MSRB
Municipal Securities Rulemaking Board

Submission ID:EP639510
03/27/2014 13:10:05

CONTINUING DISCLOSURE (SUBMISSION STATUS: PUBLISHED)

FINANCIAL/OPERATING FILING (CUSIP-9 BASED)

Rule 15c2-12 Disclosure

Annual Financial Information and Operating Data: Orange County Development Agency Tax Allocation RFD Bonds (SAH), for the year ended 06/30/2013

DOCUMENTS

Financial Operating Filing

- OCDA Annual Rpt SAH FY 12-13 (Final).pdf posted 03/27/2014

THE FOLLOWING ISSUERS ARE ASSOCIATED WITH THIS CONTINUING DISCLOSURE SUBMISSION:

CUSIP-6	State	Issuer Name
684246	CA	ORANGE CNTY CALIF DEV AGY TAX ALLOCATION

THE FOLLOWING 37 SECURITIES HAVE BEEN PUBLISHED WITH THIS CONTINUING DISCLOSURE SUBMISSION:

CUSIP-9	Maturity Date
684246BK6	09/01/1994
684246BL4	09/01/1995
684246BM2	09/01/1996
684246BN0	09/01/1997
684246BP5	09/01/1998
684246BQ3	09/01/1999
684246BR1	09/01/2000
684246BS9	09/01/2001
684246BT7	09/01/2002
684246BU4	09/01/2003

684246BV2	09/01/2004
684246BW0	09/01/2005
684246BX8	09/01/2006
684246BY6	09/01/2007
684246BZ3	09/01/2008
684246CA7	09/01/2015
684246CB5	09/01/2023
684246CZ2	09/01/2004
684246DA6	09/01/2005
684246DB4	09/01/2006
684246DC2	09/01/2007
684246DD0	09/01/2008
684246DE8	09/01/2009
684246DF5	09/01/2010
684246DG3	09/01/2011
684246DH1	09/01/2012
684246DJ7	09/01/2013
684246DK4	09/01/2014
684246DL2	09/01/2015
684246DM0	09/01/2016
684246DN8	09/01/2017
684246DP3	09/01/2018
684246DQ1	09/01/2019
684246DR9	09/01/2020
684246DS7	09/01/2021
684246DT5	09/01/2022
684246DU2	09/01/2023

Issuer's Contact Information

Company: County of Orange
Name: LAURIE SACHAR
Address: 333 W. SANTA ANA BLVD.
City, State Zip: SANTA ANA, CA 92701
Phone Number: 7148346009
Email: laurie.sachar@ocgov.com

Obligor's Contact Information

FINAL REPORT
ALL BONDS WERE REDEEMED PURSUANT TO NOTICE FILED IN EMMA ON JANUARY 10, 2014

ORANGE COUNTY DEVELOPMENT AGENCY
TAX ALLOCATION REFUNDING BONDS
(SANTA ANA HEIGHTS PROJECT AREA)
SERIES 2003
ANNUAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2013

DATED MARCH 27, 2014

Prepared at the direction of and on behalf of:

County of Orange
10 Civic Center Plaza, Third Floor
Santa Ana, CA 92701-4062

Prepared by:

David Taussig & Associates, Inc.
5000 Birch Street, Suite 6000
Newport Beach, CA 92660

Orange County Development Agency
Tax Allocation Refunding Bonds
(Santa Ana Heights Project Area)
Series 2003
Annual Report
For Fiscal Year Ended June 30, 2013

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Introduction

The Orange County Development Agency (the "Agency") hereby provides its annual report (the "Annual Report") for the Fiscal Year ended June 30, 2013 in connection with the following Bonds:

Bond Issue:

Orange County Development Agency Tax Allocation Refunding Bonds (Santa Ana Heights Project Area), Series 2003 (the "Series 2003 Tax Allocation Refunding Bonds").

Annual Report:

The Agency's Annual Report as defined by the Continuing Disclosure Certificate (the "Disclosure Certificate") with respect to the Series 2003 Tax Allocation Refunding Bonds for the Fiscal Year ended June 30, 2013 is attached hereto.

Other Matters:

This Annual Report is provided solely for the purposes of the Disclosure Certificate. The filing of this Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the Agency or the Series 2003 Tax Allocation Refunding Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the Fiscal Year to which this Report relates (other than as contained in this Annual Report), or that no other information exists, which may have a bearing on the Agency's financial condition, the security for the Series 2003 Tax Allocation Refunding Bonds, or an investor's decision to buy, sell, or hold the Series 2003 Tax Allocation Refunding Bonds. The information contained in this Report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Annual Report should be construed as a prediction or representation about future financial performance of the Agency.

