

Transportation System Improvement Authority

Orange, California

*Basic Financial Statements and
Independent Auditors' Reports*

For the years ended June 30, 2005 and 2004

C&L
Caporicci & Larson
Certified Public Accountants

Transportation System Improvement Authority

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INDEPENDENT AUDITORS' REPORT

Members of the Governing Board of the
Transportation System Improvement Authority
Orange, California

We have audited the accompanying basic financial statements of the Transportation System Improvement Authority (Authority) as of June 30, 2005 and 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States and *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 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 audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2005 and 2004, and the activities and changes in net assets for the years then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the Authority adopted Statements of the Governmental Accounting Standards Board No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2005 on compliance and on internal control over financial reporting based on an audit of the Authority, performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

Caporicci & Larson

Costa Mesa, California
September 22, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The information presented in the Management's Discussion and Analysis is intended to be a narrative overview of the Transportation System Improvement Authority's (Authority) financial activities for the Fiscal Year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the accompanying Basic Financial Statements, including the Notes to the Basic Financial Statements.

OVERVIEW OF THE AUTHORITY

On October 24, 1984, the cities of Orange and Santa Ana (including the Community Redevelopment Agency of the City of Santa Ana, a political subdivision of the City of Santa Ana, and others named as defendants by the City of Orange) entered into an agreement to settle certain disputes resulting from the development of the Santa Ana Fashion Square, a project of the Community Redevelopment Agency of Santa Ana. The settlement agreement provided for the formation of a joint powers authority between the cities of Orange and Santa Ana to mitigate the adverse effects on traffic circulation and parking resulting from the development of a specified area including a portion of the two member cities.

The Authority's board is made up of members, or their appointees, of the city councils of the cities of Orange and Santa Ana and meets annually. At the annual meeting of the board, adjustments and appropriations for proposed projects are approved. Those projects that fall within either Orange or Santa Ana are bid, and awarded to the lowest responsible bidder by the respective city. Revenues are collected by each agency on development projects that fall within the boundaries of the Authority (see map attached) that borders each city. Revenues collected by Santa Ana are then remitted to the City of Orange.

The City of Orange has agreed to serve as the treasurer/bookkeeper for the Authority, and as such, collects all revenues, remits all expenditures, prepares the annual basic financial statements, and coordinates the external audit thereon. The Authority's financial data is presented in the City of Orange's Comprehensive Annual Financial Report as an agency fund in the Supplementary Schedules section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's Basic Financial Statements. The Authority's Basic Financial Statements are comprised of three components: (1) Comparative Statements of Net Assets; (2) Comparative Statements of Activities and Changes in Net Assets; and (3) Notes to the Basic Financial Statements.

Comparative Statement of Net Assets. The Comparative Statement of Net Assets presents information on all of the Authority's assets and liabilities; the difference between the two is reported as net assets. Evaluating increases or decreases in net assets over time will serve as a useful indicator of whether the financial position of the Authority is improving or declining.

Comparative Statement of Activities and Changes in Net Assets. The Comparative Statement of Activities and Changes in Net Assets presents information on the net cost of each governmental function (activity) during the fiscal year. This statement also identifies the amount of general revenues needed to fully fund each governmental function.

Notes to the Basic Financial Statements. The Notes to the Basic Financial Statements provide additional information that is essential to the reader for a full understanding of the data provided in the Comparative Statement of Net Assets and Comparative Statement of Activities and Changes in Net Assets.

