Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2007

OCTA

Orange County Transportation Authority

Orange County, California

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December 10, 2007

The Board of Directors
Orange County Transportation Authority
550 South Main Street
Orange, CA 92863

State law requires the Orange County Transportation Authority (OCTA) to publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States (GAAP) and audited in accordance with auditing standards generally accepted in the United States by independent certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of OCTA for the fiscal year ended June 30, 2007.

This report consists of management's representations concerning the finances of OCTA. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, OCTA management has established a system of comprehensive internal controls designed both to protect OCTA's assets from loss, theft or misuse, and to compile sufficient reliable information for the preparation of OCTA's financial statements in conformity with GAAP. Because the cost of internal control should not outweigh its benefits, OCTA's comprehensive framework of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects. The enclosed data presents the financial position and results of operations of OCTA on a government-wide and fund basis. All disclosures necessary to enable the reader to gain an understanding of OCTA's financial activities have been included.

OCTA's financial statements have been audited by Mayer Hoffman McCann P.C. The goal of the independent audit was to provide reasonable assurance that the financial statements of OCTA for the fiscal year ended June 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Mayer Hoffman McCann P.C. concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that OCTA's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of OCTA was part of a broader, federally mandated Single Audit designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements in accordance with GAAP, but also on the government's internal control and compliance with legal requirements, with a special emphasis on internal control and legal requirements involving the administration of federal awards in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These reports are available in OCTA's separately issued Single Audit report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. OCTA's MD&A can be found immediately following the report of the independent auditors.

Profile of OCTA

OCTA was established by state law and began serving the public on June 20, 1991. An 18-member Board of Directors (Board) governs OCTA and consists of five members of the Orange County Board of Supervisors, ten city representatives selected by all of the cities within the County, two public members selected by the other 15 Board Members, and a representative appointed by the Governor of California serving in a non-voting capacity. A Chief Executive Officer manages OCTA and acts in accordance with the directions, goals and policies approved by the Board.

OCTA provides coordinated, efficient, and accountable transportation planning and services within Orange County. Former agencies and funds which were consolidated to form OCTA include: Orange County Transportation Commission, the Orange County Transit District (OCTD), Consolidated Transportation Services Agency, Orange County Local Transportation Authority (OCLTA), Orange County Service Authority for Freeway Emergencies (SAFE), Orange County Congestion Management Agency, Orange County Service Authority for Abandoned Vehicles (SAAV), State Transit Assistance Fund, Local Transportation Fund, Orange County Unified Transportation Trust (OCUTT), and Transit Development Reserve. On January 3, 2003, OCTA began operating the 91 Express Lanes, a toll facility on a ten-mile segment of the Riverside Freeway (SR-91) between the Riverside/Orange County Line and the Costa Mesa Freeway (SR-55).

Establishment of the consolidated transportation authority has saved County taxpayers tens of millions of dollars through increased efficiency and elimination of duplicative efforts. At the same time, service and investment in transportation have increased, providing the County with a progressive, effective, and comprehensive transportation system. OCTA has seven primary service programs that support the transportation system in Orange County: bus operations, commuter rail, Measure M, 91 Express Lanes, planning and capital projects, and motorist and other services.

OCTA accounts for its operations by using separate funds to manage and report all financial activities of its many programs. The general fund finances most of the administrative and planning functions of OCTA, and includes the Finance, Administration, and Human Resources; Development; Employee & Labor Relations; Transit; and External Affairs divisions as well as the Chief Executive Officer's Executive Office, Clerk of the Board, and Internal Audit Department. Special revenue and capital projects funds are used to account for many of OCTA's revenue sources restricted by law or Board policy. A debt service fund is used to account for debt service activities related to OCLTA's sales tax revenue bonds. Enterprise funds are used to account for operations of the OCTD, 91 Express Lanes and Orange County Taxicab Administration Program (OCTAP).

Revenue sources consist primarily of sales tax apportionments, farebox collections, tolls and related fees, gasoline sales tax, interest income, federal capital and operating assistance grants, state grants, property taxes, and vehicle registration fees. On November 6, 1990, the voters of Orange County passed Measure M, which provided for a local transactions and use tax of 1/2 percent for 20 years to pay for a wide variety of freeway, road and transit improvements in the County. On November 7, 2006, Orange County voters approved by a 69.7 percent margin the continuation of Measure M for another 30 years until 2041. Called Renewed Measure M, this new transportation improvement plan, much like the original Measure M, will continue to deliver much needed freeway improvements as well as improvements to streets and roads and transit. A 1/4 percent sales tax, as outlined in state law, provides operating assistance for transit service, as well as a small percentage for planning and administrative support. Over the next four years, $38 million from this source will be diverted annually to the County; however, over the next six years, OCTA will be receiving $23 million of the County of Orange share of gas tax revenue annually from the State of California in exchange for these diverted funds. The diverted money will be used by the County as part of its bankruptcy recovery effort. OCTA also receives 5.88 percent of total statewide receipts for sales and use taxes on gasoline and diesel fuel.

Every year, OCTA develops its staffing, operating, and capital plans for the upcoming fiscal year. The product of this effort is the fiscal year budget. The budget outlines the expected funding sources and uses of funds that represent OCTA's year-long commitment to transportation projects and services. The budget also presents the projected fund balance for all funds that encompass OCTA. The budget is recorded in OCTA's accounting system, where it is compared with actual performance. Staff ensures that the budget is adopted by the Board of Directors before the beginning of each fiscal year. During the fiscal year, all major budget revisions and updates are presented to the Board for consideration and adoption.

Once adopted, staff ensures that the Board is kept well informed of budget versus actual performance. Budget control is accomplished through the following means:

- On a monthly basis, staff reviews actual monthly and year-to-date performance against the budget and provides a forecast for the remainder of the fiscal year. As part of this review, all materially significant variances and revisions are explained.

- On a quarterly basis, as part of the Board's regular agenda, staff reports OCTA's financial results in the Quarterly Budget Status Report. This report compares actual quarterly and year-to-date performance to budget in the areas of revenue, staffing, operating and capital expenditures. The quarterly budget status report for the fourth quarter summarizes the full year's performance against the approved budget.

OCTA monitors its long-term financial condition by updating a 20-year Comprehensive Business Plan (CBP) each year. The CBP is a business-planning tool designed to assist the OCTA in implementing its strategic goals and objectives. The CBP encapsulates OCTA's programs and outlines goals and objectives over the next 20 years, as articulated by the Board of Directors. Through the use of financial modeling and divisional input and review, a comprehensive study of economic influences and programmatic needs and objectives are incorporated into a business-planning document. The CBP validates the feasibility of proposed program and service levels, anticipates a variable economic environment, and identifies and proposes policy direction. The CBP is an evolving document that is updated annually in response to the ever-changing social, political, and economic environment. The CBP lays the foundation for the annual budget process.

The CBP projects service and capital requirements for the bus system. To ensure that adequate funds are available for future capital purchases, OCTA has set up a capital asset reserve. Funds are deposited each year in the capital asset reserve and withdrawn when necessary. Major cost drivers that could hinder the ability to provide increased levels of bus service in the future include changes in fuel prices, health care premiums, retirement rates, workers' compensation costs, and demand for federally-mandated service for persons with disabilities.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which OCTA operates.

Orange County Economy

Orange County's diverse economy has had relatively steady positive growth over the last several years, however traditional indicators point to a slight decline in the regional economy over the next two years. OCTA continuously monitors changes in the economy because of the potential impact on future sales tax receipts and other revenues vital to the organization.

Taxable sales have been rising every year, but at a decreasing rate. Recent forecasts estimate that the growth rate has declined from 8.8 percent in 2004 to an estimated 5.1 percent in 2007. Taxable sales have been impacted directly from lower income growth in Orange County. Similarly, personal income has decreased from 6.8 percent to an estimated 5.5 percent for the same period.

During 2006, Orange County experienced employment growth of 2 percent. Recent forecasts for calendar year 2007 estimate a growth rate of 1.2 percent. Forecasts indicate a mild slowdown in employment will affect the local economy through 2008. Six major industries account for approximately 85 percent of all jobs in the County: 44.1 percent services, 10.3 percent retail trade, 9.6 percent state and local government, 8.9 percent financial activities, 7 percent construction, and 5.4 percent wholesale trade. The remaining 15 percent consists of non-durable goods, durable goods, high technology, transportation and public utilities, and mineral extraction. Estimated employment within Orange County is 1.54 million workers for the calendar year 2007.

Although the value of building permits growth rate spiked to 31.2 percent in 2006, it is forecasted to level off in 2007 at 0.5 percent and indicates that construction spending is holding up. The change in the value of building permits in the County exemplifies the slowdown in housing starts, which will place downward pressure on the construction sector.

Summary of OCTA Activities and Services

Bus Transit—The United States (U.S.) Census Bureau estimated Orange County's population at more than three million in 2006. From all indications, the population will continue to grow and place renewed importance on improving the County's public transit system and the mobility it provides residents. By the end of fiscal year 2007, the OCTA bus system recorded more than 69 million passenger boardings. The American Public Transportation Association (APTA) ranked OCTA as the public transportation system with the 12th highest ridership in the U.S. during calendar year 2006. This growing ridership reflects the continuing success of OCTA's "Putting Customers First" program. Since much of OCTA's ridership is transit dependent, the continuous improvement of local bus service plays a vital role in the County's economy.

OCTA's Summer Youth Bus Pass Program entered its sixth successful year. Designed to promote trial ridership, the program encourages youths from age 7 to 18 to use public transportation during the summer months. As an additional incentive for young pass holders, each Summer Youth Bus Pass also served as a discount card good at more than 80 popular County destinations. The special three-month pass went on sale May 1 and was valid June 1 – August 31. During 2007, Summer Youth Bus Pass sales soared to 3,327, a 21 percent increase over the previous year.

Three years ago, OCTA began the "youthNmotion" program, a partnership effort with local schools and youth organizations to encourage youth bus ridership. OCTA representatives conducted lively interactive "youthNmotion" presentations at schools and youth clubs demonstrating how easy it is to ride the bus. During the past year, a record was set with 18,967 youths ages 11 to 16 participating in the program.

OCTA also continued its outreach program for senior citizens entitled, "Be There," for a third year. Through an easy-to-follow brochure, hands-on presentations and a fun trial bus ride at senior centers, OCTA outreach staff demonstrated how easy and economical it is for seniors to get wherever they want to go by bus. During fiscal year 2007, OCTA staff conducted a variety of presentations and attended senior fairs and expositions, reaching a total of 12,000 seniors and introducing them to OCTA's convenient and economical bus service.

OCTA created its Employer Pass (E-Pass) program to foster relationships with the employer community and to encourage greater use of public transportation by Orange County's growing employee population. E-Pass is an annual bus pass exclusively for employers to make available to their employees. OCTA administers the program, and employers are charged a maximum monthly cost of $45 per employee, no matter how many rides are taken. E-Pass provides employees with a convenient annual swipe card to make boarding the bus easy. Fiscal year 2007 was the third year of the E-Pass Program and represented the greatest increase in E-Pass use—a jump of 38 percent since the program began—with a total of 18,522 E-Passes in use.

The University Pass (U-Pass) allows universities to provide growing student enrollments with convenient transportation and ease on-campus parking constraints. With the U-Pass, students, faculty, and staff swipe their validated campus IDs and get unlimited access to OCTA local buses. The university is charged 75 cents per boarding up to a maximum of $30 per month for students and $45 per month for faculty and staff. California State University, Fullerton (CSUF) and the University of California, Irvine (UCI)—two of the largest campuses in the County—have U-Pass programs in effect. Now in its third year, the U-Pass program generated a 10 percent increase since the program began, with 30,755 U-Passes in use.

Following on the success of its U-Pass Program, OCTA created the College Pass (C-Pass) Program exclusively for college students, faculty and staff. The program offers two special discounted passes: the Quarter Pass, good for 75 days and the Semester Pass, good for 120 days. With rising gasoline prices and a shortage of parking facilities at many campuses, C-Pass affords economical and dependable transportation for students. During fiscal year 2007, 11 colleges participated in the program and together accounted for a total of 88,109 75 day passes and 161,894 120 day passes sold.

The transit infrastructure was improved with the completion of a compressed natural gas (CNG) fueling system at OCTA's Santa Ana Maintenance and Operations Center. This new addition to the facility is capable of fueling over 200 CNG buses. A total of 299 new CNG buses have been ordered and will be joining the OCTA fleet through summer 2008.

Vanpool Program—In July 2007, OCTA began a new program to provide assistance to commuters who work in Orange County and live in Los Angeles, Orange, Riverside or San Bernardino counties. As the County's first public-private partnership, the program helps connect groups of commuters with private vanpool companies. OCTA subsidizes qualified vanpools with a monthly payment to defray part of the cost of the service shared by each vanpool group. Within the first month after the program was initiated, 55 vans had enrolled in OCTA's Vanpool program.

91 Express Lanes—During fiscal year 2007, drivers took 14.6 million trips on the 91 Express Lanes toll road. Traffic volume increased 2.8 percent over the previous year. OCTA continued its innovative congestion management policy encouraging commuters to carpool and reduce the number of vehicles in the lanes. The policy also motivates drivers to commute at times when there is less traffic. OCTA's "Three Ride Free" program allows carpools of three or more to use the high occupancy vehicle three plus (HOV3+) lane on the 91 Express Lanes for free during most hours and at a 50 percent discount during high demand times. During fiscal year 2007, HOV3+ trips reached 3,064,829-a 6.6 percent increase over fiscal year 2006.

For 91 Express Lanes customers, the alternate commute gave them a priceless gift of time. According to a June 2006 Customer Satisfaction Survey, users reported saving about 38 minutes per trip in the afternoon by using the toll road.

OCTA's policy of maximizing the number of vehicles that can travel on the 91 Express Lanes continues to demonstrate positive results. Traffic increased in all categories during fiscal year 2007. Full toll trips increased by 2.4 percent and carpools of three or more rose 6.6 percent over the previous year.