Section 4 of the Continuing Disclosure Agreement

A. Audited Financial Statements For Fiscal Year Ended June 30, 2013.

See Attachment A.

B. Principal Amount of Bonds Outstanding

$24,875,000

C. Update of financial information and operating data relating to the Santa Ana Heights Project Area for the most recently ended Fiscal Year of the type included in Tables 2, 3, and 5 of the Official Statement:

Table 2 - "Historical Aircraft Assessments"

Table 2
OCDA Tax Allocation Refunding Bonds Series 2003 (Santa Ana Heights Project Area)
Historical Aircraft Assessments

Unsecured Roll Year	Commercial Aircraft Value	Percent Change	Total Unsecured Roll	Percent of Project Area Unsecured Roll	Total AV	Percent of Project Area Total AV
2009-10	$415,236,254	-9.11%	$662,671,838	62.66%	$1,514,803,538	27.41%
2010-11	$452,011,545	8.86%	$612,962,648	73.74%	$1,377,769,404	32.81%
2011-12	$386,614,387	-14.47%	$535,260,521	72.23%	$1,300,731,939	29.72%
2012-13	$384,116,291	-0.65%	$511,842,287	75.05%	$1,324,329,197	29.00%
2013-14	$382,116,993	-0.52%	$452,217,717	84.50%	$1,336,998,588	28.58%

Source: Orange County Assessor's Office

Table 3 - "Ten Largest Secured and Unsecured Taxpayers by Assessed Valuation"

Table 3
OCDA Tax Allocation Refunding Bonds Series 2003
(Santa Ana Heights Project Area)
Ten Largest Secured and Unsecured Taxpayers by Assessed Valuation

	Property Owner	Type of Value	FY 2013-14 Assessed Value	Percent of Total Assessed Value
1	Southwest Airlines Co.	Unsecured / Commercial	$126,242,230	9.44%
2	100 Bayview LLC	Commercial	$98,843,877	7.39%
3	American Airlines Inc.	Unsecured / Commercial	$87,102,397	6.51%
4	SK Hart Bayview LLC	Commercial	$54,790,078	4.10%
5	United Airlines Inc.	Unsecured / Commercial	$42,750,473	3.20%
6	Alaska Airlines Inc.	Unsecured / Commercial	$37,523,150	2.81%
7	Delta Airlines Inc.	Unsecured / Commercial	$33,325,509	2.49%
8	De Marco, James R TR Goelete Trust	Multi Family Residential	$29,314,732	2.19%
9	Continental Airlines Inc.	Unsecured / Commercial	$27,554,830	2.06%
10	HMH Properties Inc.	Commercial	$23,735,880	1.78%
		Subtotal	**$561,183,156**	**41.97%**
		FY 2013-14 Total Assessed Value	**$1,336,998,588**	

Source: Orange County Assessor's Office

Table 5 - "Historical Assessed Values and Tax Increment Revenues"

Table 5
Orange County Development Agency
Santa Ana Heights Redevelopment Agency
Historical Assessed Valuations and Tax Increment Revenue

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
ASSESSED VALUES (1)					
Secured	$ 852,131,700	$ 764,806,756	$ 765,471,418	$ 812,486,910	$ 884,780,871
Unsecured	$ 662,671,838	$ 612,962,648	$ 535,260,521	$ 511,842,287	$ 452,217,717
TOTAL	$ 1,514,803,538	$ 1,377,769,404	$ 1,300,731,939	$ 1,324,329,197	$ 1,336,998,588
Change over Prior Year	-1.79%	-9.05%	-5.59%	1.81%	0.96%
Less: Base Year	(226,651,538)	(226,651,538)	(226,651,538)	(226,651,538)	(226,651,538)
Incremental AV	$ 1,288,152,000	$ 1,151,117,866	$ 1,074,080,401	$ 1,097,677,659	$ 1,110,347,050
Change over Prior Year	-2.10%	-10.64%	-6.69%	2.20%	1.15%
ACTUAL REVENUES:					
Secured	$ 6,843,575	$ 5,851,229	$ 5,981,294	$ 6,734,993	
Unsecured	5,526,935	4,771,149	4,260,522	4,016,933	
Unitary Utility (2)	34,192	33,593	40,984	40,744	
Regulated Railroads	242	532	924	912	
Supplemental	(2,702)	52,617	48,014	43,742	
Homeowners	31,531	30,384	29,172	28,709	
Prior Secured	-				
Prior Supplemental	5,602	26,035	7,529	2,034	
Prior Unsecured	181,056	7,287	2,595	25,233	
Delinquency Revenue	173,822	165,762	107,322	95,622	
Interest Revenue	17,582	9,389	6,054	3,832	
County Admin Costs	(107,418)	(114,007)	(115,404)	(122,784)	
Actual Net Revenue (3)	$ 12,704,417	$ 10,833,971	$ 10,369,006	$ 10,869,970	
Housing Fund-Actual Revenue	$ 2,317,061	$ 1,946,328	$ 1,293,194	$ -	
Net Actual Revenue, less Housing	$ 10,387,356	$ 8,887,643	$ 9,075,812	$ 10,869,970	

