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

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

For the Year Ended June 30, 2011

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

For the Year Ended June 30, 2011

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

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 year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 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.

As discussed in Note 1, 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, 2011, 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 above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Agency, as of June 30, 2011, and the changes in financial position, thereof and the respective budgetary comparison for the OCDA Public Assistance fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Agency has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

As described in Note 13, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies or continuance of redevelopment agencies under new laws in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the legislation by outside parties including the Orange County Development Agency.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, 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.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on basic financial statements that collectively comprise the Agency’s basic financial statements. The supplementary information on page 28 through 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Computation of Low and Moderate Housing Excess/Surplus Funds schedule on page 33 is presented for purposes of additional analysis as required by the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011,* issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011* issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants and is also not a required part of the basic financial statements of Agency. The supplementary information on page 28 through 32 and the Computation of Low and Moderate Housing Excess/Surplus Funds schedule on page 33 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole

Vavrinek, Trine, Day & Co. LLP

Laguna Hills, California
December 23, 2011

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 year ended June 30, 2011. 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 basic financial statements. The Agency's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the basic financial statements. In addition to the basic 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 basic 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	
	June 30, 2011	June 30, 2010
Current and other assets	$ 153,129,545	$ 146,932,327
Capital assets, net	274,770	284,924
Total assets	153,404,315	147,217,251
Long-term liabilities	44,056,212	47,006,463
Other liabilities	16,737,938	11,718,806
Total liabilities	60,794,150	58,725,269
Net assets		
Invested in capital assets	274,770	284,924
Restricted	50,967,447	45,486,375
Unrestricted	41,367,948	42,720,683
Total net assets	$ 92,610,165	$ 88,491,982

As of June 30, 2011, the Agency's net assets increased by $4,118,183 compared to the previous fiscal year. The net assets increase due to total revenues exceeding total expenses by $4,118,183.

Of the Agency's total net assets, $50,967,447 represents resources that are subject to external restrictions on how they may be used. Such resources are restricted for public assistance and debt service.