Freeway Improvements—Freeway improvements continue to be the cornerstone and most visible component of the Measure M Traffic Improvement and Growth Management Plan approved by County voters in 1990. Since the creation of OCTA, the Board made accelerating freeway construction a top priority to provide transportation relief to motorists as quickly as possible.

While the majority of Measure M freeway improvements are nearly complete, OCTA continues to plan other projects well into the future. This will require OCTA to aggressively seek federal, state and private sector funding of long-term projects. Nevertheless, a number of projects experienced significant progress in the last year including:

Santa Ana Freeway (I-5): The majority of improvements to the I-5 in Orange County have been completed using Measure M dollars combined with federal and local funding. Construction began in May 2006 to widen the last two miles of I-5 from the SR-91 Interchange up to the Los Angeles County line through the City of Buena Park. Measure M is contributing nearly $179 million toward the $314 million project, known as the I-5 Gateway Project. The I-5 Gateway Project will provide travelers on the I-5 with one new carpool and one additional general purpose lane in each direction, as well as auxiliary lanes to make entering and exiting the freeway safer and easier. Completion is scheduled for mid-2010.

Garden Grove Freeway (SR-22): The $550 million SR-22 improvement project covered approximately 12 miles through the cities of Westminster, Garden Grove, Santa Ana, and Orange. This project added continuous access carpool lanes from approximately the SR-55 to Valley View Street, auxiliary lanes and several interchange improvements along the freeway. An elevated connector designed to eliminate weaving was added, separating the southbound Orange Freeway (SR-57) connector and The City Drive ramps to the westbound SR-22. OCTA used the design-build method to improve the SR-22, with a single contract firm for final engineering and construction. The design-build process—a first for OCTA and a first in the State of California on an active freeway—increased efficiency and helped shave years off the project.

Renewed Measure M Delivery (Freeway Chokepoints)—A major area of emphasis for transportation system improvement is alleviating bottlenecks (chokepoints) by identifying and improving freeway congestion areas throughout Orange County. Freeway bottlenecks occur in locations where diverging roadway operations are hampered by unusually heavy weaving and merging. Remedies for bottlenecks include the addition of auxiliary lanes between interchanges, interchange or ramp modifications, re-striping and improved signage, as well as the extension of auxiliary lanes through interchanges when warranted by high traffic volumes. The Renewed Measure M Plan includes highway improvements that provide additional capacity and freeway improvement projects identified as part of the OCTA Chokepoint Program. These projects have been merged into the Renewed Measure M highway improvement projects.

The OCTA Board of Directors has approved an Early Action Plan for Renewed Measure M. This five-year plan is a commitment to early delivery of more than $1.6 billion worth of transportation systems improvements by 2012. At present there are 30 projects under development along the I-5, SR-55, SR-57, SR-91, and San Diego Freeway (I-405). OCTA and California Department of Transportation (Caltrans), in conjunction with local jurisdictions, are working cooperatively to deliver the improvements as part of the Early Action Plan between 2007 and 2012. Significant progress has been achieved with several projects constructed or advancing to the next stages of development, including these improvements to the SR-91 corridor:

- SR-91 westbound from SR-55 to Tustin Avenue
- SR-91 eastbound from SR-241 Eastern Toll Road to Corona Expressway (SR-71)
- SR-91 eastbound/westbound from SR-241 to Imperial Highway

The improvements under study on the eastbound SR-91 between SR-241 and SR-71 will complement two westbound projects that were completed in Spring 2004. The Project Report/Environmental Document phase of this project is expected to be completed by December 2007. In order to ease congestion along one of the most congested freeway corridors between Orange and Riverside Counties, OCTA and the Riverside County Transportation Commission (RCTC), in conjunction with Caltrans, have initiated early design activities to begin construction on this project by August 2009.

In addition to the SR-91 improvements, OCTA is developing conceptual improvements to the I-5/SR-55 interchange in central Orange County. Beyond these efforts, OCTA and Caltrans are continuing to develop freeway improvement projects at the following locations:

- SR-91 westbound from SR-57 to I-5
- SR-91 Widening between SR-55 and Gypsum Canyon
- SR-57 northbound from Katella Avenue to Lincoln Avenue

The development work underway focuses on preliminary engineering and environmental analysis to refine these projects for design and construction. The following projects have advanced to the final design phase:

- I-5 southbound at Camino Capistrano
- I-5 southbound at Culver Drive
- I-5 southbound at Oso Parkway
- SR-57 northbound from Orangethorpe Avenue to Lambert Road

OCTA, in partnership with Caltrans and local cities, has successfully completed the final design phase of several projects. The following projects are either in construction or ready to begin the construction phase:

- I-405 from Magnolia Avenue to Beach Boulevard
- I-5 southbound at Avenida Pico

Major Investment Studies—In addition to the previously listed freeway projects, OCTA is conducting several Major Investment Studies (MIS) to improve travel on Orange County freeways.

Central County Corridor Major Investment Study: In April 2005, the Board endorsed five major conceptual alternatives for improving travel in central Orange County through the Central County Corridor MIS. The study area is bound by Ball Road on the north, Pacific Coast Highway on the south, Beach Boulevard on the West and SR-55/Newport Boulevard on the east. Phase 1 of this MIS produced five conceptual transportation alternatives.

During 2005, the OCTA Board of Directors instructed staff to consult with the Army Corps of Engineers on the physical feasibility of extending SR-57 within the Santa Ana River Channel. As a result of those discussions, staff undertook a SR-57 Extension Concept Planning Study. This study defines a concept for the extension of the SR-57 from its current terminus at the 5/57/22 Interchange south to the I-405, within the Santa Ana River Channel. The purpose of the study is to develop this alternative strategy to a sufficient level of detail to determine the hydrologic and hydraulic feasibility of the alternative.

Next steps include staff presenting the findings from the SR-57 Extension Concept Planning Study to the Board in Fall 2007. At this time, a decision will be made as to whether or not the SR-57 Extension will be included as part of the Central County Corridor Major Investment Study (CCCMIS). The CCCMIS is projected to begin in early 2008 and take approximately 18 months to complete. The study will lead to development of a "locally preferred strategy," including a package of solutions that collectively will address current and projected transportation needs in central Orange County.

The San Diego Freeway (I-405) Major Investment Study: This major study covering the I-405 corridor from the San Gabriel River Freeway (I-605) to the Corona Del Mar Freeway (SR-73) kicked off in late 2003. In Spring 2004, the study entered the conceptual alternatives stage. The technical team presented the public with 13 possible solutions to the congestion problem. After receiving input from the public, elected officials, and business and community leaders, the technical team reviewed the 13 conceptual alternatives for feasibility and cost effectiveness to narrow the possibilities down to three. In October 2005, after carefully considering input from the public and the project's elected officials group, the OCTA Board selected the "minimal widening" alternative for further study. That alternative includes the addition of one lane between Brookhurst Street and the I-605 Freeway in both directions, as well as operational improvements between critical freeway interchanges.

A Project Study Report (PSR) was initiated in January 2007. This engineering study continued the analysis of the minimal widening alternative approved by the OCTA Board. Another alternative being considered while utilizing the same footprint as the minimal widening alternative is the addition of two general purpose lanes in each direction. In order to accommodate the second general purpose lane, non-standard lanes/shoulder would be incorporated and would require approval from Caltrans/Federal Highway Administration.

Next steps include completing the Project Study Report and carrying forward a set of viable alternatives into the environmental phase. The environmental document is expected to start in Summer 2008.

South Orange County Major Investment Study: In October 2005, OCTA launched the South Orange County Major Investment Study (SOCMIS). The objective of the study is to develop consensus on a multi-modal transportation improvement strategy for South Orange County for the next 25 years.

The Study involves three phases:

- **Phase I -** Purpose and Need Statement and the Initial Set of Alternative Strategies
- **Phase II -** Screening the Initial Set of 14 Alternative Strategies, and reducing these to 4 to 6 alternative strategies for more detailed evaluation
- **Phase III -** Identification of a locally preferred strategy in early 2008

Phase I was approved on May 14, 2007, by the OCTA Board of Directors. Phase II screening took place during Summer 2007 and was approved by the Policy Advisory Committee on August 1, 2007. Approval included six (6) alternative strategies for further consideration.

Next steps include OCTA staff returning to the OCTA Board in September 2007 with a Screening Report and a reduced set of recommended Conceptual Alternatives. Public Open Houses on the reduced set are anticipated for fall 2007. A detailed technical evaluation of the reduced set of conceptual alternatives will occur at that time. The study will identify a Locally Preferred Strategy for the south Orange County study area in early 2008.

Riverside County to Orange County Major Investment Study: The OCTA and the RCTC, in partnership with the Foothill/Eastern Transportation Corridor Agency (F/E TCA), began the Riverside County-Orange County Major Investment Study (MIS) in 2004. This 18-month planning study was directed towards developing solutions to improve mobility between Orange and Riverside counties. In December 2005, the OCTA Board of Directors unanimously approved a comprehensive strategy for improving traffic flow between Orange and Riverside counties. The improvement plan marks the culmination of the 18-month study. The "locally preferred strategy" approved by the OCTA and ratified by RCTC, will act as a roadmap for future transportation improvements. The projects recommended for further study and consideration include:

- Make improvements to the SR-91 the first priority by adding up to two new lanes in each direction, starting with improvements between the Ontario Freeway (I-15) and the SR-241, followed by improvements between SR-241 and the SR-55.
- Work with the F/E TCA to encourage usage of the toll roads by improving the connection between SR-241 and SR-91, and by widening the Foothill/Eastern toll roads.

- Continue evaluating the costs and potential impacts of adding a new four- or six-lane elevated highway parallel to SR-91 between I-15 and SR-241.
- Continue studying the technical feasibility of building a new four- or six-lane highway, which could include a tunnel, between I-15 at Cajalco Road in Riverside County and the intersection of SR-241 and SR-133 in Orange County, including joint-use opportunities and potential funding options.
- Balance highway improvements with new transit service, including increased Metrolink service, express bus service and continued study of Maglev high-speed rail service between Anaheim and Ontario.
- Eliminate a proposal to connect a new elevated highway to SR-91 and SR-55 due to high residential right-of-way impacts that would be necessary to widen SR-55.
- Eliminate further study of widening Ortega Highway (SR-74) due to high costs and environmental impacts; continue studying operational and safety upgrades.
- Negotiate cooperative agreements or joint powers agreements with other agencies for future technical studies of proposed projects.

Progress continues on implementation of all of these actions. Various coordinated planning efforts are underway to add capacity between SR-241 and I-15, conduct new corridor technical studies, perform engineering analysis of Metrolink improvements, study SR-74 operational improvements, and discuss potential new institutional arrangements for building and operating new transportation facilities.

Next steps include continued work on the SR-74 operational and safety study and the SR-91/SR-241 High Occupancy Vehicle/High Occupancy Toll (HOV/HOT) and 91 Express Lanes Extension Feasibility Study, both initiated by OCTA in July 2007.

In cooperation with the Riverside County Transportation Commission, and the Riverside Transit Agency, express bus service between Riverside and Orange counties will be expanded. These include Riverside/Corona to: South Coast Metro (implemented fall 2006); Tyler to Irvine Business Complex/UCI; North East Anaheim and CSUF; and Anaheim Resort. Implementation of the latter three express bus services is anticipated by 2011.

The SR-91 eastbound lane addition to SR-71 project obtained Corridor Mobility Improvement Account funding in April 2007. This project would add one eastbound lane from SR-91/SR-241 interchange to SR-71/SR-91 interchange and widen all eastbound lanes and shoulders to standard widths.

The SR-91 project from SR-55 to Gypsum Canyon project obtained Corridor Mobility Improvement Account funding in April 2007. This project would add one general purpose lane on eastbound SR-91 from the SR-91/55 connector to east of the Weir Canyon Road interchange and on westbound SR-91 east of Weir Canyon Road interchange to the Imperial Highway (SR-90) interchange. This project would also modify the westbound on-ramps from Lakeview Avenue interchange.

Orange County/Los Angeles Inter-county Transportation Study: OCTA, in cooperation with the Metropolitan Transportation Authority (MTA), is conducting a nine-month strategic transportation study focusing on border issues and opportunities between Orange and Los Angeles counties. The preliminary study area is generally defined as the regional highway facilities and related arterial segments serving northern and western Orange County population and employment centers. The Orange County/Los Angeles County (OC/LA) Border Study will identify and evaluate a broad range of multi-modal transportation opportunities and improvements. The objective of this study is to identify and narrow down potential transportation improvements through a screening process and public outreach effort into reasonable alternatives that can be carried forward into a separate, future engineering and environmental analysis.

OCTA and MTA will begin this study in August 2007 and anticipate its conclusion by June 2008. The next steps include completing Travel Demand Modeling by Fall 2007 to identify key issues along the corridor. The findings will be presented to the Steering Committee. Then a Purpose and Need Statement will be developed.

Riverside County to Orange County Corridor Study: OCTA and the RCTC, in partnership with the Foothill/Eastern Transportation Corridor Agency (TCA), joined together to improve mobility between Orange and Riverside counties. The Riverside County — Orange County MIS began in Summer 2004 and consisted of working with the public to identify the key concerns and issues related to improving mobility between the two counties. After 18 months of study, including extensive public outreach, the OCTA and RCTC boards of directors both approved a package of recommendations on moving forward to improve mobility between the two counties. The recommendations included:

- Establish the SR-91 between the SR-55 and the I-15 as a priority for improving transportation between Riverside and Orange counties.

- Emphasize SR-91 improvements between the SR-241 and I-15 first, followed by improvements between SR-55 and SR-241.

- Continue to work with the Foothill/Eastern Transportation Corridor Agency to:
    - Develop a mutually acceptable plan to improve the connection between the SR-241 and SR-91 corridors
    - Accelerate capacity improvements on (SR-133), SR-241 and (SR-261) to optimize their use and improve travel between Riverside and Orange counties.
- Continue to evaluate costs and impacts for a new corridor within the existing SR-91 right-of-way through a preliminary engineering process in cooperation with other agencies.
- Continue to study the technical feasibility of a new corridor concept (between the City of Corona and the City of Irvine) including costs, risks, joint-use opportunities, benefits and potential funding options in cooperation with the OCTA/RCTC, TCA, Metropolitan Water District, and other interested agencies.
- Continue to study Ortega Highway (SR-74), focusing on making operational/safety improvements on SR-74.