1. County of Orange Auditor-Controller Annual Assessed Valuation Reports.

2. Unitary Utility revenue (AB454) as reported by the Orange County Auditor-Controller are included in the revenue disbursements.

3. Net of HSC 33676 Payments, Property Tax Administration Costs, Investment Expenses, and Interest on Unapportioned Taxes.

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

Source: Orange County Assessor's Office

D. Calculation of the Ratio of Tax Revenues Available to Pay Debt Service on the Bonds to Maximum Annual Debt Service on the Bonds Using Tax Revenues for the Most Recently Completed Fiscal Year:

Net Receipts	$6,615,436	223%
FY 12-13 Debt Service Pmt.	$2,965,353	

E. Information on Appeals by the Top Ten Taxpayers in the Santa Ana Heights Project Area, to the Extent Known by the Issuer After Inquiry to the County of Orange (to the Extent not Included in the Audited Financial Statements) is shown in Table 4 below.

OCDA Tax Allocation Refunding Bonds Series 2003 (Santa Ana Heights Project Area) Secured and Unsecured Assessment Appeal Summary Fiscal Year 2012-13		
Total Appeals on File		9
Withdrawn / Late / Denied		3
Appeals Stipulated / Reduced		3
Appeals Pending		3
Resolved Appeals Summary		
Assessor's Original Value		$103,659,893
Appeals Withdrawn	$6,754,130	
Appeals Reduced	$96,905,763	
Assessor's Reduction Granted		$79,400,000
Appeals Withdrawn	$0	
Appeals Reduced	$79,400,000	
% Reduction Granted		-23.40%
Pending Appeals Summary		
Assessor's Original Value		$188,557,337
Applicant Opinion of Value		$139,557,597
Requested Reduction of Value		$48,999,740
% Reduction Requested		-25.99%

Source: Orange County Clerk of the Board, as of February 24, 2014

ATTACHMENT A

ORANGE COUNTY REDEVELOPMENT SUCCESSOR AGENCY
AUDITED FINANCIAL STATEMENTS

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

Independent Auditor's Reports,
Financial Statements and Supplemental Information

For the Year Ended June 30, 2013

MGO Certified Public Accountants.

COUNTY OF ORANGE REDEVELOPMENT SUCCESSOR AGENCY
(A Private-Purpose Trust Fund of the County of Orange, California)
For the year ended June 30, 2013

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MGO Certified Public Accountants.

Newport Beach
4675 MacArthur Court, Suite 600
Newport Beach, CA 92660
949.221.0025

Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the County of Orange Redevelopment Successor Agency (Successor Agency), a private purpose trust fund of the County of Orange, California (the County), as of and for the year ended June 30, 2013, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Successor Agency, as of June 30, 2013, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Successor Agency and do not present fairly the financial position of the County as of June 30, 2013, and the changes in its financial position, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our report was not modified with respect to this matter.

