

**TRANSPORTATION SYSTEM
IMPROVEMENT AUTHORITY**

Basic Financial Statements

July 1, 2009 through December 31, 2009
(with Independent Auditors' Report Thereon)

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY

Basic Financial Statements

July 1, 2009 through December 31, 2009

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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 six months ended December 31, 2009, 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.

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.

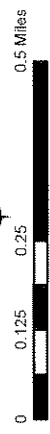
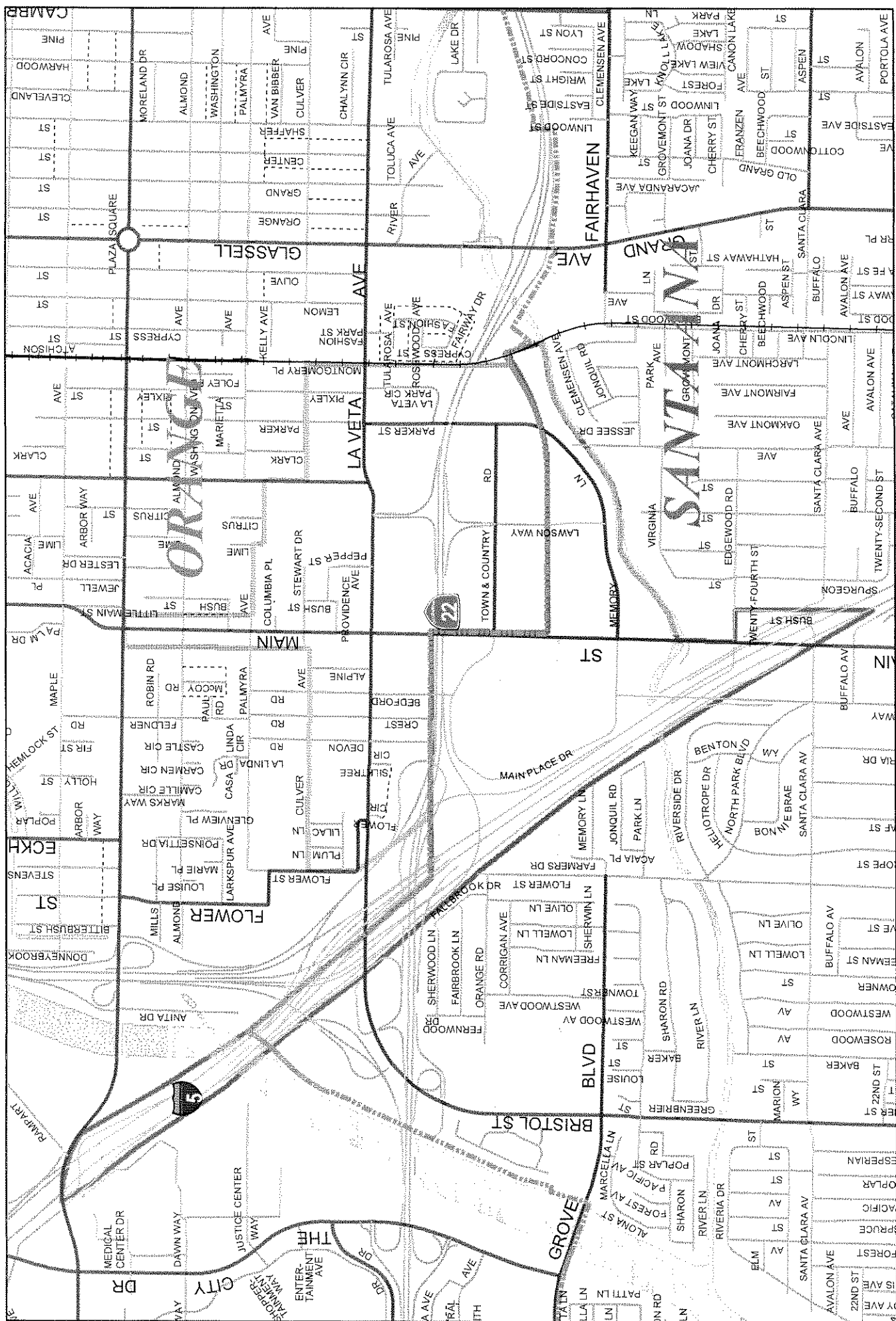
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Transportation System Improvement Authority, as of December 31, 2009, and the respective changes in financial position of the Authority for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2010 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.




Mayer Hoffman McCann P.C.