Streets and Roads—Local streets and roads provide daily transportation for Orange County's more than three million residents and are a critical component of the County's vast transportation network. There are presently more than 7,200 miles of local streets and roads within Orange County.

OCTA allocates funding to local governments to supplement their programs for maintaining and improving roadways. Projects include the elimination of potholes, rough surfaces and bottlenecks, as well as increasing street and road capacity to improve mobility and reduce traffic congestion throughout the County.

During fiscal year 2007, OCTA allocated approximately $65.6 million in Measure M funds through the competitive Combined Transportation Funding Program and $41.1 million in formula turnback funds for a total investment of $106.7 million to streets and roads in Orange County. Since the passage of Measure M in 1990, local cities and the County have received more than $881.9 million in Measure M revenues.

Paratransit—OCTA operates curb-to-curb paratransit van service for persons with disabilities. This service, known as ACCESS, is mandated by the Americans with Disabilities Act (ADA) and is intended to provide public transit service to persons who are unable to use regular fixed-route buses. ACCESS service requires the completion of an eligibility process to determine the rider's transportation limitations. Demand for ACCESS has continued to grow since its inception in 1993. ACCESS provided 1,231,346 unlinked trips during fiscal year 2007, an increase of 10.5 percent from the previous fiscal year.

Paratransit Growth Management strategies implemented in July 2005 have been successful in slowing the rate of growth and demand on ACCESS. These strategies included: increasing the efficiency of OCTA's ADA paratransit service; educating the disabled community on the value of OCTA's 100 percent accessible fixed route service; creating a more balanced fare structure consistent with ADA requirements; and increasing overall fixed route services for our customers with special needs. Additional strategies will continue to be evaluated and implemented to manage ACCESS growth.

In July 2006, Veolia Transportation, Inc. assumed the contract for the provision of ACCESS service. This is a turnkey contract, which includes operations, maintenance, scheduling, and dispatching. Veolia has subcontracted with a taxi provider to operate late night and supplemental ACCESS service. Currently, taxi trips comprise approximately 10 percent of all ACCESS service. In addition, the ADA eligibility contract was awarded to a new contractor. CARE Evaluators assumed the contract in September 2007, implementing a streamlined, digital process for eligibility administration, which has resulted in a significant savings of staff time and resources.

OCTA also has developed and implemented several effective programs for seniors and special needs customers. The Senior Mobility Program, which supplies operating funds and retired vehicles to local cities' senior programs, provided more than 19,000 trips per month in fiscal year 2007. OCTA introduced Reduced Fare IDs in fiscal year 2006 that allow paratransit customers to use the 100 percent accessible fixed-route service for only $0.25. More than 66,000 ACCESS reduced fare boardings were recorded during the last fiscal year. In addition, OCTA partners with the Orange County Office on Aging, cities and senior centers throughout the County to provide nutrition transportation service via contracted taxi providers. OCTA also provides an operating subsidy to transport developmentally disabled adults and seniors to and from vocational programs, senior service agencies, and adult day care facilities using alternative transportation providers.

Rail Service (Metrolink)—Rail service is operated by the Southern California Regional Rail Authority (SCRRA) and is popularly known as Metrolink. SCRRA is a joint powers authority formed by transportation agencies in five counties including OCTA. Metrolink serves Orange County with 44 train trips per weekday along three rail lines:

- Orange County (OC) Line with station stops in Oceanside, San Clemente, San Juan Capistrano, Laguna Niguel/Mission Viejo, Irvine, Tustin, Santa Ana, Orange, Anaheim, Fullerton, Norwalk/Santa Fe Springs, Commerce and Downtown Los Angeles

- Inland Empire/Orange County (IEOC) Line serving stations in San Bernardino, Riverside Downtown, Riverside-La Sierra, North Main Corona, West Corona, Anaheim Canyon, Orange, Santa Ana, Tustin, Irvine, Laguna Niguel/Mission Viejo, San Juan Capistrano, San Clemente and Oceanside
- 91 Line serving stations in Riverside Downtown, Riverside-La Sierra, North Main Corona, West Corona, Fullerton, Norwalk/Santa Fe Springs, Commerce and Downtown Los Angeles

During fiscal year 2007, total rail ridership for the three lines serving Orange County (including Metrolink riders on Amtrak) exceeded 3.8 million passengers.

In September 2007, the Buena Park Metrolink station opened. This is Orange County's 11th station. Located in the City of Buena Park, the new station will serve the surrounding community and offer north Orange County residents an alternate Metrolink stop in addition to the existing station in Fullerton.

In 2006, OCTA introduced Metrolink Weekends, a new weekend rail service on the OC and IEOC lines, affording passengers a choice of visiting San Bernardino, the Inland Empire, the beaches of San Clemente and Oceanside, or traveling north to Los Angeles. To promote ridership for the new weekend rail service, member agencies agreed to offer 50 percent off the regular weekday fares through June 2007. To further encourage weekend ridership, “Free Station” promotions were held one weekend day each month at one of ten Orange County Metrolink stations. The "Free Station" promotions drew nearly 3,000 participants. After its first year of service Metrolink Weekends ridership reached 114,672.

Advanced Transit—As directed by the Board, OCTA staff proposed a five-year program for advanced transit within Orange County. The components of the program include:

- Implementing three bus rapid transit (BRT) projects serving Harbor Boulevard, Westminster/17th Street, and a 28-mile corridor from the Brea Mall to the Irvine Transportation Center.
- Constructing transitway/HOV drop ramps to activity centers on the I-405. The 28-mile BRT corridor from the Brea Mall to the Irvine Transportation Center could be enhanced by using the HOV lanes for BRT by constructing drop ramps to the I-405 at Bear Street and Von Karman Avenue. These drop ramps would allow BRT to directly serve John Wayne Airport and activity centers in Costa Mesa and Irvine.

- Adding West and Central Orange County HOV lane connectors to complement the improvements to the SR-22. HOV lane connectors at the confluence of the SR-22, I-405 and the I-605 would enhance congestion relief, improve mobility and complete a continuous system of HOV lanes that also could be used to link express buses on five freeways.
- Expanding Metrolink service between Laguna Niguel and Fullerton to provide all-day, evening and weekend service within Orange County every 20 to 30 minutes, seven days a week.
- Investing in gateways to regional rail by interconnecting Metrolink commuter rail service to future high-speed rail lines that would serve distant areas such as the San Francisco Bay Area, Los Angeles, San Diego and Ontario Airport.
- Extending the reach of the Metrolink commuter rail by providing funding to cities to identify ways to make Metrolink more convenient to more people.

Motorist and Other Services—OCTA also facilitates other state and locally funded programs primarily related to motorist services.

Service Authority for Freeway Emergencies (SAFE)—Orange County broke new ground in 1987 when it pioneered a solar-powered cellular technology call box system. During 2003, the entire network was equipped with Text Telephone assistance devices for the hearing impaired. The program is funded by a $1 per year fee on vehicles registered in Orange County. Today, the Orange County call box system consisting of approximately 585 call boxes is the fourth largest in the state.

Freeway Service Patrol (FSP)—Orange County's FSP, which consists of a fleet of dedicated tow trucks that patrol the County's vast freeway system, helps to keep freeways flowing freely by removing disabled cars and other physical impediments. By assisting drivers with dead batteries, empty gas tanks, and flat tires, traffic congestion from freeway incidents has been greatly reduced.

FSP is sponsored by SAFE and the California Highway Patrol and is funded by California State Highway funds administered by Caltrans and matching funds from SAFE. This program is part of an overall plan to significantly improve freeway traffic flow and reduce smog caused by stop-and-go congestion. Orange County's FSP fleet utilizes 35 tow trucks during peak hours and five tow trucks during midday hours to assist stranded motorists.

Service Authority for Abandoned Vehicles (SAAV)—Established in October 1991, SAAV funds the cost of removing abandoned vehicles from roadsides throughout Orange County. Funded by a $1 per vehicle registration fee, this program allows the County and its 34 cities to remove unsightly and potentially dangerous vehicles from local Orange County streets and roads. Using SAAV funds for this purpose means that cities do not have to use important law enforcement and code enforcement funds on vehicle removal. Since it began, the SAAV program has removed approximately 332,000 abandoned vehicles from Orange County streets and roads.

Orange County Taxicab Administration Program (OCTAP)—OCTAP is a regulatory program operated by OCTA to regulate taxicab companies, drivers, and vehicles on behalf of Orange County's 34 cities as well as the County. OCTAP began operation in January 1998. The service is funded by fees paid by taxicab drivers and operators, requiring no tax subsidies. Prior to OCTAP, each taxicab company and its affiliated drivers had to follow a variety of rules and regulations established by each of the cities in which they operated. This made the task of ensuring compliance with taxicab rules and regulations difficult and time consuming. OCTAP was established to alleviate the administrative burden from local cities, centralize the issuance of permits to taxicab companies and drivers, and eliminate duplication of efforts. Local police departments conduct enforcement. All 34 cities in Orange County and the County itself participate in the program, ensuring added efficiency and effectiveness for local governments countywide. By the end of fiscal year 2007, OCTAP was responsible for the permitting of 20 taxi companies, 786 taxicabs and 1,167 taxi drivers.

Cash Management—OCTA's Treasury/Public Finance Department contracts with several private sector investment management firms to manage the majority of OCTA's cash assets. Separate investment accounts are maintained for the proceeds and the interest earnings from each of OCTA's debt issues. The remainder of OCTA's cash and investments are maintained in commingled accounts, with interest earnings allocated to the respective funds and accounts based on daily dollar average balances.

Each of the investment manager's accounts is monitored on a daily basis by the Treasury/Public Finance Department to ensure compliance with OCTA's investment policy. The investment policy has been adopted by OCTA's Board of Directors and is approved annually to ensure that it complies with all applicable laws and regulations and that the policy meets OCTA's foremost investment objective: *safeguarding of principal*.

OCTA maintains commercial checking accounts at Bank of the West for the purposes of issuing payroll and general accounts payable. The bank collateralizes all balances over $100,000 covered by the Federal Deposit Insurance Corporation with a pooled collateral account held by the financial institution's trust department in OCTA's name.

The Treasury/Public Finance Department prepares monthly reports for presentation to the Finance and Administration Committee of the Board and quarterly reports to the Board. These reports review compliance with OCTA's investment policy, as well as the overall performance of OCTA's investment portfolio.

Debt Administration—As of June 30, 2007, OCTA's outstanding debt consisting of bonds, commercial paper notes, certificates of participation, and capital leases was $508 million, net of unamortized amounts. The current portion of this debt totals $79 million. Final maturity of the Measure M Sales Tax Revenue Bonds is scheduled for 2011, when the current Measure M sales tax program expires. OCTA refinanced the taxable bonds assumed in the 91 Express Lanes purchase with tax-exempt bonds in November 2003. These bonds final maturity is scheduled for December 2030. Final maturity for the transit certificates of participation is scheduled for July 2007. The commercial paper notes have a maximum maturity of 270 days, and OCTA has entered into an irrevocable direct-pay letter of credit reimbursement agreement with Dexia Bank to provide liquidity support for the commercial paper notes.

Risk Management—OCTA management is of the opinion that recorded liabilities for OCTA's claims are adequate, and resources are being accumulated in the internal service funds to meet potential losses. In addition, a series of training and wellness programs for OCTA administrative, maintenance and coach operator employees seek to evaluate and control losses in health and workers' compensation claims. Defensive driving, customer service and assistance, and other coach operator training programs seek to control general claim exposure.

Pension Benefits—A majority of OCTA's employees participate in the Orange County Employees Retirement System, which is a cost-sharing, multiple-employer defined benefit plan. A nominal number of employees participate in the Public Employees' Retirement System of the State of California. Financial activities for the two retirement systems are not included in this document as the Board does not oversee the retirement systems.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the OCTA for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the 24th straight year OCTA or its predecessor agency has received this prestigious award. In order to be awarded a Certificate of Achievement, OCTA published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the U.S. and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the CAFR on an efficient basis required the dedication of staff in many OCTA departments. We wish to express our appreciation to all the department managers and staff who assisted and contributed to the preparation of this report, as well as our independent auditors for their participation in the review and preparation of this report. Special appreciation is extended to the Board for its support for efforts to excel in the operational and financial management of OCTA.