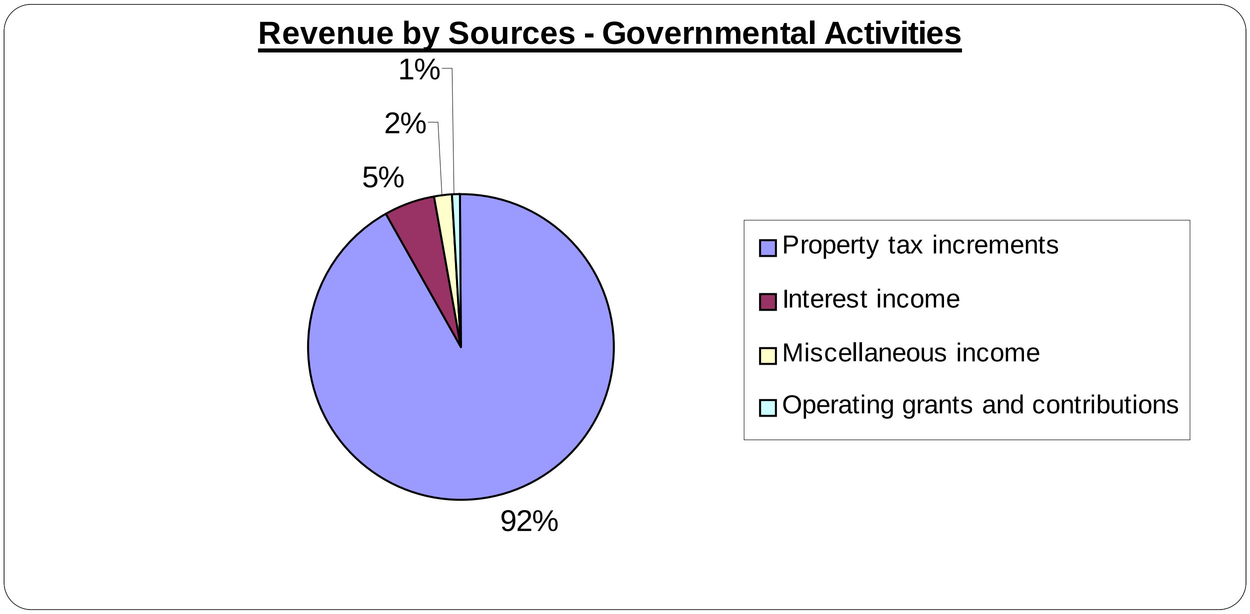
Governmental Activities

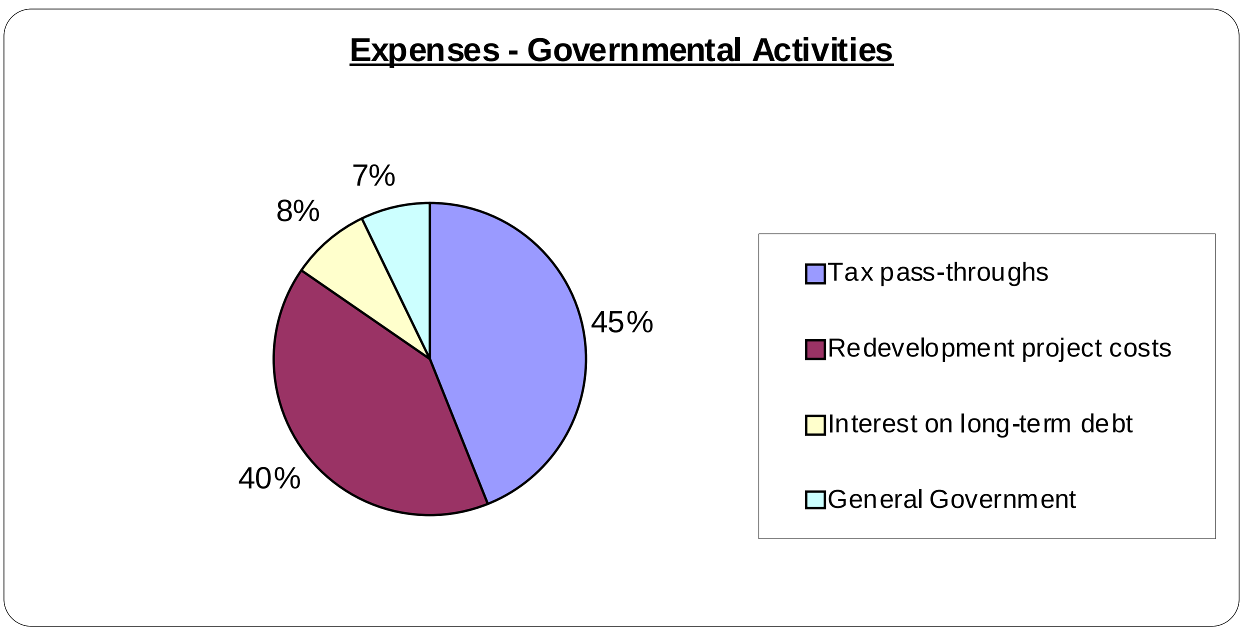
Revenues: The Agency's governmental activities rely on several sources of revenue to finance ongoing operations. Property taxes comprised the largest revenue source for the Agency followed by interest income, miscellaneous income, and then operating grants and contributions. At the end of the 2010-11 fiscal year, total revenue for the governmental activities was $33,070,305 a decrease of $1,141,245 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 $1,156,661 over the prior year as a result of decreased assessed property valuations. Property taxes are based on the assessed value of property. Any decreases in assessed property values tend to decrease property tax increments. Total current year assessed valuations decreased approximately 2.9 percent over the prior year.

Expenses: Total expenses for governmental activities were $28,952,122. The Agency's expenses were spent for 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 $2,950,675 from the prior fiscal year was primarily due to lower tax pass-throughs payments. Tax pass-throughs payments were lower because the SERAF payment decreased from $8,796,987 in 2010 to $1,811,144 in 2011.

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

CHANGES IN NET ASSETS		
	Governmental Activities	
	For the Year Ended June 30, 2011	For the Year Ended June 30, 2010
Revenues:		
Program revenues:		
Operating grants and contributions	$ 303,257	$ 304,746
General revenues:		
Property tax increments	30,405,817	31,562,478
Interest income	1,753,058	1,516,514
Miscellaneous	608,173	827,812
Total revenues	33,070,305	34,211,550
Expenses:		
Tax pass-throughs	12,717,450	19,971,691
Interest on long-term debt	2,459,813	2,609,567
Redevelopment project costs	11,704,028	6,849,957
General government	2,070,831	2,471,582
Total expenses	28,952,122	31,902,797
Change in net assets	4,118,183	2,308,753
Net assets - beginning of the year	88,491,982	86,183,229
Net assets - end of the year	$ 92,610,165	$ 88,491,982





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 June 30, 2011, the Agency's governmental funds reported combined fund balances of $138,893,298, an increase of $1,517,950 compared to the prior year. Total fund balances for the governmental funds are either restricted or committed 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 committed for specific redevelopment projects within their project areas.

OCDA Public Assistance fund has a total fund balance of $47,971,734. 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 $63,696,985, an increase of $1,651,898 from the prior year; $2,995,713 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 committed for the payment of debt service and specific redevelopment projects.

The Redevelopment Construction fund has a total fund balance of $27,224,579, which is committed for specific redevelopment projects. A decrease of $2,760,353 in fund balance during the current year was primarily due to higher spending on capital project improvement costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's investment in capital assets for its governmental activities as of June 30, 2011, amounted to $274,770, 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 6 to the financial statements.

Debt Administration

At June 30, 2011, the Agency had total long-term debt outstanding of $47,006,463. The outstanding debt is comprised of $28,200,000 (Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003 – Santa Ana Heights), and $19,130,000 (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 $2,730,000 on the outstanding bonds. The 2001 NDAPP bonds are rated "A" by Standard & Poor's and "A1" 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 Moody's Investor Service has "Withdrawn" the bond rating; 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 - $198,959,854, which is subject to adjustment by the Consumer Price Index.

Additional information about the Agency's long-term obligations can be found in Note 7 to the financial statements.

