other events that are both unusual in nature and infrequent in occurrence. They are reported in a separate category in the Statement of Change in Fiduciary Net Assets. The Successor Agency reports the following extraordinary item for the period February 1, 2012 through June 30, 2012:

Note 9 – Extraordinary Gain/Loss (continued)

On December 29, 2011, the California Supreme Court upheld the constitutionality of AB 1X26 (The "Dissolution Act") eliminating the redevelopment agencies in State of California effective February 1, 2012. This action impacted the presentation of Financial Statement of County of Orange that previously had reported the Orange County Development Agency (OCDA) within the reporting entity of the County as a component unit. A Private-Purpose Trust Fund was created accordingly to accept the role serving as a successor agency with respect to the assets and liability of the former OCDA. This fund has been administrated by the County Auditor-Controller as set forth in section 34170.5 under the Bill.

As of the fiscal year ended June 30, 2012, prior to the recording of the dissolution, the final seven months of the activities of OCDA have been reported in the governmental funds of the County. After the date of the dissolution (February 1, 2012), the assets and activities have been reported in the new established private-purpose trust fund in the Statement of Fiduciary Net Assets ("balance sheet") and statement of Change in Fiduciary Net Assets ("income statement"). In addition, the impact of the movement of assets and liabilities of the OCDA from the governmental funds to a private-purpose trust fund resulted in reporting extraordinary loss in the governmental fund and extraordinary gain in the private-purpose trust fund of the County of Orange's financial statements.

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss recognized in the governmental funds is not the same amount as the extraordinary gain that is recognized in the fiduciary fund financial statement. The difference is summarized in the following table:

Ending Equity of the former OCDA at January 31, 2012 (fund level)	\$145,429,783
Transfer of Housing Assets to Orange County Housing Authority (Housing Asset fund in the OC CAFR)	(31,814,901)
Total extraordinary loss reported in the County of Orange's governmental funds - increase to net assets of the Successor Agency Trust Funds	\$113,614,882
Bond issuance costs & deferred amount on bond refunding – as of January 31, 2012 increase to net assets of the Successor Agency Trust Funds (net of amortization)	2,760,141
Accrued bond interest amount – as of January 31, 2012 decrease to net assets of the Successor Agency Trust Funds	(917,670)
Bond issuance premium – as of January 31, 2012 decrease to net assets of the Successor Agency Trust Funds	(1,335,510)
Long-term debt amount – as of January 31, 2012 decrease to net assets of the Successor Agency Trust Funds	(44,485,000)
Net increase to net assets of the Successor Agency Trust Funds as a result of initial transfer – February 1, 2012	\$ <u>69,638,843</u>

Note 10 – New Accounting Pronouncements

The following summarizes recent GASB pronouncements and their impact, if any, on future financial statements:

In November 2010, GASB issued Statement No. 61, "The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34." This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2012, which requires the Successor Agency to implement this statement in FY 2012-13.

In December 2010, GASB issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The objective of this statement is to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments. The requirements of this statement are effective for periods beginning after December 15, 2011, which requires the Successor Agency to implement this statement in FY 2012-13.

In June 2011, GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. In addition, this statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position, rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011, which requires the Successor Agency to implement this statement in FY 2012-13.

In March 2012, GASB issued Statement No. 65, "Item Previously Reported as Assets and Liabilities." This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012, which requires the Successor Agency to implement this statement in FY 2013-14.

Note 10 – New Accounting Pronouncements (continued)

In March 2012, GASB issued Statement No. 66, "Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62." This statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, which requires the Successor Agency to implement this statement in FY 2013-14.

In June 2012, GASB issued Statement No. 67, "Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25" and Statement No. 68, "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27." Both Statements result from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The primary objective of these statements is to improve financial reporting by state and local governmental pension plans.

Statement No. 67 replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement enhances note disclosures and required supplemental information (RSI) for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013, which requires the Successor Agency to implement this statement in FY 2013-14.

Statement No. 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014, which requires the Successor Agency to implement this statement in FY 2014-15.

Note 11 – Contingencies/Subsequent Event

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.

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.

Since the elimination of the Orange County Development Agency (OCDA), the County's Successor Agency has prepared and submitted three (3) Recognized Obligation Payment Schedules (ROPS) for review and approval by the County's Oversight Board as well as the Department of Finance, State Controller's office, and the County Auditor-Controller. To date, the Successor Agency has not received any opposition to any debt service related items presented on the previously submitted ROPS. The County's Successor Agency will continue to list the appropriate debt service obligations on all future ROPS, as needed, and does not anticipate any interruptions to future debt service payments.

Due Diligence Agreed-Upon Procedures Engagement

Assembly Bill 1484 established a requirement for the Successor Agency to remit to the County auditor-controller three payments as determined by the auditor-controller which consist of a payment to be made in July 2012 for taxing entities' share of December 2011 property tax distribution to redevelopment agency/successor agency, a payment to be made in November 2012 related to Low-Moderate Income Housing Fund Due Diligence Review for unencumbered cash, and a payment to be made in April 2013 related to the other Redevelopment Funds Due Diligence Review for unencumbered cash.