Respectfully submitted,

Arthur T. Leahy

Arthur T. Leahy
Chief Executive Officer

James S. Kenan

James S. Kenan
Executive Director of Finance, Administration and Human Resources

(AS OF JUNE 30, 2007)

BOARD OF DIRECTORS

DEPUTY CEO
PAUL C. TAYLOR

FUNCTIONS:
- Motorist Services

CHIEF EXECUTIVE OFFICER
ARTHUR T. LEAHY

CLERK OF THE BOARD
WENDY KNOWLES
DIRECTOR

INTERNAL AUDIT
KATHLEEN O'CONNELL
MANAGER

CHIEF OF STAFF
P. SUE ZUHLKE

FUNCTIONS:
- Safety/Environmental Compliance
- State Relations

SPECIAL PROJECTS
MONTE WARD
DIRECTOR

FEDERAL RELATIONS
RICHARD J. BACIGALUPO
MANAGER

TRANSIT
BETH McCORMICK
GENERAL MANAGER

FUNCTIONS:
- Bus Operations
  - Transit Police Services
- Maintenance
- Service Planning & Customer Advocacy
- Operations Analysis
- Community Transportation Services

SECURITY THREAT ASSESSMENT
VACANT
MANAGER

FINANCE, ADMINISTRATION & HUMAN RESOURCES
JAMES S. KENAN
EXECUTIVE DIRECTOR

FUNCTIONS:
- Accounting & Financial Reporting
- Contracts Administration & Materials Management
- Financial Planning & Analysis
- General Services
- Information Systems
- Human Resources
- Training & Development
- Risk Management
- 91 Express Lanes
- Treasury / Public Finance

DEVELOPMENT
KIA MORTAZAVI
EXECUTIVE DIRECTOR

FUNCTIONS:
- Strategic Planning
  - Capital Programs
  - Regional Initiatives
  - Planning & Analysis
- Transit Project Delivery
  - Grade Crossing Program Management
  - Metrolink Expansion
  - Metrolink Operations
  - Local Initiatives
  - Facilities Engineering
- Highway Project Delivery
  - Program Management
  - Project Management
- Project Controls

EXTERNAL AFFAIRS
ELLEN S. BURTON
EXECUTIVE DIRECTOR

FUNCTIONS:
- Marketing
- Public Communications
- Customer Relations
- Local Government Relations

EMPLOYEE & LABOR RELATIONS AND CIVIL RIGHTS
P. SUE ZUHLKE
ACTING DIRECTOR

FUNCTIONS:
- Employee/Labor Relations
- EEO/Affirmative Action
- DBE & Title VI Programs

CAROLYN CAVECCHE
CHAIRMAN
Mayor,
City of Orange

CHRIS NORBY
VICE-CHAIR
Supervisor, District 4
County of Orange

JERRY AMANTE
DIRECTOR
Mayor Pro Tem,
City of Tustin

PATRICIA BATES
DIRECTOR
Supervisor, District 5
County of Orange

ARTHUR C. BROWN
DIRECTOR
Councilman,
City of Buena Park

PETER BUFFA
DIRECTOR
Public Member

BILL CAMPBELL
DIRECTOR
Supervisor, District 3
County of Orange

RICHARD DIXON
DIRECTOR
Mayor,
City of Lake Forest

PAUL GLAAB
DIRECTOR
Mayor Pro Tem,
City of Laguna Niguel

CATHY GREEN
DIRECTOR
Councilmember,
City of Huntington Beach

ALLAN MANSOOR
DIRECTOR
Mayor,
City of Costa Mesa

JOHN MOORLACH
DIRECTOR
Supervisor, District 2
County of Orange

JANET NGUYEN
DIRECTOR
Supervisor, District 1
County of Orange

CURT PRINGLE
DIRECTOR
Mayor,
City of Anaheim

MIGUEL PULIDO
DIRECTOR
Mayor,
City of Santa Ana

MARK ROSEN
DIRECTOR
Mayor Pro Tem,
City of Garden Grove

GREGORY T. WINTERBOTTOM
DIRECTOR
Public Member

CINDY QUON
GOVERNOR'S EX-OFFICIO MEMBER
Director, Caltrans District 12

(AS OF JUNE 30, 2007)

ARTHUR T. LEAHY	Chief Executive Officer
PAUL C. TAYLOR	Deputy Chief Executive Officer
WENDY KNOWLES	Clerk of the Board
MONTE WARD	Director, Special Projects
KATHLEEN O'CONNELL	Manager, Internal Audit
P. SUE ZUHLKE	Chief of Staff
RICHARD J. BACIGALUPO	Manager, Federal Relations

ELLEN S. BURTON	Executive Director, External Affairs
BETH MCCORMICK	General Manager, Transit
P. SUE ZUHLKE	Acting Director, Employee & Labor Relations and Civil Rights
JAMES S. KENAN	Executive Director, Finance, Administration & Human Resources
KIA MORTAZAVI	Executive Director, Development

KENNETH G. PHIPPS	Director, Finance, Administration & Human Resources
VIRGINIA ABADESSA	Director, Contracts Administration and Materials Management
LISA AROSTEGUY	Manager, Human Resources
KIRK AVILA	Treasurer / General Manager, Tollroads
JULIE ESPY	Manager, Training & Development
AL GORSKI	Manager, Risk Management
WILLIAM MAO	Chief Information Officer, Information Systems
ANDREW OFTELIE	Manager, Financial Planning and Analysis
RICH SMITH	Manager, General Services
TOM WULF	Manager, Accounting and Financial Reporting

KENNARD R. SMART, JR.	General Counsel

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange County Transportation Authority California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006

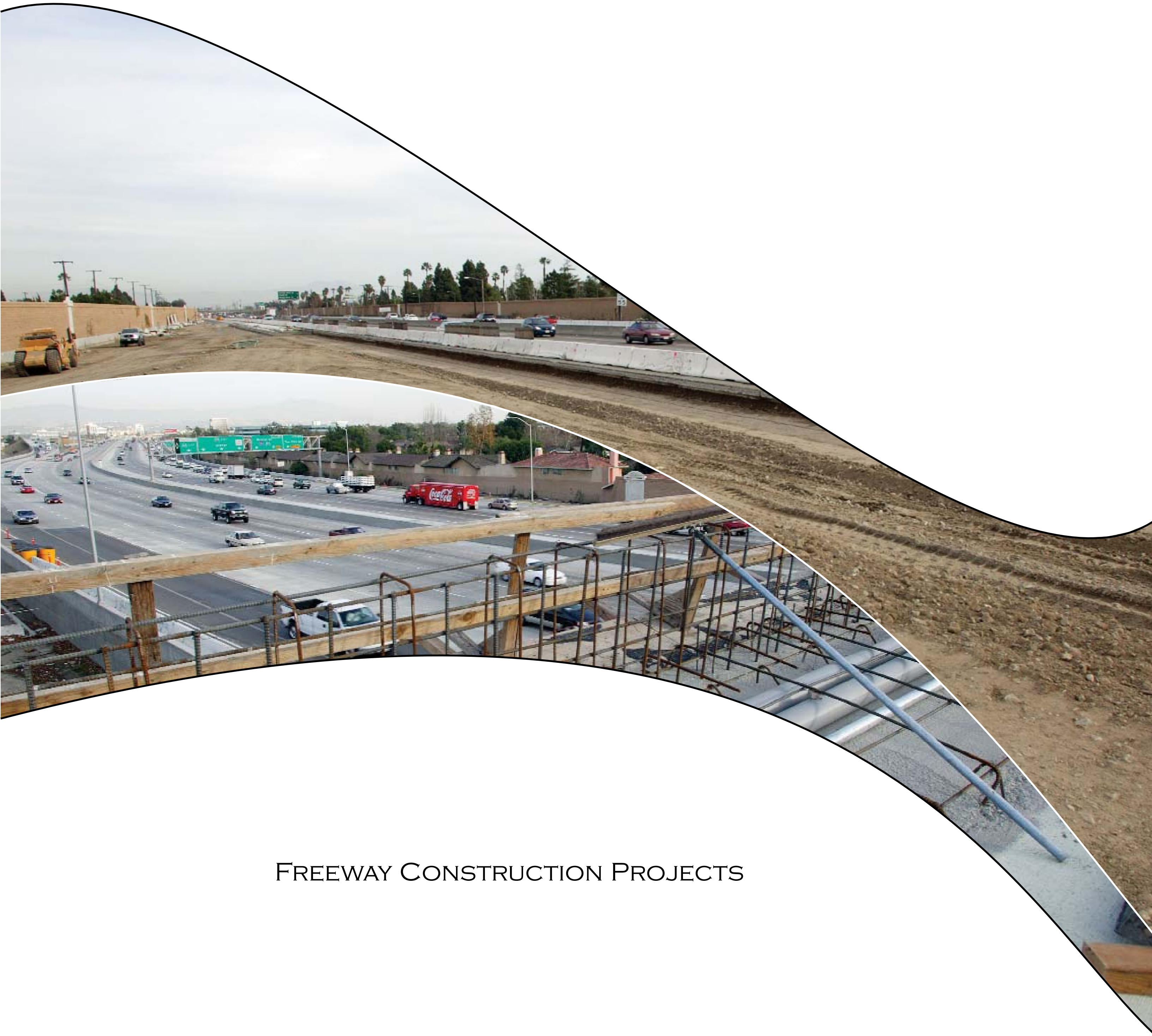
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

SR-22 Freeway



Freeway Construction Projects

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Board of Directors
Orange County Transportation Authority
Orange, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority, as of and for the year ended June 30, 2007, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, of the Authority 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* and *required supplementary information* are not a required part of the basic financial statements, but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and 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. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2007 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, 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.

Mayer Hoffman McCann P.C.

Irvine, California
October 31, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

As management of the Orange County Transportation Authority (OCTA), we offer readers of OCTA's financial statements this narrative overview and analysis of OCTA's financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider the information on financial performance presented here in conjunction with the transmittal letter on pages v-xxv and OCTA's financial statements that begin on page 14. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Total net assets of OCTA were $1,577,026 and consisted of net assets invested in capital assets, net of related debt, of $912,337; restricted net assets of $544,806; and unrestricted net assets of $119,883.

- Unrestricted net assets is comprised of ($128,311) from governmental activities and $248,194 from business-type activities. The amount from governmental activities represents liabilities in excess of assets. This results primarily from the recording of debt issued for Measure M projects, the assets for which title vests with the California Department of Transportation (Caltrans). Accordingly, OCTA does not have sufficient current resources on hand to cover current and long-term liabilities; however, future Measure M sales taxes are pledged to cover Measure M debt service payments when made.

- Beginning net assets of business-type activities were restated $3,800 due to a claim for construction of the Santa Ana Bus Base erroneously charged to the General Liability Internal Service Fund (see note 16). Additionally, net assets of governmental activities were restated $1,585 due to unrealized gain/(losses) incorrectly calculated. Net assets increased $141,817 during fiscal 2007. The increase in net assets from governmental activities of $139,607 was attributable to tax revenues in excess of net governmental program costs. The increase in net assets from business-type activities of $2,210 was related to an increase in capital grants and contributions and investment earnings offset by higher operating costs generated by an increase in service.

- Total capital assets, net of accumulated depreciation, were $1,072,138 at June 30, 2007, representing an increase of $110,139, or 11%, over June 30, 2006. This increase in capital assets was primarily due to the construction on the SR-22 which grew an additional $83,717 during fiscal year 2007.

- Beginning fund balance of the Local Transportation Authority was restated $8,931 due to erroneously recording a deferred revenue related to a State reimbursement request for the SR-22 freeway construction project (see note 16). OCTA's governmental funds reported combined ending fund balances of $708,003, a decrease of $21,134 compared to fiscal 2006. Approximately 74% of the governmental fund balances represent Local Transportation Authority amounts available for the Measure M program, including debt service.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to OCTA's basic financial statements. These basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of OCTA's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of OCTA's assets and liabilities, with the difference between assets and liabilities reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of OCTA is improving or deteriorating.

The statement of activities presents information showing how OCTA's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of OCTA that are principally supported by taxes and intergovernmental revenues, or governmental activities, from other functions that are intended to recover all or a significant portion of their costs through user fees and charges, or business-type activities. The governmental activities of OCTA include general government, the Measure M program, motorist services and commuter rail. The business-type activities of OCTA include fixed route transit services, paratransit services, tollroad operations and the taxicab administration program.

The government-wide financial statements include only OCTA and its blended component units. The government-wide financial statements can be found on pages 14-15 of this report.

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of OCTA's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. As a result, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and related statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

OCTA maintains 13 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the related statement of revenues, expenditures and changes in fund balances for OCTA's major governmental funds comprised of the General fund; Local Transportation Authority (LTA), Local Transportation, and Commuter Urban Rail Endowment (CURE) special revenue funds; and LTA Debt Service fund, which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

OCTA adopts an annual budget for all funds. Budgetary comparison schedules have been provided for the General fund and the LTA, Local Transportation and CURE special revenue funds as required supplementary information to demonstrate compliance with the annual appropriated budgets.

The governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary funds consist of enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. OCTA uses enterprise funds to account for its transit, tollroad and taxicab administration operations. Internal service funds are an accounting device used to accumulate and allocate costs internally to the departments benefiting from OCTA's risk management activities, which include general liability, workers' compensation and employee health. Effective June 2007, the Employee Health Internal service Fund was closed as the employee self-insured health plans were converted to fully insured plans as of January 2006. Since these risk management activities predominantly benefit business-type rather than governmental functions, they have been included within business-type activities in the government-wide financial statements, except for administrative employee health activities which have been included as governmental activities.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Orange County Transit District (OCTD), 91 Express Lanes, and Bus Operations Fund, which are considered to be major enterprise funds of OCTA. Data from the General Liability, Workers' Compensation and Employee Health internal service funds are combined into a single, aggregated presentation.

The proprietary fund financial statements can be found on pages 20-26 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside OCTA. Fiduciary funds are not reflected in the government-wide financial statements, as the resources of those funds are not available to support OCTA's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds. The fiduciary fund financial statements can be found on pages 27-28 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-61 of this report.

Other information is in addition to the basic financial statements and accompanying notes. This report also presents certain required supplementary information concerning OCTA's budgetary results for the General fund and major special revenue funds with appropriated budgets. Required supplementary information can be found on pages 62-66 of this report.

The combining statements referred to earlier relating to nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. In addition, budgetary results for all other nonmajor governmental funds is located in this section. This other supplementary information can be found on pages 68-84 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2007, OCTA's assets exceeded liabilities by $1,577,026, a $141,817 increase from June 30, 2006. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of OCTA's governmental and business-type activities.

Approximately 58%, compared to 54% in 2006, of OCTA's net assets reflect its investment in capital assets (i.e., toll facility franchise; land; buildings and improvements; freeway construction in progress; machinery, equipment and furniture; transit vehicles; and transponders), less any related outstanding debt used to acquire these assets. OCTA uses these capital assets to provide transportation and transit services to the residents and business community of Orange County. The increase of $100,500 in net assets invested in capital assets, net of related debt, from governmental activities was primarily due to the construction on the SR 22. The increase of $29,052 in net assets invested in capital assets, net of related debt, from business-type activities was primarily related to the purchase of Compressed Natural Gas (CNG) buses, the construction of a CNG fueling station and the purchase of land for the paratransit service.

Restricted net assets, representing resources subjected to external restrictions on how they may be used, were 35% and 42% of the total net assets at June 30, 2007 and 2006, respectively. Restricted net assets from governmental activities decreased $36,943 as a result of the continued progress of the Garden Grove SR-22 project which is near completion. The decrease in restricted net assets from business-type activities of $14,878 is related to investment activity in bond reserve accounts.