As discussed in Note 12, the Successor Agency trust fund reported a deficit net position. The deficit resulted from the Due Diligence Review payments required by Assembly Bill 1484. Our report was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Successor Agency's financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014, on our consideration of the Successor Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2013. 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* in considering the Successor Agency's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Newport Beach, California
January 16, 2014

COUNTY OF ORANGE
REDEVELOPMENT SUCCESSOR AGENCY
Statement of Fiduciary Net Position
June 30, 2013

	Total
ASSETS	
Current assets:	
Pooled cash and investments (Note 3)	$ 11,824,408
Restricted assets - cash and investments with trustee (Note 3)	2,995,603
Due from other governmental agencies (Note 4)	2,300,623
Interest receivable	24,745
Land and improvements held for resale (Note 5)	618,477
Deposits with others (Note 6)	1,224,156
Bond issuance costs	88,442
Non-current asset:	
Bond issuance costs	827,963
Total assets	19,904,417
LIABILITIES	
Current liabilities:	
Bond interest payable	695,564
Due to other governmental agencies (Note 10)	2,399,979
Bonds payable, net (Note 7)	3,210,188
Noncurrent liabilities:	
Bonds payable (Note 7)	38,029,534
Total liabilities	44,335,265
NET POSITION	
Held in trust for other governments	$ (24,430,848)

See accompanying notes to financial statements.

COUNTY OF ORANGE
REDEVELOPMENT SUCCESSOR AGENCY
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2013

	Total
ADDITIONS:	
Interest	$ 152,768
Intergovernmental revenue	12,826,969
Use of property	74
Other revenue	436,897
Less: investment expense	(53,114)
Total additions	13,363,594
DEDUCTIONS:	
Services and supplies	14,879
Professional services	296,870
Tax pass-throughs (Note 8 and Note 14)	85,334,763
Interest on long-term debt	2,186,399
Total deductions	87,832,911
Extraordinary gain (Note 11)	2,300,623
Change in net position	(72,168,694)
Net position - June 30, 2012	47,737,846
Net position - June 30, 2013	$ (24,430,848)

See accompanying notes to financial statements.

Note 1 –Summary of Significant Accounting Policies

Reporting Entity

On January 24, 2012, the County elected to become the Successor Agency to the former Orange County Development Agency in accordance with AB 1X26 (Dissolution Act). An Oversight Board was appointed to oversee the dissolution process. A Private-Purpose Trust Fund, administered by the County of Orange, was established to account for the assets and liabilities of the Former OCDA.

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

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

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

Measurement Focus

Fiduciary fund financial statements are used to account for assets held in a trustee or agency capacity and cannot be used to support the County's own programs. Trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with operation of these funds are included on the statement of fiduciary net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Fiduciary Fund Financial Statements

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

Land and Improvements Held for Resale

Land and improvements transferred to the Successor Agency from the former OCDA and held for resale are recorded as an asset at the time of purchase. The property is carried at the lower of acquisition cost or estimated net realizable value.

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

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

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

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

Property Tax Revenue

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

Note 2 – County of Orange Bankruptcy

Background

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

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

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

Note 2 – County of Orange Bankruptcy (continued)

Impact of County Bankruptcy on the former OCDA

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

Impact of Legislation on County Bankruptcy

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

Effective February 1, 2012, the Orange County Development Agency (OCDA) was eliminated under the provisions of AB 1X 26. As a result of the elimination of OCDA, property tax revenues began being used to pay required payments on existing bonds, other obligations, and pass-through payments to local governments. However, since the County's Bankruptcy Recovery Plan predates AB 1X 26, no interruption to the existing payment schedules is anticipated. In addition, this obligation has been listed and approved by the Department of Finance on all applicable Recognized Obligation Payment Schedules (ROPS). The Successor Agency will continue to list this obligation on all future ROPS until 2016 when the obligation expires.

Note 3 – Cash and Investments

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

Pooled Cash and Investments

The County Treasurer maintains the County Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. At June 30, 2013, 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 372 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

Note 3 – Cash and Investments (continued)

exchange are valued at the last quoted sales price. Short-term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing. Interest is apportioned to individual funds based generally on the average daily balances on deposit with the County Treasurer.

Cash and Investments with Trustee

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

At June 30, 2013, cash and investments of the Successor Agency are summarized as follows:

Cash and investments pooled by the County Treasurer	$ 11,824,408
Investments held by trustee:	
Money market mutual funds	2,995,603
Total	$ 14,820,011

Investment Disclosures

As of June 30, 2013, the major classes of Successor Agency's investments consisted of the following:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Investment Pool	$ 11,824,408	$ -			1.02
Restricted Investment with Trustee:					
Money Market Mutual Funds	2,995,603	2,995,603	Variable	On Demand	-
Total Restricted Investment with Trustee	$ 2,995,603	$ 2,995,603			
Portfolio Weighted Average Maturity:					0.82

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, 2013, the WAM for the Pool approximated 372 days (1.020 years).