OTHER POTENTIALLY SIGNIFICANT MATTERS

The Agency's management has determined the following matter may have a possible impact on 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 (ABX1 26 and ABX1 27), which became law on June 29, 2011.

ABX1 26 essentially executes Governor Brown's proposal to eliminate redevelopment agencies throughout the state, by dissolving agencies effective October 1, 2011. ABX1 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 ABX1 26 and ABX1 27 directly in the California Supreme Court. On August 11th, 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 is due on January 15, 2012. The Court also stayed the effectiveness of portions of both bills until ruling can be made.

See additional information on the impacts of AB 1X26 and 1X27 at Note 13 and Note 14.

Request for Information

We hope that the preceding information has provided you with a general overview of the Agency's overall financial status. For questions or comments concerning information contained in this report, please contact the Orange County Development Agency, 1770 North Broadway, Santa Ana, California 92706.

ORANGE COUNTY DEVELOPMENT AGENCY
Statement of Net Assets and Governmental Funds Balance Sheet
June 30, 2011

	Governmental Funds					
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction	Total	Adjustments (Note 11)	Statement of Net Assets
Assets						
Pooled cash and investments (Note 3)	$ 29,585,490	$ 76,347,123	$ 24,254,922	$ 130,187,535	$ -	$ 130,187,535
Restricted assets - cash and investments with trustee (Note 3)	-	2,995,713	-	2,995,713	-	2,995,713
Property tax increment receivable	-	765,342	-	765,342	-	765,342
Due from other Agency funds (Note 4)	3,808,372	-	5,371,426	9,179,798	(9,179,798)	-
Interest receivable	44,281	108,224	38,896	191,401	-	191,401
Notes receivable	14,621,046	-	2,701,681	17,322,727	-	17,322,727
Land and improvements held for resale, net (Note 5)	-	-	573,536	573,536	-	573,536
Bond issuance costs	-	-	-	-	1,093,291	1,093,291
Capital assets, nondepreciable (Note 6)	-	-	-	-	210,830	210,830
Capital assets, depreciable, net (Note 6)	-	-	-	-	63,940	63,940
Total assets	$ 48,059,189	$ 80,216,402	$ 32,940,461	$ 161,216,052	$ (7,811,737)	$ 153,404,315

See accompanying notes to the basic financial statements.

ORANGE COUNTY DEVELOPMENT AGENCY
Statement of Net Assets and Governmental Funds Balance Sheet
June 30, 2011

	Governmental Funds					
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction	Total	Adjustments (Note 11)	Statement of Net Assets
Liabilities						
Liabilities						
Current liabilities:						
Accounts payable	$ -	$ 650	$ 11,800	$ 12,450	$ -	$ 12,450
Bond interest payable	-	-	-	-	780,878	780,878
Due to other Agency funds (Note 4)	-	9,179,798	-	9,179,798	(9,179,798)	-
Due to other County funds	87,455	587,339	5,679,082	6,353,876	-	6,353,876
Due to other governmental agencies	-	6,585,268	-	6,585,268	-	6,585,268
Development deposits	-	-	25,000	25,000	-	25,000
Deferred revenues	-	166,362	-	166,362	(136,148)	30,214
Bonds payable, net (Note 7)	-	-	-	-	2,950,252	2,950,252
Total current liabilities	87,455	16,519,417	5,715,882	22,322,754	(5,584,816)	16,737,938
Noncurrent liabilities:						
Bonds payable, net (Note 7)	-	-	-	-	44,056,212	44,056,212
Total noncurrent liabilities	-	-	-	-	44,056,212	44,056,212
Total liabilities	87,455	16,519,417	5,715,882	22,322,754	38,471,396	60,794,150
Fund Balances/Net Assets						
Fund balances:						
Restricted	47,971,734	2,995,713	-	50,967,447	(50,967,447)	-
Committed	-	60,701,272	27,224,579	87,925,851	(87,925,851)	-
Total fund balances	47,971,734	63,696,985	27,224,579	138,893,298	(138,893,298)	-
Total liabilities and fund balances	$ 48,059,189	$ 80,216,402	$ 32,940,461	$ 161,216,052	$ (100,421,902)	
Net assets:						
Invested in capital assets					274,770	274,770
Restricted for public assistance and debt service					50,967,447	50,967,447
Unrestricted					41,367,948	41,367,948
Total net assets					$ 92,610,165	$ 92,610,165

See accompanying notes to the basic financial statements.

ORANGE COUNTY DEVELOPMENT AGENCY
Statement of Activities and
Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2011

