

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, 2009

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

For the Year Ended June 30, 2009

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Orange County Development Agency (the Agency), a component unit of the County of Orange, California, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2009, and the respective changes in financial positions, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009 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 audit.

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 the financial statements that collectively comprise the Agency's basic financial statements. The other supplementary information listed in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 7, 2009

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, 2009. 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. 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, 2009	June 30, 2008
Current and other assets	\$ 148,412,288	\$ 128,997,802
Capital assets, net	294,914	304,904
Total assets	148,707,202	129,302,706
Long-term liabilities	49,727,418	52,304,545
Other liabilities	12,796,555	10,580,759
Total liabilities	62,523,973	62,885,304
Net assets		
Invested in capital assets	294,914	304,904
Restricted	41,129,292	35,338,485
Unrestricted	44,759,023	30,774,013
Total net assets	\$ 86,183,229	\$ 66,417,402

As of June 30, 2009, the Agency's net assets increased by \$19,765,827 compared to the previous fiscal year. The primary reason for the increase is due to the Agency's inability to utilize tax increment funds as the time limit to incur new debt has expired.

Of the Agency's total net assets, \$41,129,292 represents resources that are subject to external restrictions on how they may be used. Such resources are restricted for public assistance and the Santa Ana Heights (SAH) acoustical insulation program.

Governmental Activities

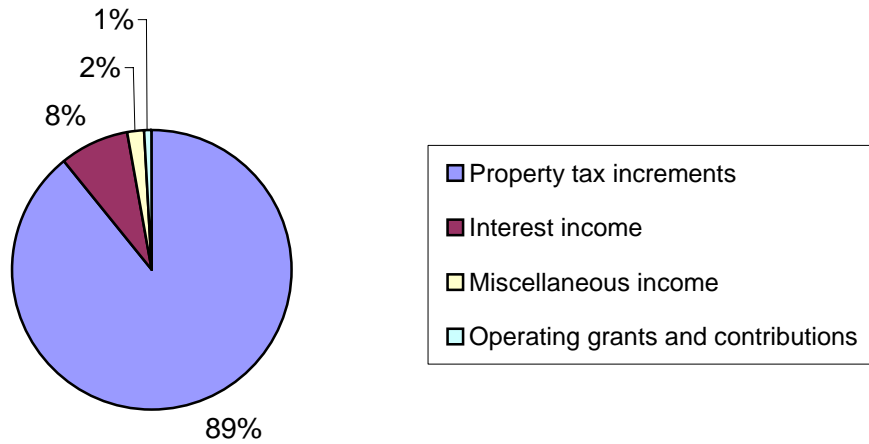
Revenues: The Agency's governmental activities rely on several sources of revenue to finance ongoing operations. Property taxes comprised the largest revenue source for the Agency followed by interest income, miscellaneous income, and then operating grants and contributions. At the end of the 2008-09 fiscal year, total revenue for the governmental activities was \$39,177,106 an increase of \$1,647,576 from the prior fiscal year. The increase from the prior year was primarily due to an increase in property tax increment revenue. Property tax increment revenue increased \$2,910,904 over the prior year as a result of increased assessed property valuations. Property taxes are based on the assessed value of property. Any increases in assessed property values tend to increase property tax increments. Total current year assessed valuations increased approximately 6.8 percent over the prior year. This increase in revenue, however, was offset by a decrease of \$1,185,582 in interest income from the prior year due to the lower interest rates.

Expenses: Total expenses for governmental activities were \$19,411,279. The Agency's expenses were spent for tax pass-throughs, redevelopment project costs, interest expense, and general government costs. The net decrease of \$3,527,086 from the prior fiscal year was primarily due to lower redevelopment project costs.

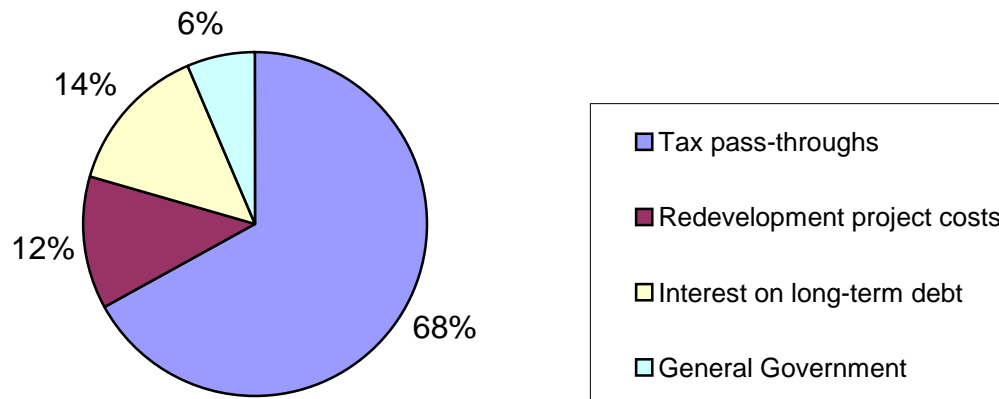
The following table and charts summarize information from the Statement of Activities:

CHANGES IN NET ASSETS		
	Governmental Activities	
	For the Year Ended June 30, 2009	For the Year Ended June 30, 2008
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 312,262	\$ 316,706
General revenues:		
Property tax increments	34,903,954	31,993,050
Interest income	3,197,757	4,383,339
Miscellaneous	763,133	836,435
Total revenues	39,177,106	37,529,530
Expenses:		
Tax pass-throughs	12,988,113	10,895,475
Interest on long-term debt	2,759,157	2,832,098
Redevelopment project costs	2,413,586	8,165,561
General government	1,250,423	1,045,231
Total expenses	19,411,279	22,938,365
Change in net assets	19,765,827	14,591,165
Net assets - beginning of the year	66,417,402	51,826,237
Net assets - end of the year	\$ 86,183,229	\$ 66,417,402

Revenue by Sources - Governmental Activities



Expenses - Governmental Activities



FUND FINANCIAL ANALYSIS

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

Governmental Funds

Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Such information is useful in assessing the Agency's financial requirements. The governmental funds

reported by the Agency are OCDA Public Assistance, NDAPP/SAH Debt Service, and Redevelopment Construction.

At June 30, 2009, the Agency's governmental funds reported combined fund balances of \$137,594,031, an increase of \$17,536,057 compared to the prior year. Of the total fund balances for the governmental funds, \$28,404,862 constitutes unreserved fund balance. The remainder of fund balance is reserved for the particular 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 reserved for specific redevelopment projects within their project areas.

OCDA Public Assistance fund has a total fund balance of \$41,034,664. 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 California Redevelopment Law, 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 \$60,488,061, an increase of \$11,842,545, from the prior year, all of which is reserved for the payment of debt service.

The Redevelopment Construction fund has a total fund balance of \$36,071,306, of which \$7,666,444 is reserved for long-term receivable, land and improvements held for resale and revitalization projects. A decrease of \$63,611 in fund balance during the current year was primarily due to a lower estimated net realizable value in land and improvements held for resale.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's investment in capital assets for its governmental activities as of June 30, 2009, amounted to \$294,914, 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. Current projects this year include Granite Court Apartments, and Summercrest Apartments. Commitments for these projects totaled \$1,882,386 at year-end.

Additional information about the Agency's capital assets can be found in Note 6 to the financial statements.

Debt Administration

At June 30, 2009, the Agency had total long-term debt outstanding of \$52,304,544. The outstanding debt is comprised of \$31,250,000 (Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003 – Santa Ana Heights), and \$21,430,000 (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 \$2,535,000 on the outstanding bonds. The 2001 NDAPP bonds are rated "A" by Standard & Poor's and "A2" by Moody's Investors Service; the bonds are insured by MBIA Insurance Corporation. The 2003 Santa Ana Heights bonds are "Not Rated" by Standard and Poor's and 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 - \$165,221,402, 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 26 x4 – Redirects Redevelopment Property Tax Increment Revenue to K-12

On July 28, 2009, the State Legislature adopted Assembly Bill 26 4x (AB 26). It requires local redevelopment agencies to shift funds to a new County Supplemental Educational Revenue Augmentation Fund (SERAF). The purpose of the SERAF is to distribute redevelopment funds to K-12 school districts or to a county office of education that are located partially or entirely within any project area of the agency in an amount proportional to the average daily attendance of each school district. AB 26 further requires local redevelopment agencies to make SERAF shifts during both FY 2009-10 and 2010-11. Per the California Department of Finance (DOF), OCDA's SERAF shift for FY 2009-10 has been calculated to be \$8,796,987. For FY 2010-11 the DOF has not released official figures, however, OCDA has estimated the transfer to be approximately \$1.8 million. However, the details of how the amount will be allocated between the project areas and how the countywide budget will be adjusted have yet to be determined. Additionally, OCDA has sufficient funds available to make both SERAF payments without impacting existing programs or projects.

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, CA 92706.

ORANGE COUNTY DEVELOPMENT AGENCY
Statement of Net Assets and Governmental Funds Balance Sheet
June 30, 2009

	Governmental Funds			Total	Adjustments (Note 12)	Statement of Net Assets
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction			
<u>Assets</u>						
Pooled cash and investments (Note 3)	\$ 24,060,167	\$ 68,469,860	\$ 32,788,744	\$ 125,318,771	\$ -	\$ 125,318,771
Restricted assets - cash and investments with trustee (Note 3)	-	3,002,106	-	3,002,106	-	3,002,106
Property tax increment receivable	-	1,732,479	-	1,732,479	-	1,732,479
Due from other Agency funds (Note 4)	4,647,636	-	-	4,647,636	(4,647,636)	-
Due from other County funds	7,598	-	16,435	24,033	-	24,033
Due from other Governmental Agencies	23,102	-	-	23,102	-	23,102
Interest receivable	64,827	183,169	91,401	339,397	-	339,397
Notes receivable	12,235,223	-	3,773,918	16,009,141	-	16,009,141
Land and improvements held for resale, net (Note 5)	-	-	598,456	598,456	-	598,456
Deposits with County airport (Note 10)	-	-	94,628	94,628	-	94,628
Bond issuance costs	-	-	-	-	1,270,175	1,270,175
Capital assets, nondepreciable (Note 6)	-	-	-	-	210,830	210,830
Capital assets, depreciable, net (Note 6)	-	-	-	-	84,084	84,084
Total assets	<u>\$ 41,038,553</u>	<u>\$ 73,387,614</u>	<u>\$ 37,363,582</u>	<u>\$ 151,789,749</u>	<u>\$ (3,082,547)</u>	<u>\$ 148,707,202</u>