Note 3 – Cash and Investments (continued)

Custodial Credit Risk

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

Credit Risk

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

Note 4 – Due from other Governmental Agencies

Due from other governmental agencies in the amount of $2,300,623 represents the amount due to the Successor Agency from OC Parks 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, 2013, the cost of land and improvements is $1,171,694 with an estimated net realizable value of $618,477. There were no Successor Agency land parcels sold during the year.

Note 6 – Deposits with Others

Deposits with others in the amount of $1,224,156 represent an advance payment to the City of Newport Beach for the Santa Ana Heights pavement rehabilitation.

Note 7 - Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the period July 1, 2012 through June 30, 2013.

	Balance July 1, 2012	Additions	Issuances, Premiums, Deferred Amounts on Refundings and Accretions	Reductions	Balance June 30, 2013	Due Within One Year
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003-SAH	$ 26,575,000	$ -	$ -	(1,700,000)	$ 24,875,000	$1,760,000
Bond premium on Tax Allocation Refunding Bonds, Series 2003–SAH	1,104,333	-	19,125	-	1,123,458	-
Deferred amount on refunding (1993 Orange County Development Agency Revenue Bonds)	(1,053,767)	-	91,632	-	(962,135)	-
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001-NDAPP	17,910,000	-	-	(1,285,000)	16,625,000	1,340,000
Bond premium on Tax Allocation Refunding Bonds, Series 2001–NDAPP	124,278	-	2,878	-	127,156	110,188
Deferred amount on refunding (1992 Orange County Development Agency Revenue Bonds)	(603,632)	-	54,875	-	(548,757)	-
Total long-term liabilities:	$ 44,056,212	$ -	$ 168,510	$ (2,985,000)	$ 41,239,722	$ 3,210,188

<u>Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003 – Santa Ana Heights</u>

The former OCDA issued these bonds on November 13, 2003, in the original principal amount of $38,465,000 at a premium of $1,660,485. The proceeds of the bonds and other available monies were used to refund and defease the outstanding 1993 Tax Allocation Revenue Bonds, fund a reserve account for the new bonds, and pay the cost of issuing the bonds. The SAH Refunding Bonds, payable through September 2023, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Santa Ana Heights Project Area. The bonds are due in annual principal installments ranging from $1,340,000 to $2,855,000 beginning September 1, 2004 through 2023, at interest rates ranging from 2.00% to 5.250%. The principal amount outstanding at June 30, 2013 is $24,875,000. Interest paid and total tax increment revenues were $1,300,510 and $6,488,685, respectively, during the fiscal year.

Note 7 - Long-Term Liabilities (continued)

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

The former OCDA issued these bonds on July 11, 2001, in the original principal amount of $26,160,000 at a premium of $326,700. A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease $26,140,000 of the $27,072,000 outstanding NDAPP Series A 1992 Tax Allocation Revenue Bonds. The NDAPP Refunding Bonds, payable through September 2022, are

secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Neighborhood Development and Preservation Project Area. The bonds are due in annual principal installments ranging from $280,000 to $2,005,000 beginning September 1, 2002 through 2022, at interest rates ranging from 4.00% to 5.50%. The principal amount outstanding at June 30, 2013 is $16,625,000. Interest paid and total tax increment revenues were $885,889 and $6,233,785, respectively, during the fiscal year.

The annual requirements to amortize outstanding bonds included in the Statement of Fiduciary Net Position as of June 30, 2013, including interest, are as follows:

Years Ending	2003 Tax Allocation Bonds		2001 Tax Allocation Bonds Series A	
June 30	Principal	Interest	Principal	Interest
2014	1,760,000	1,202,603	1,340,000	814,238
2015	1,825,000	1,123,978	1,415,000	740,244
2016	1,915,000	1,028,084	1,485,000	664,119
2017	2,015,000	924,921	1,570,000	582,944
2018	2,120,000	816,378	1,650,000	499,500
2019-2023	12,385,000	2,068,586	9,165,000	1,150,875
2024	2,855,000	272,420	--	--
Total	$ 24,875,000	$ 7,436,970	$ 16,625,000	$ 4,451,920

Note 8 – Pass-Through Agreements

The former OCDA entered into agreements with various governmental entities to "pass-through" applicable portions of property tax revenues received by the Santa Ana Heights and NDAPP project areas attributable to these entities to the extent that their territorial limits reside within the former OCDA's project areas.