As of the date of the report, there was a \$2,467,215 payment required and paid in July 2012. The Successor Agency submitted its Low-Moderate Income Housing Fund Due Diligence Review to the Oversight Board and the Department of Finance on October 17, 2012. The DOF issued a Determination Letter to the Successor Agency on November 14, 2012. In the Determination Letter, the Department of Finance disagreed with the Low-Moderate Income Housing Fund Due Diligence Review's stated balance of \$20,415,754. Under HSC Section 34179.6(e), the Successor Agency held a "Meet and Confer" with the Department of Finance on December 7, 2012. The Department of Finance has indicated that a final Determination Letter will be issued on December 21, 2012. At June 30, 2012, the Successor Agency has accrued the \$20,415,754 balance as Due to Other Governments.

The other Redevelopment Funds Due Diligence Review is currently in process and the unobligated balances available for transfer to taxing entities is not determinable at this time.

COUNTY OF ORANGE

REDEVELOPMENT SUCCESSOR AGENCY

Combining Statement of Fiduciary Net Assets by Trust Fund June 30, 2012

	Private-Purpose Trust Funds								
	Redevelopment Retirement Obligation Santa Ana Debt Service		Redevelopment Retirement Obligation NDAPP Debt Service		OCDA Redevelopment Successor Agency			Total	
Assets									
Pooled cash and investments (Note 3)	\$	7,297,663	\$	34,529,316	\$	68,554,598	\$	110,381,577	
Restricted assets - cash and investments with trustee (Note 3)		2,995,603		-		-		2,995,603	
Due from other Governmental Agencies		-		-		210,703		210,703	
Interest receivable		16,822		61,994		133,421		212,237	
Land and improvements held for resale (Note 4)		-		-		616,477		616,477	
Bond issuance costs		735,557		269,291		-		1,004,848	
Total assets		11,045,645		34,860,601		69,515,199		115,421,445	
<u>Liabilities</u>									
Current liabilities:									
Bond interest payable		431,701		302,435		-		734,136	
Due to other governmental agencies (Note 8)		2,840		2,471,699		20,418,712		22,893,251	
Bonds payable, net		1,589,243		1,227,247				2,816,490	
Noncurrent liabilities:									
Bonds payable, net		25,036,323		16,203,399		_		41,239,722	
Total liabilities		27,060,107		20,204,780		20,418,712		67,683,599	
Net Assets									
Held in trust for other governments	\$	(16,014,462)	\$	14,655,821	\$	49,096,487	\$	47,737,846	

COUNTY OF ORANGE

REDEVELOPMENT SUCCESSOR AGENCY

Combining Statement of Changes in Fiduciary Net Assets by Trust Fund For the Period February 1, 2012 through June 30, 2012

Private-Purpose Trust Funds

	Redevelopment Retirement Obligation Santa Ana Debt Service		Redevelopment Retirement Obligation NDAPP Debt Service		OCDA Redevelopment Successor Agency			Total
Additions:								
Property tax increment	\$	2,347,552	\$	1,738,654	\$	-	\$	4,086,206
Investment earnings		14,206		76,646		123,952		214,804
Other		-		-		25,000		25,000
Total additions		2,361,758		1,815,300		148,952		4,326,010
Deductions:	<u> </u>							
Administrative expenses		24,926		22,448		30,627		78,001
Program expenses of former redevelopment agency		-		-		355,371		355,371
Tax pass-throughs (Note 6)		2,000,000		2,467,215		20,415,754		24,882,969
Interest on long-term debt		551,427		359,239		-		910,666
Total deductions		2,576,353		2,848,902		20,801,752		26,227,007
Transfers-internal activities		(2,000,000)		-		2,000,000		-
Extraordinary gain/(loss) (Note 9)		(13,799,867)		15,689,423		67,749,287		69,638,843
Change in net assets		(16,014,462)		14,655,821		49,096,487		47,737,846
Net Assets - February 1, 2012		-				-		
Net Assets - June 30, 2012	\$	(16,014,462)	\$	14,655,821	\$	49,096,487	\$	47,737,846



Certified Public Accountants

INDEPENDENT AUDITOR'S 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

Oversight Board County of Orange Redevelopment Successor Agency Santa Ana, California

We have audited the financial statements of the County of Orange Redevelopment Successor Agency (the Successor Agency), a private purpose trust fund of the County of Orange, California, as of June 30, 2012, and for the period of inception (February 1, 2012) to June 30, 2012, 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 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 Successor 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 Successor Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Successor Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Successor Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Successor 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 Successor 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 Successor Agency's Oversight Board, County of Orange, management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinik, Trine, Day & Co. UP Laguna Hills, California December 18, 2012