ORANGE COUNTY DEVELOPMENT AGENCY
Statement of Net Assets and Governmental Funds Balance Sheet
June 30, 2009

	Governmental Funds			Total	Adjustments (Note 12)	Statement of Net Assets
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction			
<u>Liabilities</u>						
Liabilities						
Current liabilities:						
Accounts payable	\$ -	\$ -	\$ 1,251,939	\$ 1,251,939	\$ -	\$ 1,251,939
Bond interest payable	-	-	-	-	855,195	855,195
Due to other Agency funds (Note 4)	-	4,647,636	-	4,647,636	(4,647,636)	-
Due to other County funds	3,889	357,152	15,337	376,378	-	376,378
Due to other governmental agencies	-	7,561,413	-	7,561,413	-	7,561,413
Development deposits	-	-	25,000	25,000	-	25,000
Deferred revenues	-	333,352	-	333,352	(183,848)	149,504
Bonds payable, net (Note 7)	-	-	-	-	2,577,126	2,577,126
Total current liabilities	<u>3,889</u>	<u>12,899,553</u>	<u>1,292,276</u>	<u>14,195,718</u>	<u>(1,399,163)</u>	<u>12,796,555</u>
Noncurrent liabilities:						
Bonds payable, net (Note 7)	-	-	-	-	49,727,418	49,727,418
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,727,418</u>	<u>49,727,418</u>
Total liabilities	<u>3,889</u>	<u>12,899,553</u>	<u>1,292,276</u>	<u>14,195,718</u>	<u>48,328,255</u>	<u>62,523,973</u>
<u>Fund Balances/Net Assets</u>						
Fund balances:						
Reserved for:						
Reserved for long-term receivables	12,235,223	-	3,773,918	16,009,141	(16,009,141)	-
Reserved for land and improvements held for resale	-	-	598,456	598,456	(598,456)	-
Reserved for debt service	-	60,488,061	-	60,488,061	(60,488,061)	-
Reserved for low and moderate - income housing	28,799,441	-	-	28,799,441	(28,799,441)	-
Unreserved, Designated for:						
Designated for revitalization projects	-	-	3,294,070	3,294,070	(3,294,070)	-
Unreserved, Undesignated for:						
Capital projects fund	-	-	28,404,862	28,404,862	(28,404,862)	-
Total fund balances	<u>41,034,664</u>	<u>60,488,061</u>	<u>36,071,306</u>	<u>137,594,031</u>	<u>(137,594,031)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 41,038,553</u>	<u>\$ 73,387,614</u>	<u>\$ 37,363,582</u>	<u>\$ 151,789,749</u>	<u>\$ (89,265,776)</u>	
Net assets:						
Invested in capital assets					294,914	294,914
Restricted for public assistance and SAH acoustical insulation program					41,129,292	41,129,292
Unrestricted					44,759,023	44,759,023
Total net assets					<u>\$ 86,183,229</u>	<u>\$ 86,183,229</u>

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, 2009

	Governmental Funds				Adjustments (Note 12)	Statement of Activities
	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction	Total		
Expenditures/expenses:						
General Government	\$ 35,746	\$ 58,914	\$ 1,155,763	\$ 1,250,423	\$ -	\$ 1,250,423
Redevelopment project costs	266,330	391,838	1,745,428	2,403,596	9,990	2,413,586
Tax pass-throughs (Note 8)	-	12,988,113	-	12,988,113	-	12,988,113
Debt Service:						
Principal	-	2,535,000	-	2,535,000	(2,535,000)	-
Interest on long-term debt	-	2,609,034	-	2,609,034	150,123	2,759,157
Total expenditures/expenses	<u>302,076</u>	<u>18,582,899</u>	<u>2,901,191</u>	<u>21,786,166</u>	<u>(2,374,887)</u>	<u>19,411,279</u>
Program revenues:						
Operating grants and contributions	-	312,262	-	312,262	-	312,262
Net program revenues						<u>19,099,017</u>
General revenues:						
Property tax increments	-	35,049,071	-	35,049,071	(145,117)	34,903,954
Interest income	765,157	1,554,211	878,389	3,197,757	-	3,197,757
Miscellaneous revenue	117,001	136,941	509,191	763,133	-	763,133
Total general revenues	<u>882,158</u>	<u>36,740,223</u>	<u>1,387,580</u>	<u>39,009,961</u>	<u>(145,117)</u>	<u>38,864,844</u>
Other financing sources (uses)/changes in net assets:						
Transfers-internal activities (Note 9)	5,177,041	(6,627,041)	1,450,000	-	-	-
Net change in fund balances	5,757,123	11,842,545	(63,611)	17,536,057	(17,536,057)	-
Change in net assets	-	-	-	-	19,765,827	19,765,827
Fund balances/net assets:						
Beginning of the year	35,277,541	48,645,516	36,134,917	120,057,974	(53,640,572)	66,417,402
End of the year	<u>\$ 41,034,664</u>	<u>\$ 60,488,061</u>	<u>\$ 36,071,306</u>	<u>\$ 137,594,031</u>	<u>\$ (51,410,802)</u>	<u>\$ 86,183,229</u>

