Basic Financial Statements

Year Ended June 30, 2008 (with Independent Auditors' Report Thereon)

Basic Financial Statements

Year Ended June 30, 2008

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	2
Transportation System Improvement Authority Area Map	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet	9
Statement of Revenues, Expenses and Changes in Fund Balance	10
Notes to the Basic Financial Statements	11
Compliance Section:	
Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	19



Mayer Hoffman McCann P.C.

An Independent CPA Firm

Conrad Government Services Division

2301 Dupont Drive, Suite 200 Irvine, California 92612 949-474-2020 ph 949-263-5520 fx www.mhm-pc.com

Board of Directors Transportation System Improvement Authority Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the Transportation System Improvement Authority (Authority) as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Authority for the year ended June 30, 2007 and, in our reported dated December 6, 2007, we expressed an unqualified opinion on those statements.

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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 Transportation System Improvement Authority, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion* and analysis 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2009 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Mayor Hottonan McComa P.C.

Irvine, California January 23, 2009

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, 2008. 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 traffic improvement and parking 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) Government-wide Financial Statements; (2) Fund Financial Statements; and (3) Notes to the Basic Financial Statements.

Government-wide Financial Statements. The Government-wide Financial Statements are comprised of the Statement of Net Assets and the Statement of Activities.

The 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.

The Statement of Activities presents information on the net costs 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.

Fund Financial Statements. The Fund Financial Statements are comprised of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance. These statements mirror very closely the Government-wide Financial Statements because the Authority is accounted for as a single fund by the City of Orange, and unreserved fund balance is equal to unrestricted net assets.

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 Government-wide and Fund Financial Statements.

GOVERNMENT-WIDE FINANCIAL HIGHLIGHTS AND ANALYSIS Statement of Net Assets

	Governmenta	Governmental Activities		
	2007-08	2006-07		
Cash and investments	\$2,113,689	\$2,028,445		
Interest receivable	22,762	18,902		
Total assets	2,136,451	2,047,347		
Accounts payable	-	3,000		
Total liabilities	•	3,000		
Unrestricted Total net assets	2,136,451 \$2,136,451	2,044,347 \$2,044,347		
I Ulai Hel assels	Ψ2, 100, 401	<u> </u>		

The Authority had assets of \$2,136,451 and no liabilities at the close of the fiscal year on both the Government-wide and Fund Financial Statements. Net assets were \$2,136,451 which represents an increase from the previous fiscal year of \$92,104 resulting from interest earnings. The financial position of the Authority is strong and increased development activity is expected within the Authority's boundaries which will generate additional developer fees. These future revenues have been committed to fund the Main Street widening project.

Statement of Activities (Changes in Net Assets)

	Governmental Activities		
	2007-0	8	2006-07
Program Revenue Charges for services	\$	-	\$1,708,096
General Revenue Investment income	93,532		48,755
Total Revenues	\$ 93	3,532	\$1,756,851