	Governmental Funds					
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction	Total	Adjustments (Note 11)	Statement of Activities
Expenditures/expenses:						
Current:						
General Government	$ 32,562	$ 69,747	$ 1,968,522	$ 2,070,831	$ -	$ 2,070,831
Redevelopment project costs	1,965,308	713,720	9,014,846	11,693,874	10,154	11,704,028
Tax pass-throughs (Note 8)	-	12,717,450	-	12,717,450	-	12,717,450
Debt Service:						
Principal	-	2,730,000	-	2,730,000	(2,730,000)	-
Interest on long-term debt	-	2,401,709	-	2,401,709	58,104	2,459,813
Total expenditures/expenses	1,997,870	18,632,626	10,983,368	31,613,864	(2,661,742)	28,952,122
Program revenues:						
Operating grants and contributions	-	303,257	-	303,257	-	303,257
Net program expense						28,648,865
General revenues:						
Property tax increments	5,327,733	25,139,593	-	30,467,326	(61,509)	30,405,817
Interest income	713,502	580,107	459,449	1,753,058	-	1,753,058
Miscellaneous revenue	102,751	113,282	392,140	608,173	-	608,173
Total general revenues	6,143,986	25,832,982	851,589	32,828,557	(61,509)	32,767,048
Other financing sources (uses)/changes in net assets:						
Transfers-internal activities (Note 9)	(1,519,711)	(5,851,715)	7,371,426	-		-
Net change in fund balances	2,626,405	1,651,898	(2,760,353)	1,517,950	(1,517,950)	-
Change in net assets	-	-	-	-	4,118,183	4,118,183
Fund balances/net assets:						
Beginning of the year	45,345,329	62,045,087	29,984,932	137,375,348	(48,883,366)	88,491,982
End of the year	$ 47,971,734	$ 63,696,985	$ 27,224,579	$ 138,893,298	$ (46,283,133)	$ 92,610,165

See accompanying notes to the basic financial statements.

ORANGE COUNTY DEVELOPMENT AGENCY
Budgetary Comparison Statement - OCDA Public Assistance - Budget and Actual
For the Year Ended June 30, 2011

	OCDA Public Assistance			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property tax increments	$ -	$ -	$ 5,327,733	$ 5,327,733
Interest income	500,000	500,000	713,502	213,502
Miscellaneous revenue	50,000	50,000	102,751	52,751
Total revenues	550,000	550,000	6,143,986	5,593,986
Expenditures:				
Current:				
Low and moderate-income housing:				
Administrative costs	777,388	1,298,388	32,562	1,265,826
Redevelopment project costs	36,649,728	32,884,090	1,965,308	30,918,782
Total expenditures	37,427,116	34,182,478	1,997,870	32,184,608
Excess (deficiency) of revenues over expenditures	(36,877,116)	(33,632,478)	4,146,116	37,778,594
Other financing sources (uses):				
Transfers in	5,581,139	5,581,139	19,906	(5,561,233)
Transfers out	(1,539,618)	(2,939,618)	(1,539,617)	1,400,001
Total other financing sources (uses)	4,041,521	2,641,521	(1,519,711)	(4,161,232)
Net change in fund balances	$ (32,835,595)	$ (30,990,957)	2,626,405	$ 33,617,362
Fund balance, beginning of year			45,345,329	
Fund balance, end of year			$ 47,971,734	

See accompanying notes to the basic financial statements.

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.

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

Note 2 –Summary of Significant Accounting Policies (continued)

Reporting Entity (Continuing)

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 basic 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.

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

Note 2 –Summary of Significant Accounting Policies (continued)

Measurement Focus (continued)

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.

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 collaterized by deeds of trust. These loans are recorded as committed fund balance for the net balance of notes receivable at June 30, 2011.

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

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.

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 1st 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 4th Monday in September).	2601
Secured tax payment due dates are:	
1st Installment – November 1, and	2605
2nd Installment – February 1.	2606
Secured tax delinquent dates (last day to pay without a penalty) are:	
1st Installment – December 10, and	2617
2nd 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.

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

Effective for this fiscal year, 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 two different classifications 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.

Committed Fund Balance

Amounts constrained to specific purposes by a formal action of the highest level of decision making authority. The constraint remains binding unless the government takes the same highest-level action to remove or change the constraint. The Board of Supervisors (the Board) is the Agency's highest level of decision-making authority. The highest-level of formal action to commit resources are resolutions or ordinances.

On April 5, 2011, the County Board of Supervisors adopted Resolution No. 11-047 to obligate tax increment funds to fund programs and activities related to public improvements and development of affordable housing.

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 June 30, 2011, 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 343 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 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 June 30, 2011, cash and investments of the Agency are summarized as follows:

Cash and investments pooled by the County Treasurer	$ 130,187,535
Investments held by trustee:	
Money market mutual funds	2,995,713
Total	$ 133,183,248

Note 3 – Cash and Investments (continued)

Investment Disclosures

As of June 30, 2011, 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	$ 130,187,535	$ -			0.94
Restricted Investment with Trustee:					
Money Market Mutual Funds	2,995,713	2,995,713	Variable	On Demand	-
Total Restricted Investment with Trustee	$ 2,995,713	$ 2,995,713			
Portfolio Weighted Average Maturity:					0.92

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, 2011, the WAM for the Pool approximated 343 days (0.94 years).