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, 2009

	OCDA Public Assistance			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Interest income	\$ 700,000	\$ 700,000	\$ 765,157	\$ 65,157
Miscellaneous revenue	-	-	117,001	117,001
Total revenues	<u>700,000</u>	<u>700,000</u>	<u>882,158</u>	<u>182,158</u>
Expenditures:				
Low and moderate-income housing:				
Administrative costs	220,000	224,086	35,746	188,340
Redevelopment project costs	28,897,001	28,402,276	266,330	28,135,946
Total expenditures	<u>29,117,001</u>	<u>28,626,362</u>	<u>302,076</u>	<u>28,324,286</u>
Excess (deficiency) of revenues over expenditures	<u>(28,417,001)</u>	<u>(27,926,362)</u>	<u>580,082</u>	<u>28,506,444</u>
Other financing sources (uses):				
Transfers in	6,519,567	6,519,567	6,718,071	198,504
Transfers out	(1,541,031)	(1,541,031)	(1,541,030)	1
Total other financing sources (uses)	<u>4,978,536</u>	<u>4,978,536</u>	<u>5,177,041</u>	<u>198,505</u>
Net change in fund balances	<u>\$ (23,438,465)</u>	<u>\$ (22,947,826)</u>	<u>5,757,123</u>	<u>\$ 28,704,949</u>
Fund balance, beginning of year			<u>35,277,541</u>	
Fund balance, end of year			<u>\$ 41,034,664</u>	

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

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

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

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 the following redevelopment projects:

The Santa Ana Heights Project (“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 (“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

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

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 Fund is used to account for the 20% portion of tax increment revenues legally required to be set aside for low and moderate-income housing.

NDAPP/SAH Debt Service Fund is used to account for tax increment revenues, interest income on invested funds, and bond proceeds required to be set aside for future debt service. The fund is used primarily to account for the repayment of principal and interest on long-term indebtedness of the Agency.

Redevelopment Construction Fund is used to account for bond proceeds available for project improvements, interest income on invested funds and certain other income. The fund's expenditures are primarily for general government administrative and redevelopment project costs.

Notes Receivable

Notes receivable are loans made for the development of low-income affordable housing projects or for property improvements in redevelopment project areas. These receivables are collateralized by deeds of trust. These loans are offset by a fund balance reserve, which indicates that they do not constitute available spendable resources.

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

Note 2 –Summary of Significant Accounting Policies (continued)

Land and Improvements Held for Resale

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

Capital Assets

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

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

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

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

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

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

Tax Increment Revenue

The Redevelopment Law provides a 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.

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

The following are significant dates on the property tax calendar:

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

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

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.

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, 2009, 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 227 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, 2009, cash and investments of the Agency are summarized as follows:

Cash and investments pooled by the County Treasurer	\$ 125,318,771
Investments held by trustee:	
Money market mutual funds	3,002,106
Total	<u>\$ 128,320,877</u>

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

Note 3 – Cash and Investments (continued)

Investment Disclosures

As of June 30, 2009, the major classes of Agency’s investments consisted of the following:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Investment Pool	<u>\$ 125,318,771</u>	\$ -			0.62
Restricted Investment with Trustee:					
Mutual Funds	<u>3,002,106</u>	<u>3,002,106</u>	Variable	On Demand	-
Total Restricted Investment with Trustee	<u>\$ 3,002,106</u>	<u>\$ 3,002,106</u>			
Portfolio Weighted Average Maturity:					0.61

On November 7, 2008, Moody’s Investors Service downgraded the insurance financial strength of MBIA Insurance Corporation (MBIA) to Baa1. The downgrade resulted in the County exercising its option to terminate the MBIA investment agreements for Orange County Development Agency (OCDA) Santa Ana Heights Series 2003. At the direction of the County, principal plus unpaid accrued interest was returned to the bank trustee and invested in money market funds.

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, 2009, the WAM for the Pool approximated 227 days.

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”.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

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, 2009 (NR denotes Not Rated):

	S&P	Moody's	Fitch	% of Portfolio
County Investment Pool	NR	AAA / MR1	NR	97.66%
Mutual Funds	AAAm	NR	NR	2.34%
				100.00%

Refer to Note 14, Subsequent Events, for additional discussion.

Note 4 – Interfund Receivables and Payables

Interfund receivables and payables at June 30, 2009 are as follows:

	Due from other funds	Due to other funds
OCDA Public Assistance Fund	\$ 4,647,636	\$ -
NDAPP/SAH Debt Service Fund	-	4,647,636
Total	\$ 4,647,636	\$ 4,647,636

The payable balance from the NDAPP/SAH Debt Service Fund of \$4,647,636 consists of an estimate of the annual 20% Low/Mod Set Aside transfer required to the OCDA Public Assistance Fund.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

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, 2009, the cost of land and improvements is \$1,171,694 with an estimated net realizable value of \$598,456, therefore; this asset is recorded at \$598,456.