Unrestricted net assets represent the portion of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. Unrestricted net assets from governmental activities changed from a $204,361 deficit at June 30, 2006 to a $128,311 deficit at June 30, 2007. This deficit results from the recording of debt issued for Measure M projects, the assets for which title vests with Caltrans. Accordingly, OCTA does not have sufficient current resources on hand to cover long-term liabilities; however, future Measure M sales taxes are pledged to cover Measure M debt service payments when made. The decrease of $11,964 in unrestricted net assets from business-type activities was primarily attributable to the construction of the CNG facility along with the purchase of CNG vehicles.

Table 1
Orange County Transportation Authority
Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets, as restated	$ 723,393	$ 754,583	$ 312,830	$ 313,615	1,036,223	$ 1,068,198
Restricted assets	70,405	74,890	31,803	28,046	102,208	102,936
Land held for resale	3,239	2,610	-	-	3,239	2,610
Capital assets, as restated	652,407	551,907	419,731	410,092	1,072,138	961,999
Total assets, as restated	1,449,444	1,383,990	764,364	751,753	2,213,808	2,135,743
Current liabilities	83,534	90,574	37,600	24,490	121,134	115,064
Long-term liabilities	310,176	377,289	205,472	208,181	515,648	585,470
Total liabilities	393,710	467,863	243,072	232,671	636,782	700,534
Net assets:						
Invested in capital assets, net of related debt, as restated	652,407	551,907	259,930	230,878	912,337	782,785
Restricted	531,638	568,581	13,168	28,046	544,806	596,627
Unrestricted (deficit)	(128,311)	(204,361)	248,194	260,158	119,883	55,797
Total net assets, as restated	$1,055,734	$ 916,127	$521,292	$ 519,082	$1,577,026	$1,435,209

OCTA's total revenues increased by 6%, while the total cost of all programs increased by 24%. The significant increase in program costs is primarily due to freeway construction, street and road projects, and contributions to Metrolink for the purchase of new rail cars and locomotives. Approximately 47% of the costs of OCTA's programs were paid by those who directly benefited from the programs or by other governments that subsidized certain programs with grants and contributions. Taxes and investment earnings ultimately financed a significant portion of the programs' net costs. The analysis below separately considers the operations of governmental and business-type activities.

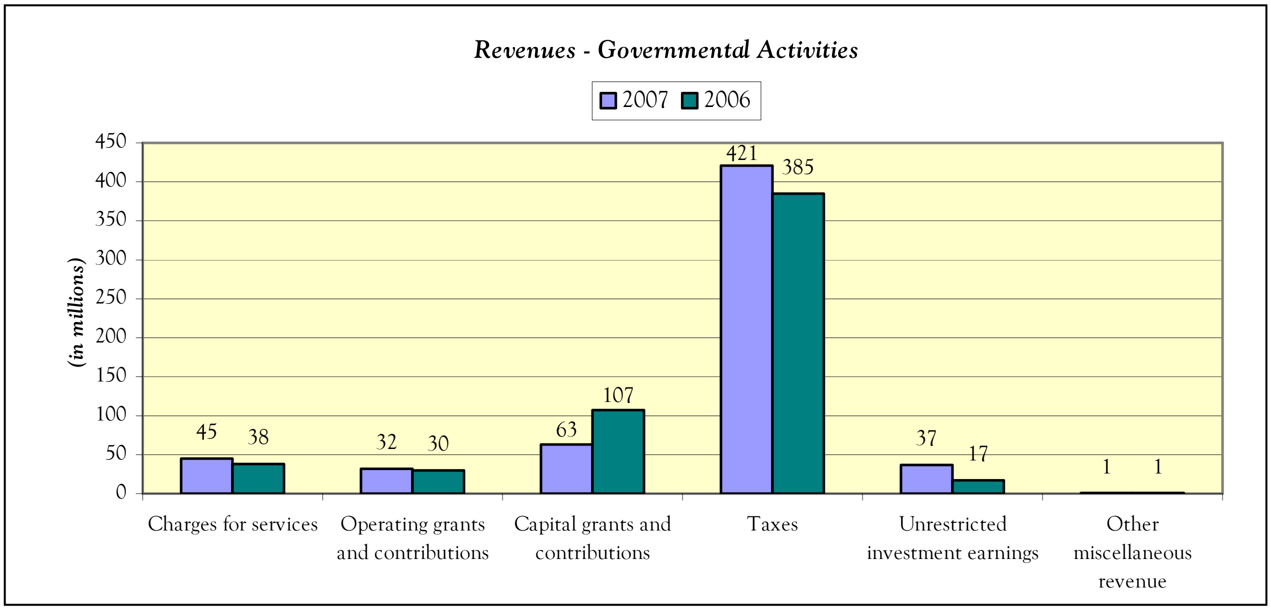
Table 2
Orange County Transportation Authority
Changes in Net Assets

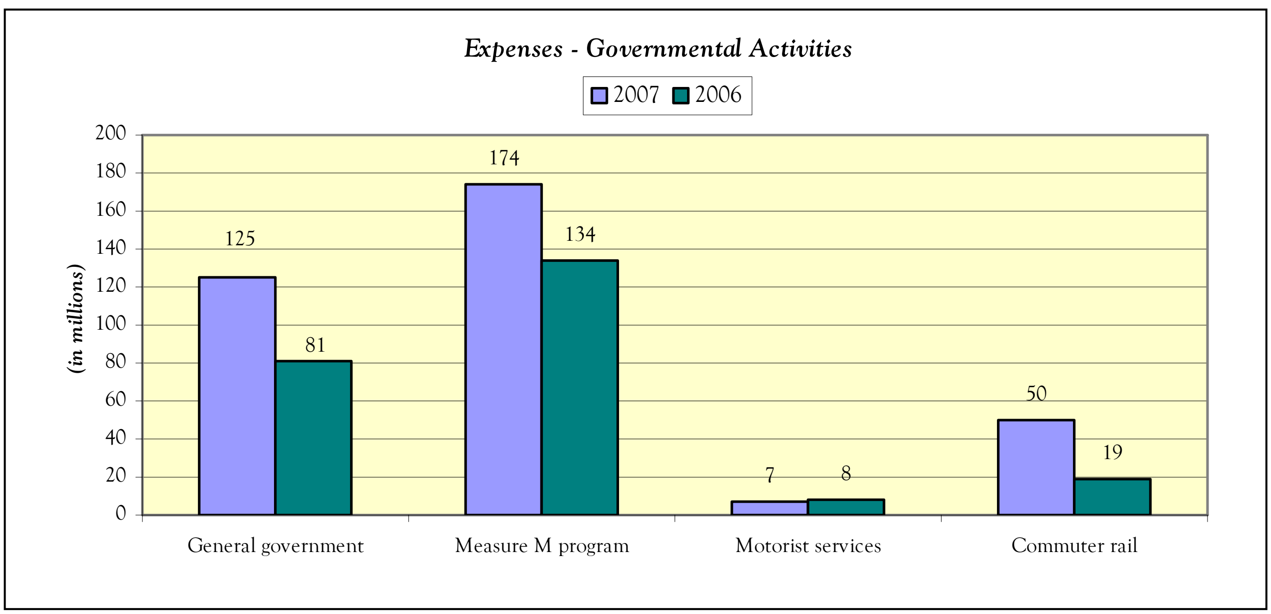
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	$44,720	$ 38,230	$ 104,463	$ 103,432	$ 149,183	$ 141,662
Operating grants and contributions	31,963	29,632	46,493	44,555	78,456	74,187
Capital grants and contributions	62,830	107,349	15,948	8,750	78,778	116,099
General revenues:						
Taxes	421,067	385,090	10,338	9,762	431,405	394,852
Unrestricted investment earnings, as restated	37,322	16,583	18,117	8,127	55,439	24,710
Other miscellaneous revenue	668	494	495	497	1,163	991
Total revenues, as restated	598,570	577,378	195,854	175,123	794,424	752,501
Expenses:						
General government	125,160	81,089	-	-	125,160	81,089
Measure M program	174,314	133,524	-	-	174,314	133,524
Motorist services	6,717	8,451	-	-	6,717	8,451
Commuter rail	49,791	18,442	-	-	49,791	18,442
Fixed route, as restated	-	-	233,827	223,160	233,827	223,160
Paratransit	-	-	28,002	28,285	28,002	28,285
Tollroad	-	-	34,430	33,693	34,430	33,693
Taxicab administration	-	-	366	271	366	271
Total expenses, as restated	355,982	241,506	296,625	285,409	652,607	526,915
Increase (decrease) in net assets before transfers, as restated	242,588	335,872	(100,771)	(110,286)	141,817	225,586
Transfers	(102,981)	(104,451)	102,981	104,451	-	-
Changes in net Assets, as restated	139,607	231,421	2,210	(5,835)	141,817	225,586
Net assets—beginning of Year, as restated	916,127	684,706	519,082	524,917	1,435,209	1,209,623
Net assets—end of year, As restated	$1,055,734	$ 916,127	$ 521,292	$ 519,082	$1,577,026	$1,435,209

Governmental Activities

Total revenues for OCTA's governmental activities increased $21,192 primarily due to an increase in sales taxes due to a continued growth in the economy and an increase in unrestricted investment earnings due to favorable market conditions offset by a decrease in the amount of capital grants and contributions due to funding for the SR-22 construction project received in the prior fiscal years. Total expenses increased $114,476 primarily due to freeway construction, street and road projects, and contributions to Metrolink for the purchase of new rail cars and locomotives.

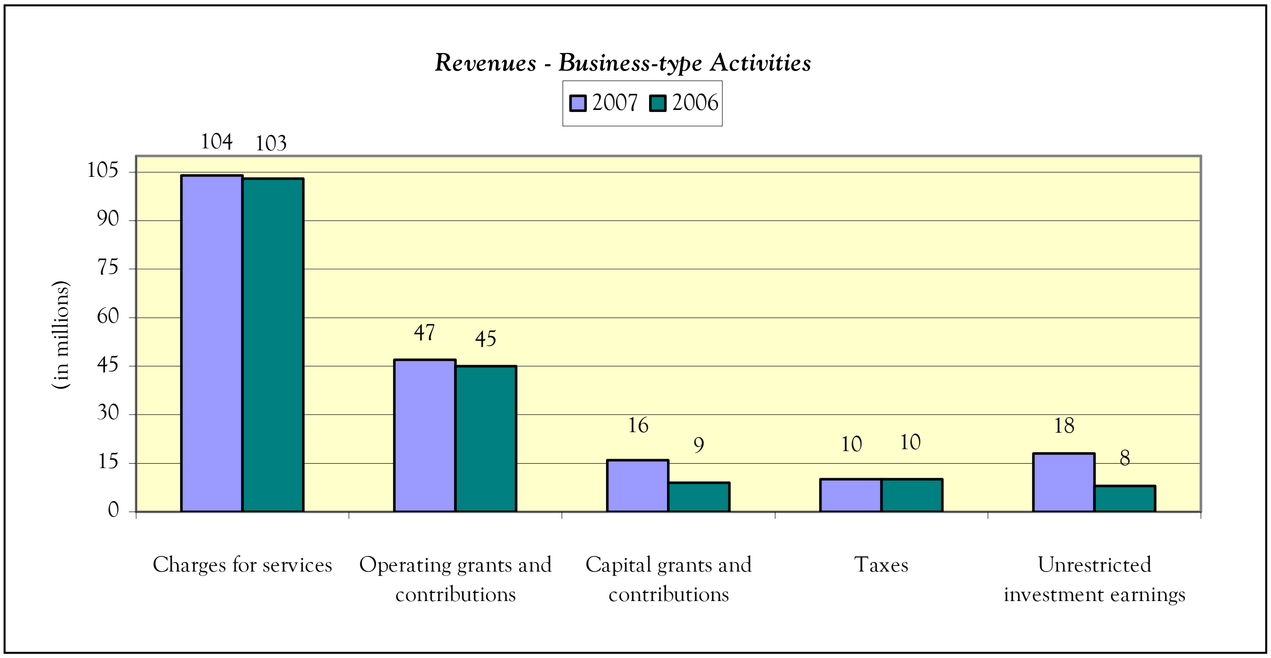
- Net assets for governmental activities increased $139,607 or 15%. This compares to a $231,421 increase in net assets in 2006.

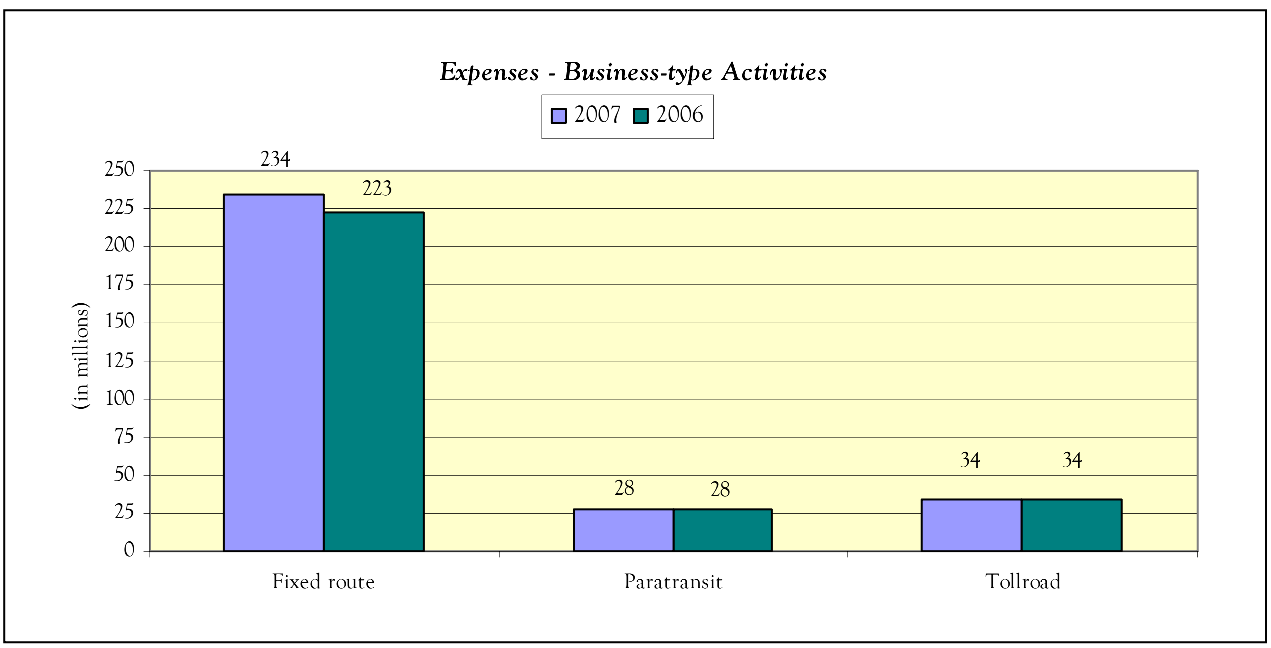




Business-type Activities

- Revenues of OCTA's business-type activities increased $20,731 primarily due to an increase in unrestricted investment earnings due to favorable market conditions and an increase in capital grants and contributions due to the purchase of CNG buses. Total expenses increased $11,216 primarily due to an increase in pension costs and health costs.