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 3 – Cash and Investments (continued)

Concentration of Credit Risk

The following is a summary of credit quality distribution and concentration of credit risk by investment type at June 30, 2011 (NR denotes Not Rated):

	S&P	Moody's	Fitch	% of Portfolio
County Investment Pool	AAAm	NR	NR	97.75%
Money Market Mutual Funds	AAAm	Aaa-mf	AAA-mmf	2.25%
				100.00%

The Treasurer further invests pooled funds from the OCIP and OCEIP into the Orange County Money Market Fund (OCMMF), the Orange County Educational Money Market Fund (OCEMMF) and the Extended Fund. On January 10, 2011, Standard & Poor's (S&P) affirmed an AAA Principal Stability Fund Rating (AAAm) for the OCMMF and the OCEMMF. The two money market funds are required to maintain a Net Asset Value (NAV) of between $0.995 and $1.005 to maintain an AAAm rating. Neither the Money Market nor the Extended Fund has any legally binding guarantees of share values.

Note 4 – Interfund Receivables and Payables

Interfund receivables and payables at June 30, 2011 are as follows:

	Due from other funds	Due to other funds
OCDA Public Assistance Fund	$ 3,808,372	$ -
Redevelopment Construction Fund	5,371,426	-
NDAPP/SAH Debt Service Fund	-	9,179,798
Total	$ 9,179,798	$ 9,179,798

The payable balance from the NDAPP/SAH Debt Service Fund of $9,179,798 consists of an estimate of the FY 2011 20% Low/Mod Set Aside transfer required to the OCDA Public Assistance Fund and the surplus transfer to the Redevelopment Construction Fund.

Note 5 – 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, 2011, the cost of land and improvements is $1,171,694 with an estimated net realizable value of $573,536, therefore; this asset is recorded at $573,536.

There was no OCDA land parcels sold during the year. The Agency has recorded the land held for resale as committed fund balance for the net balance of land and improvements held for resale at June 30, 2011.

Note 6 – 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:

Capital assets, nondepreciable:	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
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	(109,890)	(10,154)	-	(120,044)
Total capital assets depreciated, net	74,094	(10,154)	-	63,940
Total capital assets, net	$ 284,924	$ (10,154)	$ -	$ 274,770

Depreciation expense of $10,154 for the current year was charged to the Redevelopment Projects function.

Note 7 – Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2011:

	Balance July 1, 2010	Issuances, Premiums, Deferred Amounts on Refundings and Accretions	Retirements	Balance June 30, 2011	Due Within One Year
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003-SAH	$ 29,755,000	$ -	$ (1,555,000)	$ 28,200,000	$ 1,625,000
Bond premium on Tax Allocation Refunding Bonds, Series 2003–SAH	1,369,065	(137,462)	-	1,231,603	127,270
Deferred amount on refunding (1993 Orange County Development Agency Revenue Bonds)	(1,237,030)	91,632	-	(1,145,398)	(91,632)
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001-NDAPP	20,305,000	-	(1,175,000)	19,130,000	1,220,000
Bond premium on Tax Allocation Refunding Bonds, Series 2001–NDAPP	248,766	-	-	248,766	124,489
Deferred amount on refunding (1992 Orange County Development Agency Revenue Bonds)	(713,383)	54,875	-	(658,508)	(54,875)
Total long-term liabilities:	$ 49,727,418	$ 9,045	$ (2,730,000)	$ 47,006,463	$ 2,950,252

Note 7 – Long-Term Liabilities (continued)

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 June 30, 2011 is $28,200,000. For FY 2010-11, principal and interest paid and total tax increment revenues were $2,958,215 and $8,719,456, respectively.

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 June 30, 2011 is $19,130,000. For FY 2010-11, principal and interest paid and total tax increment revenues were $2,173,494 and $16,420,137, respectively.

The annual requirements to amortize outstanding bonds included in the Statement of Net Assets as of June 30, 2011, including interest, are as follows:

Years Ending	2003 Tax Allocation Bonds		2001 Tax Allocation Bonds Series A	
June 30	Principal	Interest	Principal	Interest
2012	$ 1,625,000	$ 1,331,665	$ 1,220,000	$ 940,856
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	$ 28,200,000	$ 10,033,989	$ 19,130,000	$ 6,271,973

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 - $198,959,854, which is subject to adjustment by the Consumer Price Index.

Note 8 – 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. Tax pass-throughs also include the $4,000,000 revenue reallocation related to the County's bankruptcy (Note 1).

Note 9 – 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 $7,371,426. In addition, the OCDA Public Assistance Fund transferred to the NDAPP/SAH Debt Service Fund $1,539,617 to meet the debt service requirements of these projects.

Note 10 – Related Party Transactions

The Agency reimbursed a total of $13,269,520 to various County departments who administer various functions/areas of the Agency and they are as follows:

OC Community Services 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.

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 11 – Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

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

Bond Issuance Costs

Bond issuance costs of $1,093,291 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.

Note 11 – 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		(120,044)
Total capital assets, net	$	274,770

Deferred Revenue

Under the modified accrual basis of accounting, revenue cannot be recognized until it is available to liquidate liabilities of the current period. Governmental-wide statements are prepared under accrual accounting. Under accrual accounting, revenue must be recognized as soon as it is earned, regardless of availability. Also, any liability of earned but unavailable deferred revenue must be eliminated in the government-wide financial statements. Deferred revenue of $136,148 was reclassified to revenue.

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	$	2,950,252
Bonds payable, net - noncurrent		44,056,212
Accrued interest payable on bonds		780,878

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

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	$	2,730,000

Note 11 – Adjustments Between Fund Financial Statements and Government-Wide Financial Statements (continued)

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 current fiscal year totaled $10,154.