Irvine, California
March 8, 2010



November 23, 2005

T.S.I.A. AREA

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

City of Orange
 300 E CHAPMAN AVE
 ORANGE, CALIFORNIA 92866

BASIC FINANCIAL STATEMENTS

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY

Statement of Net Assets

December 31, 2009

	<u>Governmental Activities</u>
	<u>2009</u>
Assets:	
Cash and investments	\$ -
Interest receivable	-
	<u> </u>
Total assets	<u> -</u>
Liabilities:	
Accounts payable	-
	<u> </u>
Total liabilities	<u> -</u>
Net assets:	
Unrestricted	-
	<u> </u>
Total net assets	<u>\$ -</u>

See accompanying notes to basic financial statements.

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY

Statement of Activities

July 1, 2009 through December 31, 2009

	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Governmental Activities 2009</u>
Governmental activities:			
General government	\$ -	-	-
Public works	<u>21,957</u>	<u>-</u>	<u>(21,957)</u>
Total governmental activities	<u>\$ 21,957</u>	<u>-</u>	<u>(21,957)</u>
General revenues:			
Investment income			21,024
Transfer to City of Orange			<u>(1,902,793)</u>
Total general revenues and transfers			<u>(1,881,769)</u>
Change in net assets			(1,903,726)
Net assets, beginning of year			<u>1,903,726</u>
Net assets, end of year			<u>\$ -</u>

See accompanying notes to basic financial statements.

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY
Governmental Funds

Balance Sheet

December 31, 2009

	<u>General Fund</u>
	<u>2009</u>
<u>Assets</u>	
Cash and investments	\$ -
Interest receivable	-
	<hr/>
Total assets	\$ -
	<hr/> <hr/>
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	\$ -
	<hr/>
Total liabilities	-
	<hr/>
Fund Balance:	
Unreserved, undesignated	-
	<hr/>
Total liabilities and fund balance	\$ -
	<hr/> <hr/>

See accompanying notes to basic financial statements.

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY
Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balance

July 1, 2009 through December 31, 2009

	<u>General Fund</u>
	<u>2009</u>
Revenues:	
TSIP Fees	\$ -
Investment income	<u>21,024</u>
Total revenues	<u>21,024</u>
Expenditures:	
Capital outlay	<u>21,957</u>
Total expenditures	<u>21,957</u>
Excess (deficiency) of revenues over (under) expenditures	(933)
Other financing uses:	
Transfer to the City of Orange	<u>(1,902,793)</u>
Net change in fund balance	(1,903,726)
Fund balance at beginning of year	<u>1,903,726</u>
Fund balance at end of year	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY

Notes to the Basic Financial Statements

July 1, 2009 through December 31, 2009

(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.

The joint powers agreement is in effect through January 1, 2010. At the termination of the agreement, any surplus TSIA funds shall be distributed in accordance with the agreement.

(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

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY

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.

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY

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.

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY

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:

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

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

(c) Major Fund, (Continued)

General Fund – 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.

TRANSPORTATION SYSTEM IMPROVEMENT AUTHORITY

Notes to the Basic Financial Statements

(Continued)

(3) Financing Sources for Authority Activities

The joint powers and settlement agreements provide that traffic improvement projects are financed by city contributions and developer fees. 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.

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.

(4) 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.

(5) Transfer to the City of Orange

The TSIA expires on its own accord on January 1, 2010. In accordance with the joint powers agreement, the governing board may authorize transfer of TSIA money to either party to pay for the cost of any eligible transportation system improvement project approved by the governing body. On September 21, 2007 the governing board appropriated \$3 million of TSIA funds for the Main Street Widening Project. As of December 31, 2009, \$2.7 million of appropriated construction costs have yet to be incurred. As a result of this previous board action, all remaining assets of the TSIA were transferred to the City of Orange on December 31, 2009. The City of Orange will expend the transferred assets on the Main Street Widening Project.

COMPLIANCE SECTION



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Board of Directors
Transportation System Improvement Authority
Orange, California

**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***

We have audited the financial statements of the governmental activities and each major fund of the Transportation System Improvement Authority (Authority) as of and for the six months ended December 31, 2009, and have issued our report thereon dated March 8, 2010. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.



Board of Directors
Transportation System Improvement Authority
Orange, California
Page Two

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

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

This report is intended solely for the information and use of the Authority's Board of Directors, management and the participating agencies and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffman McGraw P.C.

Irvine, California
March 8, 2010