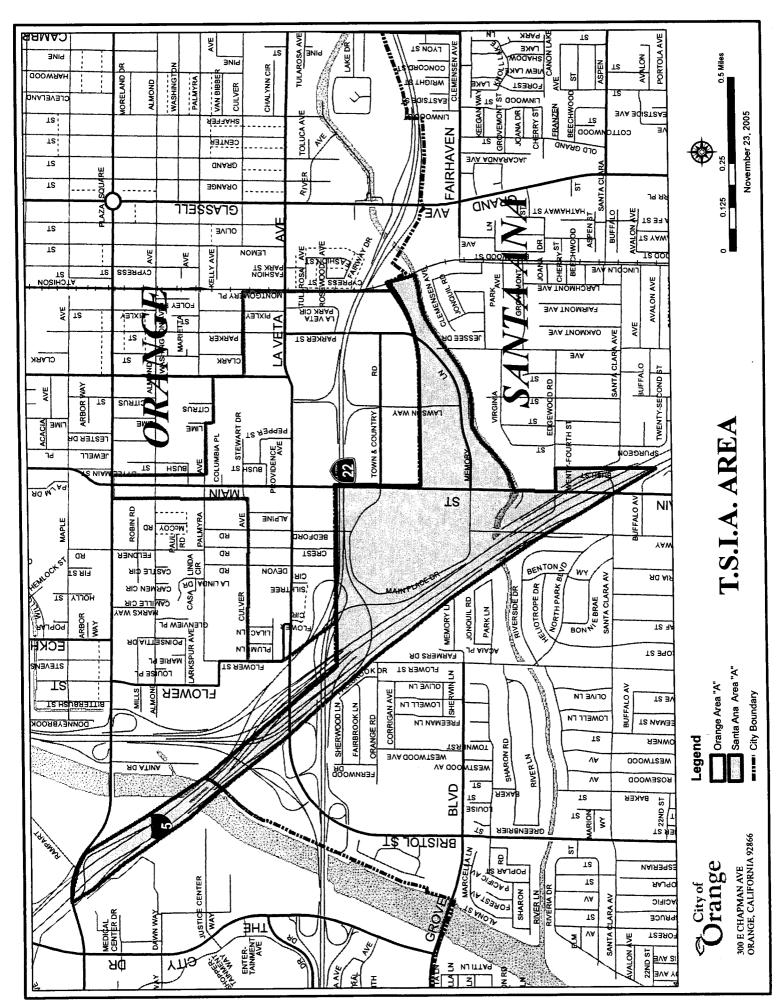
Statement of Activities (Changes in Net Assets) (Continued)

	Government	Governmental Activities		
	2007-08	2006-07		
Expenses General government Public works	\$ 1,428 	\$ 4,386 219,863		
Total expenses	1,428	224,249		
Increase (decrease) in net assets	92,104	1,532,602		
Net assets at beginning of year	2,044,347	511,745		
Net assets at end of year	\$2,136,451	\$2,044,347		

Both program revenues 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, depending on where the development occurs, and remitted to the Authority. Recent declines in development activity have resulted in a significant decrease in fees. As construction projects are approved and prioritized by the governing board of the Authority, expenses are incurred as funding is available.

REQUEST FOR MORE 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.



BASIC FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2008 (with Comparative Totals for June 30, 2007)

	Governmental Activities	
	2008	2007
Assets:		
Cash and investments (note 3)	\$ 2,113,689	2,028,445
Interest receivable	22,762	18,902
Total assets	2,136,451	2,047,347
Liabilities:		
Accounts payable		3,000
Total liabilities		3,000
Net assets:		
Unrestricted	<u>2,136,451</u>	2,044,347
Total net assets	\$ 2,136,451	2,044,347

Statement of Activities

Year Ended June 30, 2008 (with Comparative Totals for Year Ended June 30, 2007)

		Program Revenues	Governmenta	al Activities
	Expenses	Charges for Services	2008	2007
Governmental activities: General government Public works	\$ 1,428 	<u>.</u>	(1,428)	(4,386) 1,488,233
Total governmental activities	\$ 1,428	-	(1,428)	1,483,847
	neral revenues: nvestment incor	me	93,532	48,755
Total general revenues		93,532	48,755	
Change in net assets		92,104	1,532,602	
Net assets, beginning of year		2,044,347	511,745	
Ne	t assets, end of	year	<u>\$ 2.136.451</u>	2.044.347

Governmental Funds

Balance Sheet

June 30, 2008 (with Comparative Totals for June 30, 2007)

	General Fund	
	2008	2007
<u>Assets</u>		
Cash and investments (note 3) Interest receivable	\$ 2,113,689 <u>22,762</u>	2,028,445 18,902
Total assets	\$ 2,136,451	2,047,347
Liabilities and Fund Balance		
Liabilities: Accounts payable	<u>\$</u>	3,000
Total liabilities	<u>-</u>	3,000
Fund Balance: Unreserved, undesignated	<u>2,136,451</u>	2,044,347
Total liabilities and fund balance	<u>\$ 2,136,451</u>	2,047,347

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2008 (with Comparative Totals for Year Ended June 30, 2007)

	General Fund	
	2008	2007
Revenues:		
TSIP Fees	\$ -	1,708,096
Investment income	93,532	<u>48,755</u>
Total revenues	93,532	1,756,851
Expenditures: Current:		
Administration	1,428	4,386
Capital outlay	, -	219,863
Total expenditures	1,428	224,249
Excess (deficiency) of revenues over		
(under) expenditures	92,104	1,532,602
Fund balance at beginning of year	2,044,347	511,745
Fund balance at end of year	\$ 2,136,451	2,044,347

Notes to the Basic Financial Statements

Year Ended June 30, 2008

(1) 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 of 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").