There were no OCDA land parcels sold during the year. The Agency has reserved fund balances for the net balance of land and improvements held for resale at June 30, 2009, to indicate that these assets are not available as spendable resources.

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:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets, nondepreciable:				
Land	\$ 210,830	\$ -	\$ -	\$ 210,830
Total capital assets, nondepreciable	210,830	-	-	210,830
Capital assets, depreciable:				
Structures and improvements	183,984	-	-	183,984
Total capital assets, depreciable	183,984	-	-	183,984
Less accumulated depreciation:				
Structures and improvements	(89,910)	(9,990)	-	(99,900)
Total capital assets depreciated, net	94,074	(9,990)	-	84,084
Total capital assets, net	<u>\$ 304,904</u>	<u>\$ (9,990)</u>	<u>\$ -</u>	<u>\$ 294,914</u>

Depreciation expense of \$9,990 for the current year was charged to the Redevelopment Projects function.

Commitments related to current construction projects totaled \$1,882,386 at year-end.

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

Note 7 – Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2009:

	Balance July 1, 2008	Issuances, Premiums, Deferred Amounts on Refundings and Accretions	Retirements	Balance June 30, 2009	Due Within One Year
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003-SAH	\$ 32,700,000	\$ -	\$ (1,450,000)	\$ 31,250,000	\$ 1,495,000
Bond premium on Tax Allocation Refunding Bonds, Series 2003-SAH	1,518,533	(45,835)	-	1,472,698	103,633
Deferred amount on refunding (1993 Orange County Development Agency Revenue Bonds)	(1,420,294)	91,632	-	(1,328,662)	(91,632)
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001-NDAPP	22,515,000	-	(1,085,000)	21,430,000	1,125,000
Bond premium on Tax Allocation Refunding Bonds, Series 2001- NDAPP	258,791	(10,025)	-	248,766	-
Deferred amount on refunding (1992 Orange County Development Agency Revenue Bonds)	(823,133)	54,875	-	(768,258)	(54,875)
Total long-term liabilities:	<u>\$ 54,748,897</u>	<u>\$ 90,647</u>	<u>\$ (2,535,000)</u>	<u>\$ 52,304,544</u>	<u>\$ 2,577,126</u>

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, 2009 is \$31,250,000. For FY 2008-09, principal and interest paid and total tax increment revenues were \$2,969,753 and \$14,072,863, respectively.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 7 – Long-Term Liabilities (continued)

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

The Agency issued these bonds on July 11, 2001, in the original principal amount of \$26,160,000 at a premium of \$326,700. A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease \$26,140,000 of the \$27,072,000 outstanding NDAPP Series A 1992 Tax Allocation Revenue Bonds. The NDAPP Refunding Bonds, payable through September 2022, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Neighborhood Development and Preservation Project Area. The bonds are due in annual principal installments ranging from \$280,000 to \$2,005,000 beginning September 1, 2002 through 2022, at interest rates ranging from 4.00% to 5.50%. The principal amount outstanding at June 30, 2009 is \$21,430,000. For FY 2008-09, principal and interest paid and total tax increment revenues were \$2,174,281 and \$20,976,208, respectively.

The annual requirements to amortize outstanding bonds included in the Statement of Net Assets as of June 30, 2009, including interest, are as follows:

Years Ending June 30	2003 Tax Allocation Bonds		2001 Tax Allocation Bonds Series A	
	Principal	Interest	Principal	Interest
2010	\$ 1,495,000	\$ 1,468,103	\$ 1,125,000	\$ 1,045,081
2011	1,555,000	1,403,215	1,175,000	998,494
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
2015-2019	10,105,000	4,595,550	7,855,000	2,901,681
2020-2024	13,010,000	1,638,816	7,430,000	736,000
Total	\$ 31,250,000	\$ 12,905,305	\$ 21,430,000	\$ 8,315,547

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 - \$165,221,402, 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).

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

Note 9 – Transfers In/Out

Transfers include the 20% set-aside for low and moderate-income housing and the transfer of Agency tax increment revenue. The amount transferred to the OCDA Public Assistance Fund from the NDAPP/SAH Debt Service Fund for low and moderate-income housing was \$6,718,071. These transfers provide for future project improvements and rehabilitation for the redevelopment projects. In addition, the OCDA Public Assistance Fund transferred to the NDAPP/SAH Debt Service Fund \$1,541,030 to meet the debt service requirements of these projects.

Note 10 – Deposits with County Airport

The Agency deposited monies with John Wayne Airport (Airport), a department of the County, for purposes of funding the Acoustical Insulation Project and the Purchase Assurance Program in the Santa Ana Heights area near the Airport. The Airport on behalf of the Agency administers the programs. These monies were deposited by the Airport in the Orange County Treasurer's Pool in the Airport's name on behalf of the Agency.

Note 11 – Related Party Transactions

The Agency reimbursed a total of \$2,009,698 to various County departments who administer various functions/areas of the Agency and they are as follows:

OC Community Services (OCCS) is responsible for affordable housing projects and activities within the NDAPP project area including housing rehabilitation, public works improvements, and some administrative tasks. OC Public Works (OCPW) is responsible for activities within the SAH project area including staffing the SAH Project Advisory Committee meetings, various public works type projects and community relations activities. Following the reorganization of the CEO's office, OCCS is now also responsible for overall Agency administration and policy.