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	$	58,104

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 $(61,509) in the statement of activities reflects the change in the deferred revenue accounts related to collected, delinquent property taxes.

Note 12 – New Accounting Pronouncements

The following lists recent GASB pronouncements implemented in FY 2010-11:

In February 2009, GASB issued Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions."* This statement enhances 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. Reference Note 2 for additional information.

In June 2010, GASB issued statement No. 59, *"Financial Instruments Omnibus."* This statement updates and improves the existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement did not have a material affect on the Agency's financial statements.

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 Agency to implement this statement in FY 2012-13.

Note 12 – New Accounting Pronouncements (continued)

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 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 Agency to implement this statement in FY 2012-13.

Note 13 – Contingencies

Recent Changes in Legislation Affecting California Redevelopment Agencies

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

Note 13 – Contingencies (continued)

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

Since the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule (EOPS) and draft Recognized Obligation Payment Schedule (ROPS) prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in ABX1 26.

Note 14 – Subsequent Events/Commitments

The following events occurred subsequent to June 30, 2011:

On August 23, 2011, the County of Orange adopted the required ordinance indicating that the County of Orange will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the County of Orange is estimated to be $12.9 million with one half due on January 15, 2012 and the other half due on May 15, 2012. Thereafter, an estimated $3.4 million will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in the tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. This ordinance also requires the Agency to transfer annual portions of its tax increment to the County in amounts not to exceed the annual community remittance payments to enable the County, directly or indirectly, to make the annual remittance payments. The County Board of Supervisors do not intend, by enactment of this ordinance, to pledge any of its General Fund revenues or assets to make the remittance payments. Assembly Bill X1 27 allows a one year reprieve on the Agency's obligation to contribute 20% of tax increment to the low-and-moderate income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

Note 14 – Subsequent Events/Commitments (continued)

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

On August 23, 2011, the County Board of Supervisors adopted the Enforceable Obligation payment Schedule (EOPS), and on September 30, 2011, the Recognized Obligation Payment Schedule (ROPS) was submitted.

The nature and extent of the operation of redevelopment agencies in the State of California beyond the time of the initial stay, is unclear and it appears that the operation and future viability of redevelopment agencies in California are dependent upon the outcome of these lawsuits.

ORANGE COUNTY DEVELOPMENT AGENCY
NDAPP/SAH Debt Service Fund
Combining Balance Sheet by Project Area
June 30, 2011

	Santa Ana Heights	NDAPP	Total
Assets			
Pooled cash and investments	$ 9,649,582	$ 66,697,541	$ 76,347,123
Restricted assets - cash and investments with trustee	2,995,713	-	2,995,713
Property tax increment receivable	212,964	552,378	765,342
Interest receivable	14,618	93,606	108,224
Total assets	$ 12,872,877	$ 67,343,525	$ 80,216,402
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	$ 650	$ -	$ 650
Due to other Agency funds	1,956,527	7,223,271	9,179,798
Due to other County funds	149,943	437,396	587,339
Due to other governmental agencies	12,488	6,572,780	6,585,268
Deferred revenues	41,259	125,103	166,362
Total liabilities	2,160,867	14,358,550	16,519,417
Fund balances:			
Restricted	2,995,713	-	2,995,713
Committed	7,716,297	52,984,975	60,701,272
Total fund balances	10,712,010	52,984,975	63,696,985
Total liabilities and fund balances	$ 12,872,877	$ 67,343,525	$ 80,216,402

ORANGE COUNTY DEVELOPMENT AGENCY
NDAPP/SAH Debt Service Fund
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances by Project Area
For the Year Ended June 30, 2011

	Santa Ana Heights	NDAPP	Total
Revenues:			
Property tax increments	$ 8,719,456	$ 16,420,137	$ 25,139,593
Interest income	94,142	485,965	580,107
Operating grants and contributions	30,035	273,222	303,257
Miscellaneous revenue	72,392	40,890	113,282
Total revenues	8,916,025	17,220,214	26,136,239
Expenditures:			
Current:			
General government:			
Administrative costs	12,552	57,195	69,747
Redevelopment project costs:			
Professional services	164,087	259,375	423,462
Project improvement costs	-	290,258	290,258
Intergovernmental:			
Tax pass-throughs	6,074,138	6,643,312	12,717,450
Debt service:			
Principal	1,555,000	1,175,000	2,730,000
Interest	1,403,215	998,494	2,401,709
Total expenditures	9,208,992	9,423,634	18,632,626
Excess (deficiency) of revenues over (under) expenditures	(292,967)	7,796,580	7,503,613
Other financing sources (uses):			
Transfers in	241,389	1,298,228	1,539,617
Transfers out	(2,009,998)	(5,381,334)	(7,391,332)
Total other financing (uses)	(1,768,609)	(4,083,106)	(5,851,715)
Net change in fund balances	(2,061,576)	3,713,474	1,651,898
Fund balances, beginning of year	12,773,586	49,271,501	62,045,087
Fund balances, end of year	$ 10,712,010	$ 52,984,975	$ 63,696,985