FINANCIAL ANALYSIS OF OCTA'S FUNDS

As of June 30, 2007, OCTA's governmental funds reported combined ending fund balances of $708,003, a decrease of $21,134 compared to 2006. Approximately 16%, or $114,754, of this total amount constitutes unreserved fund balance; however, $99,724 of the unreserved fund balance is related to commuter rail. The remainder of fund balance is reserved to indicate that it is not available for new spending because of the following commitments:

- $5,764 deposited with the State for condemnation deposits;
- $5,277 other non current assets;
- $91,006 to liquidate contracts and purchase orders of the current and prior periods;
- $42,205 advance to the 91 Express Lanes to purchase the Toll Road;
- $110,232 to pay debt service on Measure M sales tax revenue bonds issued in prior years to accelerate funding for Measure M projects;
- $331,927 for transportation programs primarily related to Measure M projects;
- $6,838 for motorist services.

The significant changes in the fund balances of OCTA's major governmental funds are as follows:

- A decrease of $35,101 in LTA is primarily due to the continued construction on the Garden Grove SR-22 freeway, which is near completion;
- An increase of $17,750 in CURE is due to the receipt of federal capital assistance grants to reimburse CURE for capital contributions to SCRRA for the purchase of rail cars and locomotives and transfers in from LTA of $27,000 to fund CURE operations.

Unrestricted net assets of the enterprise funds were $209,466 at June 30, 2007 compared to $232,220 at June 30, 2006. The following are the significant changes in net assets of OCTA's major proprietary funds:

- An increase of $18,955 in the 91 Express Lanes primarily due to increase in operating revenues as compared to expenses, which is a result of the increase in traffic volume and tolls.
- A decrease of $23,612 in Bus Operations due to the transfer to the OCTD for transit operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in a $44 increase in expenditures primarily due to the original budget for the Bristol Street Widening Project of $36 was originally included in the Capital Projects Fund and subsequently moved to the General Fund. Additionally, a $3.6 increase in the Bristol Street Widening Project based on a revised expenditure plan received from the City of Santa Ana and an increase of $4.7 for the parking expansion at the Irvine Transportation Center. Actual expenditures were less than the final budget by $19. This is primarily due to funding for the Irvine-Corona Feasibility Study being received directly by the lead agency, Riverside, and lower than anticipated expenses for the Bristol Street Widening Project and the Irvine Transportation Center.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2007, OCTA had $1,072,138, net of accumulated depreciation, invested in a broad range of capital assets including: the 91 Express Lanes toll facility franchise, transit vehicles, land, buildings, freeway construction projects and machinery, equipment and furniture (Table 3). The total increase in OCTA's capital assets for 2007 was 11%, which was comprised of a 18% increase for governmental activities and a 2% increase for business-type activities.

Table 3
Orange County Transportation Authority
Capital Assets, net of depreciation and amortization

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	$ 150,392	$ 134,247	$ 55,383	44,925	$ 205,775	$ 179,172
Buildings and improvements, as restated	2,896	2,208	85,435	69,359	88,331	71,567
Transit vehicles	-	-	87,542	91,884	87,542	91,884
Machinery, equipment and furniture	1,082	1,133	18,691	17,249	19,773	18,382
Toll facility franchise	-	-	172,275	179,606	172,275	179,606
Construction in progress	498,037	414,319	405	7,069	498,442	421,388
Totals	$ 652,407	$ 551,907	$ 419,731	$ 410,092	$1,072,138	$ 961,999

Major capital asset additions during 2007 included:

- $83,717 in freeway construction in progress for the SR-22 project;
- $16,250 for the purchase of the Anaheim Regional Transportation Intermodal Center
- $15,398 for the purchase of 32 paratransit vehicles, nine minivans, 66 40' New Flyer Low Floor vehicles
- $16,000 for the purchase of the Laidlaw Transit building;
- $6,521 for the CNG fueling station;
- $4,837 for the Santa Ana bus base.

Major capital asset deletions during 2007 included:

- $6,815 disposal of fully depreciated revenue vehicles;
- $2,381 transfer to the City of Santa Ana for work performed during the construction of the Santa Ana Bus base

More detailed information about OCTA's capital assets is presented in Note 8 to the financial statements.

OCTA has outstanding construction contracts, the most significant of which are: $15,077 for the SR-22 freeway construction project, $15,199 for the I-405/SR-55 transitway project, $11,791 for CNG buses, and $7,838 for the I-5 far north project.

DEBT ADMINISTRATION

As of June 30, 2007, OCTA had $521,690 in bonds, commercial paper notes and certificates of participation outstanding compared to $599,765 at June 30, 2006, as presented in Table 4.

Table 4
Orange County Transportation Authority
Outstanding Debt
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Sales tax revenue bonds	$ 307,845	$375,170	$ -	$ -	$ 307,845	$375,170
Commercial paper notes	29,100	34,500	-	-	29,100	34,500
Certificates of participation	-	-	1,235	2,470	1,235	2,470
Revenue refunding bonds	-	-	183,510	187,625	183,510	187,625
Totals	$ 336,945	$409,670	$184,745	$190,095	$ 521,690	$599,765

OCTA retired $5,400 in commercial paper notes and $67,325 of sales tax revenue bonds during fiscal year 2007.

OCTA maintains a "AAA" rating from Standard & Poor's, a "AA" rating from Fitch and a "Aa2" rating from Moody's for its Measure M 1st Senior Sales Tax Revenue Bonds; a "AA" rating from Standard & Poor's, an "AA-" rating from Fitch and a "Aa3" rating from Moody's for its Measure M 2nd Senior Sales Tax Revenue Bonds; and an "A1" rating from Moody's for its certificates of participation. The Toll Road Revenue Refunding Bonds (91 Express Lanes) have ratings of "A1" by Moody's, "A" from Fitch, and "A-" by Standard and Poor's.

Additional information on OCTA's short-term debt and long-term debt can be found in Notes 10 and 11 to the financial statements, respectively.

ECONOMIC AND OTHER FACTORS

On June 11, 2007, the OCTA Board of Directors approved the Fiscal Year 2007-08 Budget. The budget is balanced at $991.0 million and is consistent with the OCTA's long-range Comprehensive Business Plan (CBP). The CBP is updated annually to address changes in the political and economic environment. In Orange County, the long-term effects of the sub prime lending market are uncertain but the near term results are layoffs and fewer loans available for first time buyers. As job growth declines and the housing market levels off, growth in taxable sales are expected to decline. OCTA will also face other economic challenges in the near future.

Competition for discretionary grant funds continues to escalate as public agencies vie for limited or reduced state and federal grant programs. In recent years, transportation funding has been diverted to meet other federal, state or county goals. Increasing costs associated with providing defined-benefit pension plans and the price of diesel fuel continue to be areas of concern.

OCTA is making good on its promise to deliver significant freeway improvements to Orange County. OCTA has substantially completed Garden Grove SR-22 Freeway project. Also, Measure M funds have been budgeted in FY 2007-08 to continue improvements on the I-5 Far North project and to design Phase II of the Garden Grove SR-22 Freeway Project.

Contacting OCTA's Management

This financial report is designed to provide a general overview of OCTA's finances for all those with an interest in the government's finances and to show OCTA's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance and Administration Division at the Orange County Transportation Authority, 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584.

Statement of Net Assets

(thousands)

June 30, 2007	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	$ 608,399	$ 265,630	$ 874,029
Receivables:			
Interest	5,212	2,992	8,204
Operating grants	47	23,221	23,268
Capital grants	7,163	7,682	14,845
Other	138	8,400	8,538
Internal balances	38,798	(38,798)	-
Due from other governments	45,919	10,024	55,943
Condemnation deposits	5,764	-	5,764
Note receivable	6,440	-	6,440
Inventory	-	5,953	5,953
Restricted cash and investments:			
Cash equivalents	614	13,168	13,782
Investments	69,791	18,635	88,426
Other assets	5,513	27,726	33,239
Land held for resale	3,239	-	3,239
Capital assets, net:			
Nondepreciable	648,429	55,788	704,217
Depreciable and amortizable	3,978	363,943	367,921
Total Assets	1,449,444	764,364	2,213,808
Liabilities			
Accounts payable	22,956	22,769	45,725
Accrued payroll and related items	1,246	4,338	5,584
Accrued interest payable	6,356	3,064	9,420
Due to other governments	22,083	1,557	23,640
Unearned revenue	1,249	5,387	6,636
Other liabilities	544	485	1,029
Commercial paper notes	29,100	-	29,100
Noncurrent liabilities:			
Due within one year	73,415	16,965	90,380
Due in more than one year	236,761	188,507	425,268
Total Liabilities	393,710	243,072	636,782
Net Assets			
Invested in capital assets, net of related debt	652,407	259,930	912,337
Restricted for:			
Measure M program	414,568	-	414,568
Debt service	110,232	13,168	123,400
Motorist services	6,838	-	6,838
Unrestricted (deficit)	(128,311)	248,194	119,883
Total Net Assets	$ 1,055,734	$ 521,292	$ 1,577,026

See accompanying notes to the financial statements.

Statement of Activities

(thousands)

for the year ended June 30, 2007	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Total
Functions/Programs							
Primary government							
Governmental activities:							
General government	$ 125,160	$ 43,840	$ 23,717	$ 8,924	$ (48,679)	$ -	$ (48,679)
Measure M program	174,314	258	-	27,692	(146,364)	-	(146,364)
Motorist services	6,717	-	8,186	-	1,469	-	1,469
Commuter rail	49,791	622	60	26,214	(22,895)	-	(22,895)
Total governmental activities	355,982	44,720	31,963	62,830	(216,469)	-	(216,469)
Business-type activities:							
Fixed route	233,827	48,562	41,630	15,935	-	(127,700)	(127,700)
Paratransit	28,002	5,629	4,863	13	-	(17,497)	(17,497)
Tollroad	34,430	49,838	-	-	-	15,408	15,408
Taxicab administration	366	434	-	-	-	68	68
Total business-type activities	296,625	104,463	46,493	15,948	-	(129,721)	(129,721)
Total primary government	$ 652,607	$ 149,183	$ 78,456	$ 78,778	(216,469)	(129,721)	(346,190)
General revenues:							
Property taxes					-	10,338	10,338
Sales taxes					421,067	-	421,067
Unrestricted investment earnings					37,322	18,117	55,439
Other miscellaneous revenue					668	495	1,163
Transfers					(102,981)	102,981	-
Total general revenues and transfers					356,076	131,931	488,007
Change in net assets					139,607	2,210	141,817
Net assets - beginning, as restated					916,127	519,082	1,435,209
Net assets - ending					$ 1,055,734	$ 521,292	$ 1,577,026

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

(thousands)

June 30, 2007	General	LTA	Local Transportation	CURE	LTA Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and investments	$ 9,622	$ 435,911	$ 3,969	$ 94,706	$ 38,983	$ 25,208	$ 608,399
Receivables:							
Interest	54	3,255	44	719	844	296	5,212
Operating grants	47	-	-	-	-	-	47
Capital grants	958	2,081	-	3,638	-	486	7,163
Other	-	65	-	23	-	50	138
Due from other funds	1,682	4	-	5,034	-	934	7,654
Due from other governments	2,772	24,786	3,676	2	-	14,683	45,919
Condemnation deposits	-	5,764	-	-	-	-	5,764
Note receivable	-	6,440	-	-	-	-	6,440
Advances to other funds	-	-	-	42,205	-	-	42,205
Restricted cash and investments:							
Cash equivalents	-	-	-	-	614	-	614
Investments	-	-	-	-	69,791	-	69,791
Other assets	3,322	1,955	-	-	-	-	5,277
TOTAL ASSETS	$ 18,457	$ 480,261	$ 7,689	$ 146,327	$ 110,232	$ 41,657	$ 804,623
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	$ 6,680	$ 9,822	$ -	$ 4,267	$ -	$ 2,187	$ 22,956
Accrued payroll and related items	1,246	-	-	-	-	-	1,246
Compensated absences	2,125	-	-	-	-	-	2,125
Due to other funds	-	934	-	-	-	9,397	10,331
Due to other governments	1,799	18,776	1	73	-	1,434	22,083
Deferred revenue	1,164	7,040	-	22	-	9	8,235
Other liabilities	523	21	-	-	-	-	544
Commercial paper notes	-	29,100	-	-	-	-	29,100
TOTAL LIABILITIES	13,537	65,693	1	4,362	-	13,027	96,620
FUND BALANCES							
Reserved for:							
Condemnation deposits	-	5,764	-	-	-	-	5,764
Other assets	3,322	1,955	-	-	-	-	5,277
Encumbrances	5,873	83,530	-	36	-	1,567	91,006
Advances	-	-	-	42,205	-	-	42,205
Debt service	-	-	-	-	110,232	-	110,232
Transportation programs	-	323,319	7,688	-	-	920	331,927
Motorist services	-	-	-	-	-	6,838	6,838
Unreserved, reported in:							
General fund	(4,275)	-	-	-	-	-	(4,275)
Special revenue funds	-	-	-	99,724	-	11,294	111,018
Capital projects funds	-	-	-	-	-	8,011	8,011
TOTAL FUND BALANCES	4,920	414,568	7,688	141,965	110,232	28,630	708,003
TOTAL LIABILITIES AND FUND BALANCES	$ 18,457	$ 480,261	$ 7,689	$ 146,327	$ 110,232	$ 41,657	$ 804,623