John Wayne Airport is responsible for the Acoustical Insulation program in SAH. County Counsel provides legal support on a variety of issues. OCPW acts as project manager on most public works type projects. OCPW Corporate Real Estate provides projects support on real estate issues.

Note 12 – 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 \$1,270,175 are not included in the fund financial statements but are included in the statement of net assets because Government-wide statements focus on economic resources and require these assets to be included.

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

Note 12 – Adjustments Between Fund Financial Statements and Government-Wide Financial Statements (continued)

Capital Assets

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

Land	\$ 210,830
Structures and improvements	183,984
Accumulated depreciation	<u>(99,900)</u>
Total capital assets, net	<u><u>\$ 294,914</u></u>

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 \$183,848 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	\$ 2,577,126
Bonds payable, net - noncurrent	49,727,418
Accrued interest payable on bonds	855,195

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

Long-Term Liabilities

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

Bond principal payments	\$ 2,535,000
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

Note 12 – 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 \$9,990.

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	\$ 150,123
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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 \$(145,117) in the statement of activities reflects the change in the deferred revenue accounts related to collected, delinquent property taxes.

Note 13 – New Accounting Pronouncements

The following lists recent GASB pronouncements implemented in FY 2008-09:

GASB issued Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations.*” This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with cleanup efforts in the notes to the financial statements. GASB Statement No. 49 was effective for financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. The Agency does not have liabilities related to pollution remediation.

GASB issued Statement No. 52, “*Land and Other Real Estate Held as Investments by Endowments.*” This statement provides reporting standards for land and other real estate held as investments by endowments. It requires endowments to report their land and other real estate investments at fair value. The Agency does not own any land and other real estate held as Investments by Endowments.

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

Note 13 – New Accounting Pronouncements (continued)

In March 2009, GASB issued Statement No. 55, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*” This statement incorporates the hierarchy of GAAP for state and local governments into the GASB authoritative literature. The goal of this statement is to enhance financial reporting by contributing to the GASB’s efforts to codify all GAAP for state and local governments so that they derive from a single source. The requirements of this statement are effective upon issuance.

In March 2009, GASB issued Statement No. 56, “*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.*” This statement incorporates certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ (AICPA) Statements on Auditing Standards into the GASB. The objective of this statement is to enhance financial reporting by contributing to the GASB’s efforts to codify all sources of GAAP so that they derive from a single source. The requirements of this statement are effective upon issuance.

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

In June 2007, GASB issued Statement No. 51, “*Accounting and reporting for Intangible Assets.*” This statement establishes criteria for an intangible asset, accounting and reporting treatment, internally generated intangible assets, and amortization of an asset. Examples of such assets include easements, water rights, timber rights, patents, trademarks, and computer software. The statement also requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2009, which requires the Agency to implement this statement in FY 2009-10.

In June 2008, GASB issued Statement No. 53, “*Accounting and Financial Reporting for Derivative Instruments.*” This statement addresses how state and local governments should recognize, measure, and disclose information regarding derivative instruments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Examples of derivative instruments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2009, which requires the Agency to implement this statement in FY 2009-10. The County Treasurer’s Investment Policy Standards prohibits the purchase of derivative instruments as investments in the County’s investment pools and the Public Financing Advisory Committee policy prohibits derivative debt instruments.

In March 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. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2010, which requires the Agency to implement this statement in FY 2009-10.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009 (CONTINUED)**

Note 14 – Subsequent Event

The following events occurred subsequent to June 30, 2009:

Assembly Bill 26 x4 – Redirects Redevelopment Property Tax Increment Revenue to K-12: On July 28, 2009, the State Legislature adopted Assembly Bill 26 4x (AB 26). It requires local redevelopment agencies to shift funds to a new County Supplemental Educational Revenue Augmentation Fund (SERAF). The purpose of the SERAF is to distribute redevelopment funds to K-12 school districts or to a county office of education that are located partially or entirely within any project area of the agency in an amount proportional to the average daily attendance of each school district. AB 26 further requires local redevelopment agencies to make SERAF shifts during both FY 2009-10 and 2010-11. Per the California Department of Finance (DOF), OCDA's SERAF shift for FY 2009-10 has been calculated to be \$8,796,987. For FY 2010-11 the DOF has not released official figures, however, OCDA has estimated the transfer to be approximately \$1.8 million. However, the details of how the amount will be allocated between the project areas and how the countywide budget will be adjusted have yet to be determined. Additionally, OCDA has sufficient funds available to make both SERAF payments without impacting existing programs or projects.

County Investment Pool Rating: The Treasury Oversight Committee established in December 1995, which consists of the elected County Auditor-Controller, the County Executive Officer, the elected County Superintendent of Schools, one special district representative member, and one member from the public sector appointed by the Board of Supervisors, conducts Treasury oversight. On December 1, 2008 Standard and Poors Rating Services assigned an AAAM Principal Stability Fund Rating to the Orange County Money Market Fund and the Orange County Educational Money Market Fund. The Pools are not registered with the SEC. On July 16, 2009, at the request of the County as approved by the Treasury Oversight Committee, Moody's Investors Service withdrew their ratings assigned to the Orange County Investment Pool and Orange County Educational Investment Pool. Moody's previous rating occurred as of June 26, 2008, at which time they affirmed their Aaa/MR1 ratings assigned to the Pools.