Note 9 – Related Party Transactions

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

Note 10 – Due To Other Governmental Agencies

Due to other governmental agencies in the amount of $2,399,979 represents the amount due to the Auditor-Controller for distribution to the taxing entities.

Note 11 – Extraordinary Gain

Extraordinary items are significant transactions or other events that are both unusual in nature and infrequent in occurrence. They are reported in a separate category in the Statement of Change in Fiduciary Net Position.

On October 4, 2011, the Board approved the use of $2,300,000 in former Orange County Development Agency (OCDA) funds for the purchase of 100 acres from Saddleback Vineyards 100 L.L.C. The purpose of the purchase was to enhance recreational opportunities for County residents through the creation of permanent trail access to the Cleveland National Forest. Subsequently, the State eliminated redevelopment agencies (including OCDA) and required the "Successor Agencies" to submit to the State Department of Finance (DOF) a "Due Diligence Review" of the amount of cash and cash equivalents available for distribution to the affected taxing entities. On April 1, 2013, the County received a letter from the DOF directing the Successor Agency to recover the $2,300,623 associated with the Saddleback Vineyards purchase for remittance to the affected taxing entities. To comply with the DOF directive, OC Community Resources, upon adoption of the FY 2013/2014 Final Budget by the Board of Supervisors, transferred $2,300,623 from OC Parks Fund 406 to Fund 16C (County Successor Agency). To comply with HSC section 34179.6 (f), the County Successor Agency transmitted the $2,300,623 to the County Auditor-Controller on July 1, 2013.

Note 12 – Deficit Net Position

The Successor Agency trust fund reported a deficit new position of $24,430,848. The deficit resulted from the Due Diligence Review payments required by Assembly Bill 1484. See Note 14 for further detail of Due Diligence Review payments. Enforceable Obligations will be paid by future property tax increment apportioned to the Successor Agency.

Note 13 – New Accounting Pronouncements

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

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

Note 13 – 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 Successor Agency to implement this statement in FY 2012-13.

In June 2011, GASB issued Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. In addition, this statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position, rather than net assets.

The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011, which requires the Successor Agency to implement this statement in FY 2012-13.

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

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

Note 13 – New Accounting Pronouncements (continued)

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

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

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

In November 2013, GASB issued Statement No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68"*. This statement requires that, at transition to the new accounting standards in accordance with GASB Statement No. 68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts. Both Statements No. 68 and 71 are effective simultaneously for periods beginning after June 15, 2014, which requires the Successor Agency to implement this statement in FY 2014-15.

Note 14 – Contingencies

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

Note 14 – Contingencies (continued)

On January 24, 2012, the Orange County Development Agency (OCDA) adopted its last Enforceable Obligation Payment Schedule (EOPS) for the purposes of memorializing those financial obligations that remained through June 30, 2012. This action also authorized the use of former redevelopment funds to pay those obligations as listed on the EOPS, pending the establishment of an Oversight Board as required by AB 1X 26.

Since the elimination of the Orange County Development Agency (OCDA), the County's Successor Agency has prepared and submitted four (4) Recognized Obligation Payment Schedules (ROPS) for

review and approval by the County's Oversight Board as well as the Department of Finance, State Controller's office, and the County Auditor-Controller. To date, the Successor Agency has not received any opposition to any debt service related items presented on the previously submitted ROPS. The County's Successor Agency will continue to list the appropriate debt service obligations on all future ROPS, as needed, and does not anticipate any interruptions to future debt service payments.

<u>Due Diligence Agreed-Upon Procedures Engagement</u>

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

The Successor Agency submitted its Low-Moderate Income Housing Fund Due Diligence Review (Low-Mod DDR) to the Oversight Board and the Department of Finance (<u>DOF</u>) on October 17, 2012. The DOF issued a Determination Letter to the Successor Agency on November 14, 2012. In the Determination Letter, the Department of Finance disagreed with the Low-Moderate DDR's stated balance of $20,415,754. Under HSC Section 34179.6(e), the Successor Agency held a "Meet and Confer" with DOF on December 7, 2012. On December 21, 2012, the Department of Finance issued its final Determination Letter. In their letter, the DOF agreed with the Successor Agency's findings as stated in the original report. The Successor Agency accrued the $20,415,754 to the County Auditor-Controller in the prior year and made the payment this fiscal year.