ORANGE COUNTY DEVELOPMENT AGENCY
Redevelopment Construction Capital Project Fund
Combining Balance Sheet by Project Area
June 30, 2011

Assets	Santa Ana Heights	NDAPP	Total
Pooled cash and investments	$ 20,739,947	$ 3,514,975	$ 24,254,922
Due from other Agency funds	-	5,371,426	5,371,426
Notes receivable	-	2,701,681	2,701,681
Interest receivable	29,693	9,203	38,896
Land and improvements held for resale, net	573,536	-	573,536
Total assets	$ 21,343,176	$ 11,597,285	$ 32,940,461
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 8,300	$ 3,500	$ 11,800
Due to other County funds	159,429	5,519,653	5,679,082
Development deposits	25,000	-	25,000
Total liabilities	192,729	5,523,153	5,715,882
Fund balances:			
Committed	21,150,447	6,074,132	27,224,579
Total fund balances	21,150,447	6,074,132	27,224,579
Total liabilities and fund balances	$ 21,343,176	$ 11,597,285	$ 32,940,461

ORANGE COUNTY DEVELOPMENT AGENCY
Redevelopment Construction Captial Project Fund
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances by Project Area
For the Year Ended June 30, 2011

	Santa Ana Heights	NDAPP	Total
Revenues:			
Interest income	$ 393,198	$ 66,251	$ 459,449
Miscellaneous revenue	316,353	75,787	392,140
Total revenues	709,551	142,038	851,589
Expenditures:			
Current:			
General government:			
Administrative costs	991,642	976,880	1,968,522
Redevelopment project costs:			
Professional services	53,737	19,061	72,798
Project improvement costs	470,622	8,471,426	8,942,048
Total expenditures	1,516,001	9,467,367	10,983,368
Excess (deficiency) of revenues over (under) expenditures	(806,450)	(9,325,329)	(10,131,779)
Other financing sources (uses):			
Transfers in	2,000,000	5,371,426	7,371,426
Total other financing sources (uses)	2,000,000	5,371,426	7,371,426
Net change in fund balances	1,193,550	(3,953,903)	(2,760,353)
Fund balances, beginning of year	19,956,897	10,028,035	29,984,932
Fund balances, end of year	$ 21,150,447	$ 6,074,132	$ 27,224,579

ORANGE COUNTY DEVELOPMENT AGENCY

Budgetary Comparison Schedules

Capital Projects and Debt Service Funds - Budget and Actual

For the Year Ended June 30, 2011

	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	$ -	$ -	$ -	$ -	$ 32,684,489	$ 32,684,489	$ 25,139,593	$ (7,544,896)
Interest income	235,000	235,000	459,449	224,449	816,648	816,648	580,107	(236,541)
Intergovernmental revenue	-	-	-	-	304,388	304,388	303,257	(1,131)
Miscellaneous revenue	326,181	326,181	392,140	65,959	100,500	100,500	113,282	12,782
Total revenues	561,181	561,181	851,589	290,408	33,906,025	33,906,025	26,136,239	(7,769,786)
Expenditures:								
Current:								
General Government	7,768,278	3,860,902	1,968,522	1,892,380	8,366,509	13,065,737	69,747	12,995,990
Redevelopment project costs	13,996,457	14,853,456	9,014,846	5,838,610	-	-	713,720	(713,720)
Intergovernmental:								
Pass-throughs	1,495,559	3,871,069	-	3,871,069	14,735,382	14,735,382	12,717,450	2,017,932
Debt service:								
Principal	-	-	-	-	2,730,000	2,730,000	2,730,000	-
Interest	-	-	-	-	2,401,711	2,401,711	2,401,709	2
Total expenditures	23,260,294	22,585,427	10,983,368	11,602,059	28,233,602	32,932,830	18,632,626	14,300,204
Excess (deficiency) of revenues over (under) expenditures	(22,699,113)	(22,024,246)	(10,131,779)	11,892,467	5,672,423	973,195	7,503,613	6,530,418
Other financing sources (uses):								
Transfers in	1,450,000	2,750,000	7,371,426	4,621,426	1,539,618	1,539,618	1,539,617	(1)
Transfers out	-	(3,100,000)	-	3,100,000	(14,831,975)	(16,131,975)	(7,391,332)	8,740,643
Total other financing sources (uses)	1,450,000	(350,000)	7,371,426	7,721,426	(13,292,357)	(14,592,357)	(5,851,715)	8,740,642
Net change in fund balances	$ (21,249,113)	$ (22,374,246)	(2,760,353)	$ 19,613,893	$ (7,619,934)	$ (13,619,162)	1,651,898	$ 15,271,060
Fund balances, beginning of year			29,984,932				62,045,087	
Fund balances, end of year			$ 27,224,579				$ 63,696,985	