ORANGE COUNTY DEVELOPMENT AGENCY
NDAPP/SAH Debt Service Fund
Combining Balance Sheet by Project Area
June 30, 2009

	Santa Ana Heights	NDAPP	Total
	<u> </u>	<u> </u>	<u> </u>
<u>Assets</u>			
Pooled cash and investments	\$ 17,364,194	\$ 51,105,666	\$ 68,469,860
Restricted assets - cash and investments with trustee	3,002,072	34	3,002,106
Property tax increment receivable	286,043	1,446,436	1,732,479
Interest receivable	45,353	137,816	183,169
Total assets	<u>\$ 20,697,662</u>	<u>\$ 52,689,952</u>	<u>\$ 73,387,614</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other Agency funds	\$ 2,612,095	\$ 2,035,541	\$ 4,647,636
Due to other County funds	208,025	149,127	357,152
Due to other governmental agencies	9,828	7,551,585	7,561,413
Deferred revenues	127,622	205,730	333,352
Total liabilities	<u>2,957,570</u>	<u>9,941,983</u>	<u>12,899,553</u>
 Fund balances:			
Reserved for debt service	17,740,092	42,747,969	60,488,061
Total fund balances	<u>17,740,092</u>	<u>42,747,969</u>	<u>60,488,061</u>
Total liabilities and fund balances	<u>\$ 20,697,662</u>	<u>\$ 52,689,952</u>	<u>\$ 73,387,614</u>

ORANGE COUNTY DEVELOPMENT AGENCY
NDAPP/SAH Debt Service Fund
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances by Project Area
For the Year Ended June 30, 2009

	<u>Santa Ana Heights</u>	<u>NDAPP</u>	<u>Total</u>
Revenues:			
Property tax increments	\$ 14,072,863	\$ 20,976,208	\$ 35,049,071
Interest income	533,860	1,020,351	1,554,211
Operating grants and contributions	30,951	281,311	312,262
Miscellaneous revenue	79,556	57,385	136,941
	<u>14,717,230</u>	<u>22,335,255</u>	<u>37,052,485</u>
Expenditures:			
General government:			
Administrative costs	14,707	44,207	58,914
Redevelopment project costs:			
Professional services	154,424	237,414	391,838
Tax pass-throughs	3,045,691	9,942,422	12,988,113
Debt service:			
Principal	1,450,000	1,085,000	2,535,000
Interest	1,519,753	1,089,281	2,609,034
	<u>6,184,575</u>	<u>12,398,324</u>	<u>18,582,899</u>
Excess (deficiency) of revenues over expenditures	<u>8,532,655</u>	<u>9,936,931</u>	<u>18,469,586</u>
Other financing sources (uses):			
Transfers in	242,332	1,298,698	1,541,030
Transfers out	(3,683,423)	(4,484,648)	(8,168,071)
Total other financing (uses)	<u>(3,441,091)</u>	<u>(3,185,950)</u>	<u>(6,627,041)</u>
Net change in fund balances	5,091,564	6,750,981	11,842,545
Fund balances, beginning of year	<u>12,648,528</u>	<u>35,996,988</u>	<u>48,645,516</u>
Fund balances, end of year	<u>\$ 17,740,092</u>	<u>\$ 42,747,969</u>	<u>\$ 60,488,061</u>

ORANGE COUNTY DEVELOPMENT AGENCY
Redevelopment Construction Fund
Combining Balance Sheet by Project Area
June 30, 2009

<u>Assets</u>	Santa Ana Heights	NDAPP	Total
	<hr/>	<hr/>	<hr/>
Pooled cash and investments	\$ 25,310,228	\$ 7,478,516	\$ 32,788,744
Due from other County funds	5,532	10,903	16,435
Notes receivable	1,000,000	2,773,918	3,773,918
Interest receivable	69,330	22,071	91,401
Land and improvements held for resale, net	598,456	-	598,456
Deposits with County Airport	94,628	-	94,628
Total assets	<hr/> <u>\$ 27,078,174</u>	<hr/> <u>\$ 10,285,408</u>	<hr/> <u>\$ 37,363,582</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 1,250,000	\$ 1,939	\$ 1,251,939
Due to other County funds	14,129	1,208	15,337
Development deposits	25,000	-	25,000
Total liabilities	<hr/> <u>1,289,129</u>	<hr/> <u>3,147</u>	<hr/> <u>1,292,276</u>
Fund balances:			
Reserved for:			
Reserved for long-term receivables	1,000,000	2,773,918	3,773,918
Reserved for land and improvements held for resale	598,456	-	598,456
Unreserved, Designated for:			
Designated for revitalization projects	2,544,070	750,000	3,294,070
Unreserved - undesignated	21,646,519	6,758,343	28,404,862
Total fund balances	<hr/> <u>25,789,045</u>	<hr/> <u>10,282,261</u>	<hr/> <u>36,071,306</u>
Total liabilities and fund balances	<hr/> <u>\$ 27,078,174</u>	<hr/> <u>\$ 10,285,408</u>	<hr/> <u>\$ 37,363,582</u>