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.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting and Measurement Focus

The basic financial statements of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements.

Notes to the Basic Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Accounting and Measurement Focus, (Continued)

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The TSIA has no business-type activities or discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Authority.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. The *basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Notes to the Basic Financial Statements
(Continued)

(2) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Accounting and Measurement Focus, (Continued)

Fund Financial Statements

The underlying accounting system of the Authority is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds primarily represent assets held by the Authority in a custodial capacity for other individuals or organizations. The Authority has no nonmajor funds, enterprise funds, or fiduciary funds.

Governmental Funds

In the fund financial statements, governmental funds and agency funds are presented using the *modified-accrual basis* of accounting. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Authority uses a sixty day availability period.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

Notes to the Basic Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Accounting and Measurement Focus, (Continued)

In the fund financial statements, government funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

When both restricted and unrestricted resources are combined in a fund, expenditures are considered to be paid first from restricted resources, and then from unrestricted resources.

(b) Classification of Net Assets

Net assets may be classified in the following categories:

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

Restricted Net Assets represent amounts that are restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets represent all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

(c) Major Fund

The following fund is presented as major funds in the accompanying basic financial statements:

Notes to the Basic Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies, (Continued)

(c) Major Fund, (Continued)

<u>General Fund</u> – To account for the accumulation of resources for projects as approved by the Board.

The Authority applies all applicable pronouncements issued by the Government Accounting Standards Board (GASB) in accounting and reporting as well as pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Budgetary Reporting

The Authority prepares an annual budget in accordance with the modified accrual basis, which is consistent with generally accepted accounting principles (GAAP). However, the budget information is not presented because these funds of the Authority are primarily "long-term" budgets which emphasize major programs and capital outlay plans extending over a number of years. Because of the long-term nature of projects, annual budget comparisons are not considered meaningful and, accordingly, no budgetary information is included in the accompanying financial statements.

(f) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's prior year financial statements, from which this selected financial data was derived.

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments

Cash and investments at June 30, 2008 consisted of the following:

Equity in the City of Orange's investment portfolio

\$2,113,689

Equity in the Cash and Investment Portfolio of the City of Orange

The Authority has no separate bank accounts or investments, except for the Authority's equity in the cash and investment portfolio managed by the City of Orange. The Authority is a voluntary participant in the portfolio. This portfolio is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Orange. The fair value of the Authority's investment in the pool is reported in the accompanying financial statements at amounts based upon the Authority's prorata share of the fair value calculated by the City of Orange for the entire portfolio of the City. The balance available for withdrawal is based on the accounting records maintained by the City, which is recorded on an original cost basis.

(4) Financing Sources for Authority Activities

The joint powers and settlement agreements provide that traffic improvement projects are financed by city contributions and developer fees. At the termination of the joint powers venture agreement, the assets of the Authority will be divided between the two cities in proportion to the aggregate amount of contributions made by each. Since neither City has made any contributions to the Authority as of June 30, 2008, the assets would be divided equally.

The developer fees were originally assessed by each participating City and remitted to the Authority in an amount not less than 1% of 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.

Notes to the Basic Financial Statements

(Continued)

(4) Financing Sources for Authority Activities, (Continued)

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.

As of June 30, 2008, the Fashion Square Redevelopment Project has not reached a phase of construction which requires the issuance of a letter of credit.

Any infrastructure improvements financed by the aforementioned developer fees are owned and managed by each respective City and are not reported in the accompanying statement of net assets as assets of the Authority.

(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 Orange and Santa Ana.

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 and the City of Santa Ana. The City of Orange and the City of Santa Ana hold the cash of the Authority. Resources of the Authority held by the City of Orange and City of Santa Ana are reported in an Agency Fund and Street Construction Capital Projects Fund in the Comprehensive Annual Financial Reports for the City of Orange and City of Santa Ana, respectively.

COMPLIANCE SECTION