On December 20, 2012, the Successor Agency submitted its "All Other Funds" Due Diligence Review to the DOF. The DOF provided a "Determination Letter" on April 1, 2013 whereby they disagreed with several of the Successor Agency's findings. A "Meet and Confer" was held on April 17, 2013 and the DOF issued its final Determination Letter on May 4, 2013. In their Determination Letter, the DOF agreed with the Successor Agency's original findings.

On May 13, 2013, the Successor Agency remitted $75,879,454 to the County Auditor- Controller. The Successor Agency remitted an additional $2,300,623 on July 1, 2013. As of June 30, 2013, the Successor Agency remains in compliance with all requirements of AB IX 26, and has received its "Findings of Completion from the DOF on August 1, 2013.

Note 15 – Subsequent Events

At its December 13, 2012 meeting, the Oversight Board directed staff to proceed with refunding the Tax Allocation Refunding Bonds, Series 2003 Santa Ana Heights. On October 22, 2013 acting as the Successor Agency to the Orange County Development Agency (OCDA) the Board of Supervisors authorized the issuance and sale of the Tax Allocation Refunding Bonds. On January 9, 2014, the Successor Agency to OCDA issued Tax Allocation Refunding Bonds for the Santa Ana Heights Project Area in the principal amount of $20,960,000. The Bonds were issued to redeem the outstanding Tax Allocation Refunding Bonds, Series 2003 and are secured by a pledge of property tax revenues from the

Santa Ana Heights Project Area. The Bonds were issued for a debt service savings and have a final maturity of September 1, 2023.

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COUNTY OF ORANGE
REDEVELOPMENT SUCCESSOR AGENCY
Combining Statement of Fiduciary Net Position by Trust Fund
June 30, 2013

	Private-Purpose Trust Funds	
	Redevelopment Retirement Obligation Santa Ana Debt Service	**Redevelopment Retirement Obligation NDAPP Debt Service**
ASSETS		
Current assets		
Pooled cash and investments (Note 3)	$ 3,940,889	$ 3,070,563
Restricted assets - cash and investments with trustee (Note 3)	2,995,603	-
Due from other governmental agencies (Note 4)	-	-
Interest receivable	7,519	6,402
Land and improvements held for resale (Note 5)	-	-
Deposits with others (Note 6)	-	-
Bond issuance costs	63,961	24,481
Noncurrent assets:		
Bond issuance costs	607,634	220,329
Total assets	7,615,606	3,321,775
LIABILITIES		
Current liabilities:		
Bond interest payable	411,868	283,696
Due to other governmental agencies (Note 10)	4,541	4,522
Bonds payable (Note 7)	1,760,000	1,450,188
Noncurrent liabilities:		
Bonds payable (Note 7)	23,276,323	14,753,211
Total liabilities	25,452,732	16,491,617
NET POSITION		
Net position held in trust for other governments	$ (17,837,126)	$ (13,169,842)

Private-Purpose Trust Funds	
OCDA Redevelopment Successor Agency	Total
$ 4,812,956	$ 11,824,408
-	2,995,603
2,300,623	2,300,623
10,824	24,745
618,477	618,477
1,224,156	1,224,156
-	88,442
-	827,963
8,967,036	19,904,417
-	695,564
2,390,916	2,399,979
-	3,210,188
-	38,029,534
2,390,916	44,335,265
$ 6,576,120	$ (24,430,848)

COUNTY OF ORANGE
REDEVELOPMENT SUCCESSOR AGENCY
Combining Statement of Changes in Fiduciary Net Position by Trust Fund
For the Year Ended June 30, 2013

	Private-Purpose Trust Funds	
	Redevelopment Retirement Obligation Santa Ana Debt Service	Redevelopment Retirement Obligation NDAPP Debt Service
ADDITIONS:		
Interest	$ 20,419	$ 108,175
Intergovernmental revenue	6,488,685	6,233,785
Use of property	-	-
Other revenue	59,234	8,116
Less: investment expense	(4,549)	(22,054)
Total additions	6,563,789	6,328,022
DEDUCTIONS:		
Services and supplies	189	-
Professional services	31,077	29,583
Tax pass-throughs (Note 8 and Note 14)	7,054,677	33,238,213
Interest on long-term debt	1,300,510	885,889
Total deductions	8,386,453	34,153,685
Extraordinary gain (Note 11)	-	-
Change in net position	(1,822,664)	(27,825,663)
Net position - June 30, 2012	(16,014,462)	14,655,821
Net position - June 30, 2013	$ (17,837,126)	$ (13,169,842)