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

(thousands)

June 30, 2007

Amounts reported for governmental activities in the statement of net assets (page 14) are different because:

Total fund balances (page 16)	$	708,003
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		652,407
Land held for resale is not a financial resource and therefore is not reported in the funds.		3,239
Earned but unavailable revenue is not available to liquidate current liabilities and therefore is deferred.		6,986
Other long-term assets related to costs of issuance are not available to pay for current-period expenditures and therefore are deferred.		236
Internal service funds are used by management to charge the costs of risk management and employee health to individual funds. The assets and liabilities of the employee health administrative internal service fund are included in governmental activities in the statement of net assets.		(730)
Interest payable on bonds outstanding are not due and payable in the current period and therefore are not reported in the funds.		(6,356)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(308,051)
Net assets of governmental activities (page 14)	$	1,055,734

See accompanying notes to the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

(thousands)

for the year ended June 30, 2007	General	LTA	Local Transportation	CURE	LTA Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues							
Sales taxes	$ -	$ 275,646	$ 108,793	$ -	$ -	$ 36,628	$ 421,067
Gasoline taxes	-	-	-	-	-	23,000	23,000
Vehicle registration fees	-	-	-	-	-	5,114	5,114
Fines	176	-	-	15	-	-	191
Contributions from other agencies	5,128	12,541	-	60	-	4,372	22,101
Charges for services	43,663	-	-	-	-	-	43,663
Interest and investment income	282	24,191	432	11,247	4,946	1,333	42,431
Federal capital assistance grants	2,248	13,918	-	26,214	-	963	43,343
Miscellaneous	180	258	-	606	-	488	1,532
Total revenues	51,677	326,554	109,225	38,142	4,946	71,898	602,442
Expenditures							
Current:							
General government:							
Salaries and benefits	30,918	-	-	-	-	-	30,918
Supplies and services	22,122	18,263	1,585	15,142	152	7,168	64,432
Transportation:							
Contributions to other local agencies	38,801	106,694	3,500	34,648	-	24,509	208,152
Capital outlay	925	128,396	-	-	-	3,193	132,514
Debt service:							
Principal payments on long-term debt	-	-	-	-	67,325	-	67,325
Interest on long-term debt and				-			
commercial paper	-	1,309	-	-	20,994	-	22,303
Total expenditures	92,766	254,662	5,085	49,790	88,471	34,870	525,644
Excess (deficiency) of revenues over (under) expenditures	(41,089)	71,892	104,140	(11,648)	(83,525)	37,028	76,798
Other financing sources (uses)							
Transfers in	42,397	7,543	-	32,034	88,335	5,029	175,338
Transfers out	-	(116,530)	(111,394)	(2,636)	(7,441)	(37,263)	(275,264)
Proceeds from sale of capital assets and land held for resale	-	1,994	-	-	-	-	1,994
Total other financing sources (uses)	42,397	(106,993)	(111,394)	29,398	80,894	(32,234)	(97,932)
Net change in fund balances	1,308	(35,101)	(7,254)	17,750	(2,631)	4,794	(21,134)
Fund balances-beginning, as restated	3,612	449,669	14,942	124,215	112,863	23,836	729,137
Fund balances-ending	$ 4,920	$ 414,568	$ 7,688	$ 141,965	$ 110,232	$ 28,630	$ 708,003

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

(thousands)

for the year ended June 30, 2007

Amounts reported for governmental activities in the statement of activities (page 15) are different because:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (PAGE 18)	$	(21,134)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation in the current period.		100,069
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(1,784)
Prior year deferred revenues received in the current year are reported as revenues in the funds and not reported in the statement of activities.		(3,995)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		68,731
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(15)
Internal service funds are used by management to charge the costs of risk management and employee health to individual funds. The net revenue of the employee health administrative internal service fund is reported with governmental activities in the statement of activities.		(2,265)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 15)	$	139,607

See accompanying notes to the financial statements.

Statement of Fund Net Assets - Proprietary Funds

(thousands)

June 30, 2007	OCTD	91 Express Lanes	Bus Operations	Nonmajor Enterprise Fund OCTAP	Total Enterprise Funds	Internal Service Funds
	Enterprise Funds					
Assets						
Current assets:						
Cash and investments	$ 126,093	$ 36,866	$ 50,166	$ 143	$ 213,268	$ 52,362
Receivables:						
Interest	1,062	693	755	1	2,511	481
Operating grants	23,221	-	-	-	23,221	-
Capital grants	7,682	-	-	-	7,682	-
Violations	-	6,510	-	-	6,510	-
Allowance for doubtful accounts	-	(722)	-	-	(722)	-
Farebox	1,373	-	-	-	1,373	-
Other	6	924	-	-	930	309
Due from other funds	9,361	-	-	-	9,361	-
Due from other governments	10,024	-	-	-	10,024	-
Inventory	5,953	-	-	-	5,953	-
Other assets	23,012	3,645	-	23	26,680	1,046
Total current assets	207,787	47,916	50,921	167	306,791	54,198
Noncurrent assets:						
Restricted cash and investments:						
Cash equivalents	2,201	10,967	-	-	13,168	-
Investments	-	18,635	-	-	18,635	-
Capital assets, net:						
Nondepreciable	55,788	-	-	-	55,788	-
Depreciable and amortizable	183,927	180,016	-	-	363,943	-
Total noncurrent assets	241,916	209,618	-	-	451,534	-
Total Assets	449,703	257,534	50,921	167	758,325	54,198

See accompanying notes to the financial statements.

Statement of Fund Net Assets - Proprietary Funds, *continued*

(thousands)

	Enterprise Funds					
June 30, 2007	OCTD	91 Express Lanes	Bus Operations	Nonmajor Enterprise Fund OCTAP	Total Enterprise Funds	Internal Service Funds
Liabilities						
Current liabilities:						
Accounts payable	$ 18,709	$ 3,598	$ 9	$ 3	$ 22,319	$ 450
Accrued payroll and related items	4,331	-	-	7	4,338	-
Accrued interest	32	3,032	-	-	3,064	-
Due to other funds	6,684	-	-	-	6,684	-
Claims payable	-	-	-	-	-	3,328
Due to other governments	1,057	500	-	-	1,557	-
Unearned revenue	866	4,520	-	1	5,387	-
Other liabilities	2	380	-	-	382	103
Commercial paper notes	-	-	-	-	-	-
Current portion of long-term liabilities	9,400	4,225	-	12	13,637	-
Total current liabilities	41,081	16,255	9	23	57,368	3,881
Noncurrent liabilities:						
Advances from other funds	-	42,205	-	-	42,205	-
Claims payable	-	-	-	-	-	12,318
Long-term liabilities	13,502	162,686	-	-	176,188	-
Total noncurrent liabilities	13,502	204,891	-	-	218,393	12,318
Total Liabilities	54,583	221,146	9	23	275,761	16,199
Net Assets						
Invested in capital assets, net of related debt	224,857	35,073	-	-	259,930	-
Restricted	2,201	10,967	-	-	13,168	-
Unrestricted (deficit)	168,062	(9,652)	50,912	144	209,466	37,999
Total Net Assets	$ 395,120	$ 36,388	$ 50,912	$ 144	$ 482,564	$ 37,999

See accompanying notes to the financial statements.

Reconciliation of the Statement of Fund Net Assets of Proprietary Funds to the Statement of Net Assets

(thousands)

June 30, 2007

Amounts reported for business-type activities in the statement of net assets (page 14) are different because:

Total net assets (page 21)	$	482,564
Internal service funds are used by management to charge the costs of risk management and employee health to individual funds. The assets and liabilities of the general liability, workers' compensation, and employee health coach operators and maintenance internal service funds are included in business-type activities in the statement of net assets.		38,728
Net assets of business-type activities (page 14)	$	521,292

See accompanying notes to the financial statements.

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

(thousands)

for the year ended June 30, 2007	Enterprise Funds: OCTD	Enterprise Funds: 91 Express Lanes	Enterprise Funds: Bus Operations	Enterprise Funds: Nonmajor Enterprise Fund OCTAP	Enterprise Funds: Total Enterprise Funds	Internal Service Funds
Operating revenues:						
User fees and charges	$ 53,446	$ 49,838	$ -	$ -	$ 103,284	$ -
Permit fees	-	-	-	434	434	-
Charges for services	-	-	-	-	-	27,793
Total operating revenues	53,446	49,838	-	434	103,718	27,793
Operating expenses:						
Wages, salaries and benefits	125,089	-	-	214	125,303	-
Maintenance, parts and fuel	29,367	-	-	-	29,367	-
Purchased services	31,614	5,630	90	-	37,334	-
Administrative services	32,564	1,604	-	134	34,302	215
Other	4,056	967	-	5	5,028	83
Insurance claims and premiums	3	352	-	-	355	19,115
Professional services	14,492	5,305	-	7	19,804	1,146
General and administrative	5,390	622	-	8	6,020	3
Depreciation and amortization	27,676	9,287	-	-	36,963	-
Total operating expenses	270,251	23,767	90	368	294,476	20,562
Operating income (loss)	(216,805)	26,071	(90)	66	(190,758)	7,231
Nonoperating revenues (expenses):						
Gas tax exchange	23,000	-	-	-	23,000	-
Federal operating assistance grants	23,485	-	-	-	23,485	-
Property taxes allocated by the County of Orange	10,338	-	-	-	10,338	-
Investment earnings	8,370	3,496	3,478	10	15,354	2,883
Interest expense	(324)	(10,663)	-	-	(10,987)	-
Completed construction in process transferred to outside agencies	(2,381)	-	-	-	(2,381)	-
Other	5,717	51	-	3	5,771	125
Total nonoperating revenues (expenses)	68,205	(7,116)	3,478	13	64,580	3,008
Income (loss) before contributions and transfers	(148,600)	18,955	3,388	79	(126,178)	10,239
Capital contributions	15,957	-	-	-	15,957	-
Transfers in	173,224	-	-	-	173,224	-
Transfers out	(40,783)	-	(27,000)	-	(67,783)	(5,515)
Change in net assets	(202)	18,955	(23,612)	79	(4,780)	4,724
Total net assets - beginning, as restated	395,322	17,433	74,524	65	487,344	33,275
Total net assets - ending	$ 395,120	$ 36,388	$ 50,912	$ 144	$ 482,564	$ 37,999

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets of Proprietary Funds to the Statement of Activities

(thousands)

for the year ended June 30, 2007

Amounts reported for business-type activities in the statement of activities (page 15) are different because:

NET CHANGE IN FUND NET ASSETS - TOTAL ENTERPRISE FUNDS (PAGE 23)	$	(4,780)
Internal service funds are used by management to charge the costs of risk management and employee health to individual funds. The net revenue of the general liability, workers compensation, and employee health coach operators and maintenance internal service funds are included in business-type activities in the statement of net assets.		6,990
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE 15)	$	2,210

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

(thousands)

for the year ended June 30, 2007	Enterprise Funds: OCTD	Enterprise Funds: 91 Express Lanes	Enterprise Funds: Bus Operations	Enterprise Funds: Nonmajor Enterprise Fund OCTAP	Enterprise Funds: Totals	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	$ 47,560	$ 47,542	$ -	$ 435	$ 95,537	$ -
Receipts from interfund services provided	-	-	-	-	-	28,021
Receipts from third party administrators	-	-	-	-	-	250
Payments to suppliers	(78,699)	(10,925)	(98)	(21)	(89,743)	(1,223)
Payments to claimants	(3)	-	-	-	(3)	(22,930)
Payments to employees	(124,891)	-	-	(210)	(125,101)	-
Payments for interfund services used	(32,564)	(1,604)	-	(134)	(34,302)	(215)
Advertising revenue	4,191	-	-	-	4,191	-
Miscellaneous	943	50	-	3	996	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(183,463)	35,063	(98)	73	(148,425)	3,903
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Gas tax exchange received	23,000	-	-	-	23,000	-
Federal operating assistance grants received	21,312	-	-	-	21,312	-
Property taxes received	10,338	-	-	-	10,338	-
Transfers in	168,695	-	-	-	168,695	-
Transfers out	(40,773)	-	(27,000)	-	(67,773)	(5,566)
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	182,572	-	(27,000)	-	155,572	(5,566)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Federal capital grants for acquisition and construction of capital assets	12,636	-	-	-	12,636	-
Proceeds from sale of capital assets	802	1	-	-	803	-
Payment of capital lease	(1,200)	-	-	-	(1,200)	-
Payment of long-term debt	(1,235)	(4,115)	-	-	(5,350)	-
Payment on advances from other funds	-	(12,000)	-	-	(12,000)	-
Interest paid	(353)	(8,064)	-	-	(8,417)	-
Acquisition and construction of capital assets	(40,321)	(3,651)	-	-	(43,972)	-
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(29,671)	(27,829)	-	-	(57,500)	-
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds from sales and maturities of investments	793	-	-	-	793	-
Investment earnings	8,309	3,352	3,462	9	15,132	2,816
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	9,102	3,352	3,462	9	15,925	2,816
Net increase (decrease) in cash and cash equivalents	(21,460)	10,586	(23,636)	82	(34,428)	1,153
Cash and cash equivalents at beginning of year	149,754	37,247	73,802	61	260,864	51,209
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 128,294	$ 47,833	$ 50,166	$ 143	$ 226,436	$ 52,362

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds, *continued*

(thousands)

for the year ended June 30, 2007	Enterprise Funds: OCTD	Enterprise Funds: 91 Express Lanes	Enterprise Funds: Bus Operations	Enterprise Funds: Nonmajor Enterprise Fund OCTAP	Enterprise Funds: Totals	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	$ (216,805)	$ 26,071	$ (90)	$ 66	$ (190,758)	$ 7,231
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation expense	27,676	1,956	-	-	29,632	-
Amortization of franchise agreement	-	7,331	-	-	7,331	-
Amortization of cost of issuance	30	142	-	-	172	-
Advertising revenue	4,191	-	-	-	4,191	-
Miscellaneous	943	50	-	3	996	-
Insurance recoveries	-	-	-	-	-	125
Change in assets and liabilities:						
Receivables	86	(2,447)	-	-	(2,361)	264
Due from other governments	(5,961)	-	-	-	(5,961)	-
Inventory	254	-	-	-	254	-
Other assets	(3,208)	(7)	-	(4)	(3,219)	52
Accounts payable	4,996	1,816	(8)	3	6,807	(55)
Accrued payroll and related items	1,613	-	-	2	1,615	-
Compensated absences	132	-	-	2	134	-
Claims payable	-	-	-	-	-	(3,714)
Due to other funds	1,650	-	-	-	1,650	-
Due to other governments	940	483	-	-	1,423	-
Unearned revenue	-	(321)	-	1	(320)	-
Other liabilities	-	(11)	-	-	(11)	-
Total adjustments	33,342	8,992	(8)	7	42,333	(3,328)
Net cash provided by (used for) operating activities	$ (183,463)	$ 35,063	$ (98)	$ 73	$ (148,425)	$ 3,903
Reconciliation of cash and cash equivalents to Statement of Net Assets						
Cash and investments	$ 126,093	$ 36,866	$ 50,166	$ 143	$ 213,268	$ 52,362
Restricted cash and cash equivalents	2,201	10,967	-	-	13,168	-
Total cash and cash equivalents	$ 128,294	$ 47,833	$ 50,166	$ 143	$ 226,436	$ 52,362
Schedule of noncash activities:						
Capital lease	$ 10,407	$ -	$ -	$ -	$ 10,407	$ -

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets

(thousands)

June 30, 2007	Private-Purpose Trust Fund
Assets	
Cash and investments	$ 13
Total Assets	13
Net Assets	
Held in trust for future scholarships	13
Total Net Assets	$ 13

See accompanying notes to the financial statements.