ORANGE COUNTY DEVELOPMENT AGENCY

Computation of Low and Moderate Income Housing Funds Excess/Surplus

For the Year Ended June 30, 2011

		Low and Moderate Housing Funds - All Project Areas		
Opening Fund Balance - July 1, 2010			$	31,010,147
Less Unavailable Amounts:				
Encumbrances (Section 33334.12 (g)(2))	$	(13,593,436)		
Unspent debt proceeds (Section 33334.12 (g)(3)(B))		(499,942)		
			$	(14,093,378)
Available Low and Moderate Income Housing Funds			$	16,916,769
Limitation (greater of $1,000,000 or four years set-aside)				
Set-Aside for last four years:				
2006 - 2007	$	4,365,617		
2007 - 2008		5,575,866		
2008 - 2009		6,127,736		
2009 - 2010		5,584,483		
Total	$	21,653,702		
Base Limitation	$	1,000,000		
Greater amount			$	21,653,702
Computed Excess/Surplus - July 1, 2011				**None**

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 year ended June 30, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 23, 2011. Our report included an explanatory paragraph stating that the financial statements present only the Agency and do not purport to, and do not, present fairly the financial position of the County of Orange, California as of June 30, 2011, 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. Our report refers to the Agency's adoption of the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010. Additionally, our report refers to Note 13, relating to the impact of recent legislation for California Redevelopment Agencies. 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 above.

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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.

Vavrinek, Trine, Day & Co. LLP

Laguna Hills, California
December 23, 2011

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON CALIFORNIA REDEVELOPMENT AGENCIES, AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE *GUIDELINES FOR COMPLIANCE AUDITS OF CALIFORNIA REDEVELOPMENT AGENCIES* AS INTERPRETED IN THE *SUGGESTED AUDITING PROCEDURES FOR ACCOMPLISHING COMPLIANCE AUDITS OF CALIFORNIA REDEVELOPMENT AGENCIES*

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

Compliance

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

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

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

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011. However, the results of or our tests disclosed instances of noncompliance or other matters that are required to be reported under the *Guidelines for Compliance Audits of California Redevelopment Agencies* which is described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2.

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Internal Control Over Compliance

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

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

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

The Agency's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Agency's responses and, accordingly, we express no opinion on them.

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.

Vavrinek, Trine, Day & Co. LLP

Laguna Hills, California
December 23, 2011

<u>FINDING 2011-1</u>

Compliance requirement:

FINANCIAL DISCLOSURE AND REPORTING

Criteria or specific requirement:

The *June 2011 Guidelines for Compliance Audits of California Redevelopment Agencies* and *Health and Safety Code 33080.1* requires that the Agency produce an annual report and present it on a timely basis, to its legislative body and the State Controller, within six months of the end of the agency's fiscal year.

Conditions found:

Instance of Non-Compliance – The Agency's fiscal year 2010 annual report was not produced and presented on a timely basis to its legislative body in accordance with *Health and Safety Code 33080.1*.

Context:

The condition noted above was identified during our testwork of specific requirements related to financial disclosure and reporting. It was noted that the fiscal year 2010 annual report was presented to the Agency's legislative body (Board of Supervisors) on March 1, 2011 and not within six months of the end of the agency's fiscal year.

Effect:

The Agency's annual report was not presented on a timely basis to its legislative body, which could increase the risk of non-compliance with financial disclosure and reporting requirements.

Cause:

The Agency did not ensure that the above described provisions were complied with.

Recommendation:

We recommend that the Agency implement procedure to ensure the annual reports are submitted to the Agency Board prior to December 31.

View of responsible officials and corrective action:

Concur. Procedures have been updated to ensure that its legislative body (County Board of Supervisors) is presented with a copy of the Annual Report on or before December 31st of each year. Included with the report will be a cover memo briefly outlining the report and informing the legislative body that OCDA will also be presenting the Annual Report to the legislative body via an Agenda Staff Report at a regularly scheduled Board meeting.

FINDING 2011-2

Compliance requirement:

FINANCIAL DISCLOSURE AND REPORTING

Criteria or specific requirement:

The *June 2011 Guidelines for Compliance Audits of California Redevelopment Agencies* and *Health and Safety Code 33080.1* requires that the Agency produced an annual report that contained a description of total number and nature of the properties that the agency owns in the previous fiscal year.

Conditions found:

Instance of Non-Compliance – The Agency's annual report did not contain a description of total number and nature of the properties that the agency owned in the previous fiscal year in accordance with *Health and Safety Code 33080.1*.

Context:

The condition noted above was identified during our testwork of specific requirements related to financial disclosure and reporting. It was noted that the annual report contained the value of the properties however, did not contain a description of total number and nature of the properties owned by the agency.

Effect:

The description of total number and nature of properties owned by the Agency were not included in the Agency's annual report, which could increase the risk of non-compliance with financial disclosure and reporting requirements.

Cause:

The Agency did not ensure that the above described provisions were included in the Agency's annual report.

Recommendation:

We recommend that the Agency implement procedure to ensure all applicable Health & Safety Codes are complied with.

View of responsible officials and corrective action:

Concur. Procedures will be updated to include a review of all applicable Health & Safety Codes to ensure compliance. The FY 10/11 annual report will contain a description of the total number and nature of the properties that the agency owned in the previous fiscal year.

ORANGE COUNTY DEVELOPMENT AGENCY
SANTA ANA, CALIFORNIA

SUMMARY OF PRIOR YEAR FINDINGS
JUNE 30, 2011

None noted.