Private-Purpose Trust Funds	
OCDA Redevelopment Successor Agency	Total
$ 24,174	$ 152,768
104,499	12,826,969
74	74
369,547	436,897
(26,511)	(53,114)
471,783	13,363,594
14,690	14,879
236,210	296,870
45,041,873	85,334,763
-	2,186,399
45,292,773	87,832,911
2,300,623	2,300,623
(42,520,367)	(72,168,694)
49,096,487	47,737,846
$ 6,576,120	$ (24,430,848)

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the 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, the financial statements of the County of Orange Redevelopment Successor Agency (Successor Agency), a private purpose trust fund of the County of Orange, California (the County), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated January 16, 2014. Our reports includes emphasis of matter paragraph stating that the financial statements present only the Successor Agency and do not present fairly the financial position of the County as of June 30, 2013, and the changes in its financial position, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our report also includes another emphasis of matter paragraph stating that the Successor Agency trust fund reported a deficit net position. The deficit resulted from the Due Diligence Review payments required by Assembly Bill 1484.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Successor Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Successor Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Successor Agency's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Successor Agency's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Newport Beach, California
January 16, 2014

<u>**ATTACHMENT B**</u>

CALIFORNIA STATE LAW CHANGES TERMINATING REDEVELOPMENT AGENCIES AND APPOINTMENT OF SUCCESSOR AGENCIES

1. California State Law Changes Terminating Redevelopment Agencies and Appointment of Successor Agencies

Pursuant to legislation effective June 29, 2011 (Assembly Bill No. 26 (2011-2012 1st Executive Session) enacted as Stats. 2011, 1st Executive Session 2011-2012, Chapter 5 (hereafter Assembly Bill X1 26) and upheld by the California Supreme Court on December 29, 2011, in a case captioned California Redevelopment Association v. Matosantos, 2011 Cal. LEXIS 11671 (Cal., December 29, 2011), as of February 1, 2012, redevelopment agencies in California, including the Agency, were dissolved and successor agencies appointed to wind down the affairs of the redevelopment agencies. The County has designated itself as the successor agency to the Agency for purposes of winding down the affairs of the Agency, including those relating to payment of the Bonds. The Orange County Board of Supervisors chose not to retain responsibility over the Agency's housing assets and functions and transferred these assets and functions to the Orange County Housing Authority, a separate legal entity from the County.

Assembly Bill X1 26 contains a number of provisions which acknowledge the obligation to pay debt service on bonded indebtedness, such as the Bonds, notwithstanding the termination of redevelopment agencies. Specifically, the successor agency is required to make payments for enforceable obligations pending verification by outside audit and approval by an Oversight Board of a Recognized Obligation Payment Bond Schedule (as defined in Assembly Bill X1 26) which is the procedure set forth in Assembly Bill X1 26 to obtain an allocation of tax increment for payment of bonded indebtedness. However, the actual implementation process for Assembly Bill X1 26 is ongoing and uncertain and the specific effects of Assembly Bill X1 26 on the overall administration and/or payment of the Agency's bond obligations cannot be determined at this time.

Administration and payment of the Bonds depends on provisions of Assembly Bill X1 26 and the interactions of a variety of parties involved in different capacities in the process of winding down the affairs of the Agency. For example, Assembly Bill X1 26 includes a variety of provisions, including (i) limitations on the powers of the successor agency in connection with winding down the affairs of the Agency, (ii) establishment of an oversight board comprised of seven members appointed by various entities with competing interests to review and in some circumstances approve activities of the successor agency, (iii) provision for administration of property taxes by the county auditor-controller in a manner different than had been the case at the time of issuance of the Bonds, (iv) direction to county auditor-controllers to conduct audits (a) to establish each redevelopment agency's assets and liabilities, (b) to document and determine each redevelopment agency's pass-through payment obligations to other taxing agencies, (c) to document and determine both the amount and the terms of any indebtedness incurred by the redevelopment agency and (d) to certify the initial "Recognized Obligation Payment Schedule" (as defined in Assembly Bill X1 26); and (v) oversight of activities of the redevelopment agency, the successor agency and the county auditor-controller by the California Department of Finance, the State Controller and the State Attorney General.

2. Ratings Changes

On November 30, 2010, S&P withdrew its rating on Ambac, the issuer of a municipal bond insurance policy. The bonds are currently not rated by a rating agency.