

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

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

For the Year Ended June 30, 2008

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

For the Year Ended June 30, 2008

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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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 15, 2008



INDEPENDENT AUDITORS' 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, 2008, 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, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2008, 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 15, 2008 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.

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, 2008. 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, low and moderate-income housing, and interest expenses. All Agency activities are primarily funded by tax increment and its leverage through the issuance of bonds.

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