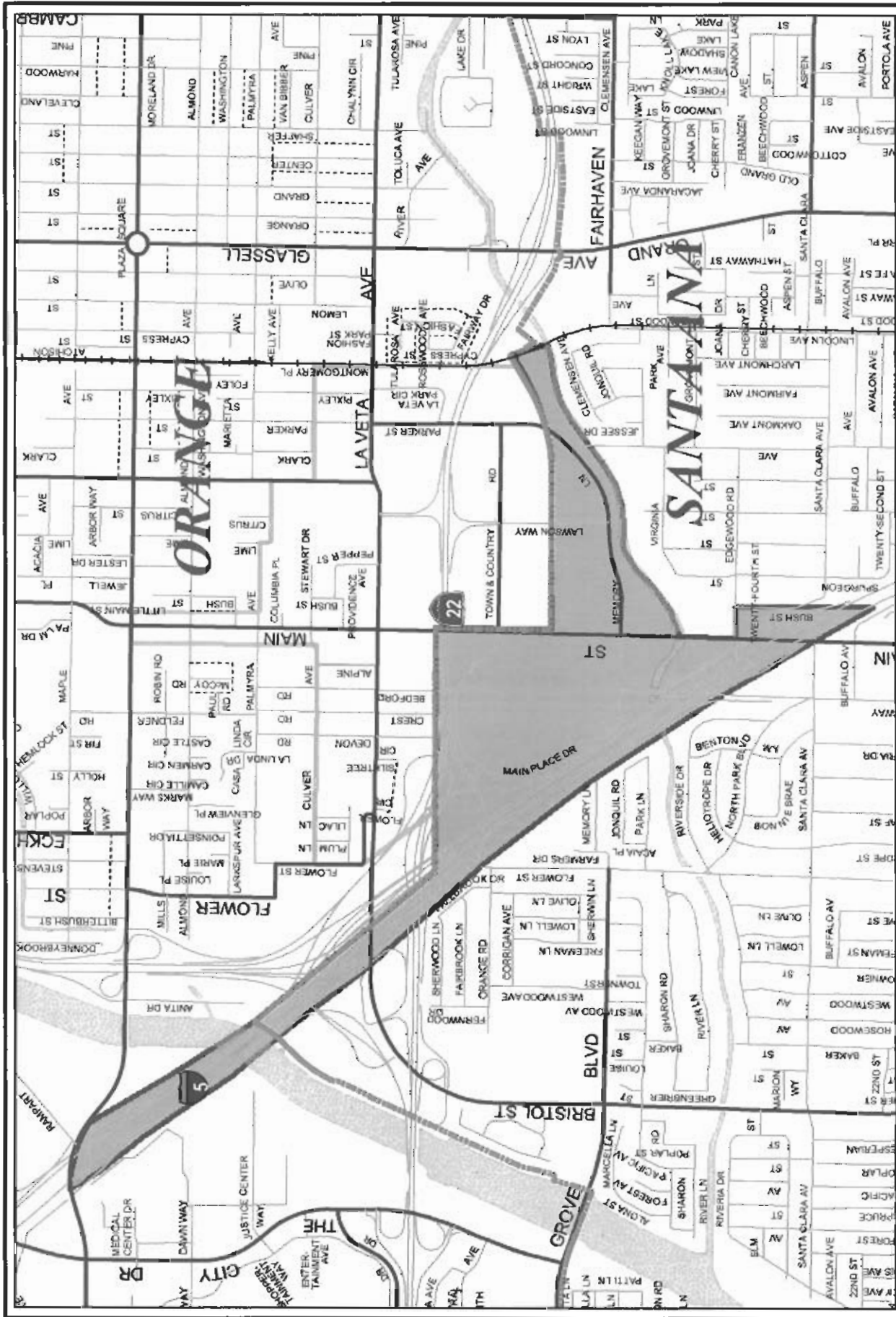
FINANCIAL ANALYSIS

The Authority had no liabilities at the close of the fiscal year and its assets were \$777,020. By far the largest portion of the Authority's net assets (99.4%) was cash and investments held by the City of Orange. Net assets increased slightly from the previous fiscal year due mainly to interest earnings and program revenues (developer fees) in excess of expenses.

Program revenues increased and expenses decreased during this fiscal year due primarily to the nature by which funds are collected and the types of projects that funds are spent on. Revenues are mainly derived from developer fees assessed and collected by each participating city and remitted to the Authority. With the small amount of development currently underway in this area, fees collected have been minimal. As a result, there are fewer resources available to complete traffic circulation projects within the Authority's boundaries. As projects are approved and prioritized by the governing board of the Authority, expenses are incurred as funding is available.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances. This financial report can also be found on the City of Orange website at www.cityoforange.org. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Department, City of Orange, 300 East Chapman Avenue, Orange, California 92866.



City of Orange
 300 E CHAPMAN AVE
 ORANGE, CALIFORNIA 92666

Legend
 Orange Area "A"
 Santa Ana Area "A"
 City Boundary



T.S.I.A. AREA

November 23, 2005

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BASIC FINANCIAL STATEMENTS

Transportation System Improvement Authority
Comparative Statements of Net Assets
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and investments held by City of Orange (Note 6)	\$ 772,471	\$ 744,770
Interest receivable	<u>4,549</u>	<u>3,137</u>
Total assets	<u>777,020</u>	<u>747,907</u>
NET ASSETS		
Unrestricted net assets	<u>\$ 777,020</u>	<u>\$ 747,907</u>

See accompanying Notes to the Basic Financial Statements.

Transportation System Improvement Authority
Comparative Statements of Activities and Changes in Net Assets
For the years ended June 30, 2005 and 2004

Functions / Programs	2005			2004		
	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets
General government	\$ 1,606	\$ 11,718	\$ 10,112	\$ 127,647	\$ 642	\$ (127,005)
Total primary government	\$ 1,606	\$ 11,718	10,112	\$ 127,647	\$ 642	(127,005)

General revenues:

Investment earnings	19,001	15,548
Total general revenues	19,001	15,548
Change in net assets	29,113	(111,457)
Net assets - beginning of year	747,907	859,364
Net assets - end of year	\$ 777,020	\$ 747,907

See accompanying Notes to the Basic Financial Statements.