ORANGE COUNTY DEVELOPMENT AGENCY
Redevelopment Construction Fund
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances by Project Area
For the Year Ended June 30, 2009

	Santa Ana Heights	NDAPP	Total
Revenues:			
Interest income	\$ 638,291	\$ 240,098	\$ 878,389
Miscellaneous revenue	410,784	98,407	509,191
Total revenues	<u>1,049,075</u>	<u>338,505</u>	<u>1,387,580</u>
Expenditures:			
General government:			
Administrative costs	614,490	541,273	1,155,763
Redevelopment project costs:			
Professional services	93,134	8,645	101,779
Planning, survey and design	29,429	36,443	65,872
Project improvement costs	1,577,777	-	1,577,777
Total expenditures	<u>2,314,830</u>	<u>586,361</u>	<u>2,901,191</u>
Excess (deficiency) of revenues over expenditures	<u>(1,265,755)</u>	<u>(247,856)</u>	<u>(1,513,611)</u>
Other financing sources (uses):			
Transfers in	700,000	750,000	1,450,000
Total other financing sources (uses)	<u>700,000</u>	<u>750,000</u>	<u>1,450,000</u>
Net change in fund balances	(565,755)	502,144	(63,611)
Fund balances, beginning of year	<u>26,354,800</u>	<u>9,780,117</u>	<u>36,134,917</u>
Fund balances, end of year	<u>\$ 25,789,045</u>	<u>\$ 10,282,261</u>	<u>\$ 36,071,306</u>

ORANGE COUNTY DEVELOPMENT AGENCY
Budgetary Comparison Schedules
Capital Projects and Debt Service Funds - Budget and Actual
For the Year Ended June 30, 2009

	Redevelopment Construction				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	\$ -	\$ -	\$ -	\$ -	\$ 31,018,731	\$ 31,018,731	\$ 35,049,071	\$ 4,030,340
Interest income	1,232,000	1,264,393	878,389	(386,004)	1,638,465	1,638,465	1,554,211	(84,254)
Intergovernmental revenue	-	-	-	-	281,322	281,322	312,262	30,940
Miscellaneous revenue	-	-	509,191	509,191	98,866	98,866	136,941	38,075
Total revenues	<u>1,232,000</u>	<u>1,264,393</u>	<u>1,387,580</u>	<u>123,187</u>	<u>33,037,384</u>	<u>33,037,384</u>	<u>37,052,485</u>	<u>4,015,101</u>
Expenditures:								
General Government	8,041,620	6,643,797	1,155,763	5,488,034	5,750,184	19,007,061	58,914	18,948,147
Right of way	5,000	5,000	-	5,000	-	-	-	-
Real Estate	500,000	500,000	-	500,000	-	-	-	-
Redevelopment project costs	21,443,761	23,979,961	1,745,428	22,234,533	-	-	391,838	(391,838)
Pass-throughs	-	-	-	-	13,914,539	12,860,230	12,988,113	(127,883)
Debt service:								
Principal	-	-	-	-	2,535,000	2,535,000	2,535,000	-
Interest	-	-	-	-	2,609,035	2,609,035	2,609,034	1
Total expenditures	<u>29,990,381</u>	<u>31,128,758</u>	<u>2,901,191</u>	<u>28,227,567</u>	<u>24,808,758</u>	<u>37,011,326</u>	<u>18,582,899</u>	<u>18,428,427</u>
Excess (deficiency) of revenues over expenditures	<u>(28,758,381)</u>	<u>(29,864,365)</u>	<u>(1,513,611)</u>	<u>28,350,754</u>	<u>8,228,626</u>	<u>(3,973,942)</u>	<u>18,469,586</u>	<u>22,443,528</u>
Other financing sources (uses):								
Transfers in	1,450,000	1,450,000	1,450,000	-	1,541,031	1,541,031	1,541,030	(1)
Transfers out	-	(60,000)	-	60,000	(7,969,567)	(8,774,183)	(8,168,071)	606,112
Total other financing sources (uses)	<u>1,450,000</u>	<u>1,390,000</u>	<u>1,450,000</u>	<u>60,000</u>	<u>(6,428,536)</u>	<u>(7,233,152)</u>	<u>(6,627,041)</u>	<u>606,111</u>
Net change in fund balances	<u>\$ (27,308,381)</u>	<u>\$ (28,474,365)</u>	<u>(63,611)</u>	<u>\$ 28,410,754</u>	<u>\$ 1,800,090</u>	<u>\$ (11,207,094)</u>	<u>11,842,545</u>	<u>\$ 23,049,639</u>
Fund balances, beginning of year			<u>36,134,917</u>				<u>48,645,516</u>	
Fund balances, end of year			<u>\$ 36,071,306</u>				<u>\$ 60,488,061</u>	



**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 AUDIT GUIDELINES FOR CALIFORNIA
REDEVELOPMENT AGENCIES AND 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, Santa Ana, California (the Agency) a component unit of the County of Orange, California, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, Audit Oversight Committee, management, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Varrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 7, 2009