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Transportation System Improvement Authority

Notes to the Basic Financial Statements

For the years ended June 30, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Transportation System Improvement Authority (Authority) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applies to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. *Basis of Accounting and Measurement Focus*

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred.

B. *Net Assets*

Net assets maybe classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

C. *Implementation of New GASB Pronouncement*

The Authority adopted a new accounting standard in order to conform to the following Governmental Accounting Standards Board Statement:

- Statement No. 40, *Deposit and Investment Risk Disclosures*

GASB Statement No. 40 addresses selected issues and amends GASB Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The Statement focuses on common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

Transportation System Improvement Authority
Notes to the Basic Financial Statements, Continued
For the years ended June 30, 2005 and 2004

2. NATURE AND PURPOSE OF THE AUTHORITY

On October 24, 1984, the cities of Orange and Santa Ana (including the Community Redevelopment Agency of the City of Santa Ana, a political subdivision of the City of Santa Ana, and others named as defendants by the City of Orange) entered into an agreement to settle certain disputes resulting from the development of Santa Ana Fashion Square, a project of the Community Redevelopment Agency of the City of Santa Ana. The settlement agreement provided for the formation of a joint powers authority between the cities of Orange and Santa Ana to mitigate the adverse effects on traffic circulation and parking resulting from the development of a specified area including portion of the two member cities (hereafter referred to as the "Area").

3. AUTHORIZED ACTIVITIES OF THE AUTHORITY

The joint powers agreement entered into by the two member cities on December 18, 1984, provides for the following with regard to development within the Area by the member cities:

- Agreement as to project priorities, target dates, estimated costs and sources of financing.
- Resolution of disputes between the two cities involving the approval of any development project within the territorial jurisdiction of either city.
- An exchange of information regarding development projects within the Area.
- Use of Authority resources to reimburse member cities for traffic improvement projects within the Area.

4. FINANCING SOURCES FOR AUTHORITY ACTIVITIES

The joint powers and settlement agreements provide that traffic improvement projects are to be financed by city contributions and developer fees. At the termination of the joint powers venture agreement, the assets of the Authority will be divided among the two cities in proportion to the aggregate amount to contributions made by each. Since neither city has made any contributions, the assets of the Authority will be divided equally.

The developer fees were originally assessed by each participating City and remitted to the Authority in the amount of 1% of the development costs for developer projects impacting the traffic system of the Area. Currently, the amount contributed by each City varies depending on the type of development and its location.

The settlement agreement between the cities of Orange and Santa Ana authorizes the use of letters of credit to finance approved traffic improvement projects within the City of Orange required to mitigate the effects of the Fashion Square Redevelopment Project of the Community Redevelopment Agency of the City of Santa Ana. A separate letter of credit will be issued at a maximum of \$1,250,000 (less developer fees and available Federal, state and county resources) for each of three phases of construction of the Fashion Square Redevelopment Project. The Authority intends to repay letter of credit drawdowns with developer fees.

The Fashion Square Redevelopment Project has not reached a phase of construction which requires issuance of a letter of credit.

Transportation System Improvement Authority
Notes to the Basic Financial Statements, Continued
For the years ended June 30, 2005 and 2004

5. RELATIONSHIP TO MEMBER CITIES

The governing board of the Authority is comprised of members, or their appointees, of the city councils of the cities of Santa Ana and Orange.

The Authority is not considered to be a component unit of either the City of Santa Ana or the City of Orange since neither city has the ability to individually exercise significant oversight responsibility over the operations of the Authority. The financial records of the Authority are maintained by the City of Orange. The City of Orange holds the cash of the Authority and uses the same for the payment of the Authority's expenditures. Resources of the Authority held by the City of Orange are reported in an agency fund in the Comprehensive Annual Financial Report of the City of Orange.

6. CASH AND INVESTMENTS

As provided for by the California Government Code and the cities of Santa Ana's and Orange's investment policies, cash and investments are pooled and invested by the Orange City Treasurer for the purpose of increasing interest earnings through investment activities. The Authority's net share of the total pooled cash and investments (\$772,471 and \$744,770 as of June 30, 2005 and 2004, respectively) is included in the basic financial statements under the caption "Cash and investments held by the City of Orange." The City of Orange invests idle funds of the Authority in the California Local Agency Investment Fund (LAIF). Interest earnings on pooled investments are allocated on a prorate basis to the Authority (based on its cash and investment balances at the beginning of the allocation period). The City of Orange's Comprehensive Annual Financial Report for the year ended June 30, 2005 contains further discussion regarding the cash and investments by the City of Orange.

See the City of Orange's Basic Financial Statements for disclosures related to cash and investments and the related risk categorization.

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**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Governing Board
Transportation System Improvement Authority
Orange, California

We have audited the basic financial statements of the Transportation System Improvement Authority (Authority) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of the Authority's management and the participating members and is not intended and should not be used by anyone other than those specified parties.

Caporicci & Larson

Costa Mesa, California
September 22, 2005

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