Statement of Changes in Fiduciary Net Assets

(thousands)

for the year ended June 30, 2007	Private-Purpose Trust Fund
Additions	
Contributions:	
Private donations	$ 19
Total contributions	19
Total additions	19
Deductions	
Scholarships	20
Total deductions	20
Change in net assets	(1)
Net assets - beginning	14
Net Assets - ending	$ 13

See accompanying notes to the financial statements.

(THOUSANDS)

JUNE 30, 2007

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

On June 20, 1991, under the authority of Senate Bill 838, the Orange County Transportation Authority (OCTA) was formed as a special district by merging the following agencies and funds:

Orange County Transportation Commission (OCTC)
Orange County Transit District (OCTD)
Orange County Local Transportation Fund (LTF)
Orange County Unified Transportation Trust (OCUTT)
Transit Development Reserve
Orange County Local Transportation Authority (LTA)
State Transit Assistance Fund (STAF)
Orange County Service Authority for Freeway Emergencies (SAFE)
Orange County Service Authority for Abandoned Vehicles (SAAV)
Orange County Consolidated Transportation Services Agency (CTSA)
Orange County Congestion Management Agency

On January 3, 2003, OCTA purchased from the California Private Transportation Company (CPTC) its interest in a franchise agreement for a toll facility on a 10 mile segment of the Riverside Freeway/State Route (SR) 91 between the Orange/Riverside County line and the Costa Mesa Freeway/SR 55. The purchase was enabled by State Assembly Bill 1010 (Correa), which was passed by the California legislature and signed by the governor in September 2002. The legislation provided the authority for OCTA to collect tolls and pay related financing costs no later than 2030 and eliminated noncompete provisions in the franchise agreement for needed improvements on SR 91. The franchise agreement with the State of California's Department of Transportation (Caltrans) had granted CPTC the right to develop and construct the toll facility and to operate it for 35 years under a lease arrangement. Caltrans retains legal title to the real property components of the toll facility.

The OCTA governing board (Board) consists of 17 voting members. Five members are the Orange County Board of Supervisors, ten members are city representatives (one per supervisorial district selected by population-weighted voting, and one per supervisorial district selected on a one-city, one-vote method), two public members (neither of whom can be an elected official or have been an elected official during the previous four years), and one is a non-voting ex-officio member appointed by the governor (Caltrans District Director).

The Orange County Local Transportation Authority (LTA), a blended component unit of OCTA, was created pursuant to the (provisions of the) Local Transportation Authority and Improvement Act commencing with Section 180000 of the California Public Utilities Code and pursuant to Ordinance No. 2, adopted by the Board of Directors of the LTA on August 2, 1989. The OCTA Board also serves as the Board of Directors for the LTA. Separate financial statements are prepared and available from the OCTA Finance, Administration and Human Resources Division.

The Orange County Service Authority for Freeway Emergencies (SAFE), a blended component unit of OCTA, was created by Senate Bill 1199 which authorized the County Board of Supervisors upon approval from a majority of the cities with a majority of the population to establish SAFE. In 1986, SAFE began the implementation and operation of a freeway system of call boxes to help with motorist emergencies. SAFE is funded by a $1.00 fee paid at the time of vehicle registration. The OCTA Board also serves as the Board of Directors for SAFE. Separate financial statements are not issued for SAFE.

The Orange County Service Authority for Abandoned Vehicles (SAAV), a blended component unit of OCTA, was created by Senate Bill 4114 which authorized the County Board of Supervisors upon approval from a majority of the cities with a majority of the population to establish SAAV. In 1992, SAAV began funding cities' effort to remove unsightly and potentially dangerous abandoned vehicles. SAAV is funded by a $1.00 fee paid at the time of vehicle registration. The OCTA Board also serves as the Board of Directors for SAAV. Separate financial statements are not issued for SAAV.

The Orange County Transit District (OCTD), a blended component unit of OCTA, was created by an act of the California State Legislature in 1965 and approved by the voters of Orange County in November 1970. OCTD commenced operating a public transportation system in Orange County in August 1972. OCTD is primarily funded by a one quarter of one percent sales tax. The OCTA Board also serves as the Board of Directors for OCTD. Separate financial statements are not issued for OCTD.

The Orange County Transit District Financing Corporation (Corporation), a blended component unit of OCTA, was formed as a nonprofit corporation to provide financial assistance to OCTD by acquiring, constructing, financing and refinancing various facilities, land and equipment. The OCTA Board also serves as the Board of Directors for the Corporation. Separate financial statements are not issued for the Corporation.

The accompanying financial statements present the government and its component units, entities for which OCTA is considered to be accountable. A blended component unit, although a legally separate entity, is, in substance, part of the government's operations.

There are many other governmental agencies, including the County of Orange (County), providing services within the area served by OCTA. These other governmental agencies have independently elected governing boards and consequently are not under the direction of OCTA. Financial information for these agencies is not included in the accompanying financial statements.

OCTA is funded primarily by sales taxes, farebox collections, tolls, property taxes, gasoline sales tax and various federal and state grant programs. OCTA oversees most Orange County bus and rail transit and the 91 Express Lanes tollroad operations, administers spending of Measure M funds (one-half percent sales tax revenues), coordinates freeway and regional road projects, and serves as the local advocate and facilitator of state and federal transportation funding programs.

Basis of Presentation

OCTA's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

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JUNE 30, 2007

GOVERNMENT-WIDE STATEMENTS: The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of OCTA. For the most part, the effect of interfund activity has been removed from these statements with the exception of interfund services provided and used. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on charges and fees for support.

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Interest expense related to the sales tax revenue bonds and commercial paper, the certificates of participation, and the taxable bonds and advances from OCTA funds is reported as a direct expense of the Measure M program, fixed route, and tollroad functions, respectively. The borrowings are considered essential to the creation or continuing existence of these programs. For the year ended June 30, 2007, interest expense of $20,838, $324 and $10,663, was included as Measure M, fixed route, and tollroad program costs, respectively. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Sales taxes and other items, which are properly not included among program revenues, are reported instead as general revenues.

FUND FINANCIAL STATEMENTS: The fund financial statements provide information about OCTA's funds, including its fiduciary funds, though the latter are excluded from the government-wide financial statements. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

OCTA reports the following major governmental funds:

- *GENERAL FUND* – The General Fund is the general operating fund of OCTA. It is used to account for the financial resources of the general government, except those required to be accounted for in another fund.

- *LOCAL TRANSPORTATION AUTHORITY (LTA) FUND* – This fund accounts for revenues received and expenditures made for the implementation of the Orange County Traffic Improvement and Growth Management Plan. Financing is provided by a one-half percent sales and use tax assessed for twenty years pursuant to Measure M, which became effective April 1, 1991, and more recently was renewed for an additional 30 years from April 1, 2011 to March 31, 2041. The Measure M ordinance, as approved in an election by the voters of Orange County, requires that sales tax revenues only be expended on projects included in the ordinance. A decision to use the revenues for any other purpose must be put to the voters in another election.

- *LOCAL TRANSPORTATION FUND* – This fund accounts for revenues received and expenditures made for use on certain transit projects within Orange County. Financing is generated from a one-quarter percent state sales and use tax made pursuant to the California Transportation Development Act (TDA). Expenditures of these moneys must be made in accordance with TDA provisions.

(THOUSANDS)

JUNE 30, 2007

- *COMMUTER URBAN RAIL ENDOWMENT (CURE) FUND* – This fund accounts for OCTA's share of the Metrolink commuter rail operations of CURE through Orange County. Funding for CURE was provided through actions of the Board.

- *LTA DEBT SERVICE FUND* – This fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the LTA.

OCTA reports the following major enterprise funds:

- *ORANGE COUNTY TRANSIT DISTRICT (OCTD) FUND* – This fund accounts for the transit operations of OCTA. The primary sources of funding for transit operations are the TDA one-quarter percent sales tax, farebox collections, gas tax exchange and federal grants.

- *91 EXPRESS LANES FUND* – This fund accounts for the operations of the 91 Express Lanes. The primary source of funding for the operations is toll revenues and related fees.

- *BUS OPERATIONS FUND* – This fund was established by the Board in 1996 with moneys from various OCTA accounts available for use in mass transit. The principal and interest earnings are intended to partially subsidize the bus operations of OCTD through the 2011 fiscal year.

Additionally, OCTA reports the following fund types:

- *INTERNAL SERVICE FUNDS* – These funds account for the risk management activities of OCTA, which are managed through a combination of purchased insurance and self-insurance. The internal service funds are:

    General Liability
    Workers' Compensation
    Employee Health

- *PRIVATE-PURPOSE TRUST FUND* – This fund accounts for the resources legally held in trust for providing scholarships and supporting activities for other organizations' special programs.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Tolls are collected from customers on a prepaid basis, and unearned tolls are reported as unearned revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, OCTA considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred; however, principal and interest expenditures on long-term debt and compensated absences of governmental funds are recorded only when payment is due.

Those revenues susceptible to accrual are sales and gas taxes collected and held by the state at year-end on behalf of OCTA, intergovernmental revenues, interest revenue, charges for services and fines and fees. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to OCTA; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). OCTA has elected not to follow subsequent private-sector guidance for its business-type activities and enterprise funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of OCTA's proprietary funds are charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is OCTA's policy to use restricted resources first and then unrestricted resources as they are needed.

Cash and Investments

OCTA maintains cash and investments in accordance with an investment policy adopted initially by the Board on May 8, 1995, and most recently amended April 9, 2007. The investment policy complies with, or is more restrictive than, applicable state statutes. The majority of OCTA's investments are managed by four private sector investment managers. At June 30, 2007, the investment portfolios were maintained at The Bank of New York Trust Company, N.A. as custodial bank. Separate investment manager accounts are maintained for the proceeds of bond issues, with the earnings for each bond issue accounted for separately. Cash from other OCTA revenue sources is commingled for investment purposes, with investment earnings allocated to the different accounts based on average daily dollar account balances.

The Annual Investment Policy (IPS) requires the assets in the portfolio to consist of the following investments and maximum permissible concentrations based on book value and are more restrictive than applicable state statutes for the following cases: OCTA notes and bonds (25%); commercial paper of a high rating of A-1 or P-1 as provided by one of the nationally recognized rating agencies, Standard & Poor's Corporation (S & P) or Moody's Investor Service (Moody's), and must be issued by corporations rated A2 or better by Moody's and A or better by S & P with further restrictions to issuer size and maximum maturity of 180 days (25%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or be a state licensed branch of a foreign bank, which have been rated by at least two of the nationally recognized rating services with minimum credit ratings of A-1 by S & P, P-1 by Moody's, F1 by

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Fitch Ratings (Fitch), with maximum maturity of 180 days (30%); bankers acceptances which have been rated by at least two of the nationally recognized rating services with minimum credit ratings of A-1 by S & P, P-1 by Moody's, F1 by Fitch and may not exceed the 5% limit by any one commercial bank (30%); mortgage or asset-backed securities rated AAA by S & P, Aaa by Moody's, or AAA by Fitch and issued by an issuer; medium-term notes are rated A- or better by S & P, A3 or better by Moody's or A- by Fitch or an equivalent rating by a nationally recognized rating service. MTN's may not represent more than ten percent (10%) of the issue in the case of a specific public offering. Under no circumstance can any one corporate issuer represent more than 5% of the portfolio; Repurchase Agreements collateralized at 102% (75%) reverse repurchase agreements or securities lending are not permitted.

Other allowable investment categories include money market funds, mutual funds, and the state-managed Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code (Code) Section 16429 under the oversight of the Treasurer of the State of California. Investment is also allowed in the Orange County Investment Pool (OCIP), but is limited to those funds legally required to be deposited in the County Treasury. Oversight of the OCIP is conducted by the County Treasury Oversight Committee. All investments are subject to a maximum maturity of five years, unless specific direction to exceed the limit is given by the Board as permitted by the Code.

Investments in U.S. government and U.S. agency securities, repurchase agreements, variable and floating rate securities, mortgage and asset backed securities, and corporate notes are carried at fair value based on quoted market prices, except for securities with a remaining maturity of one year or less at purchase date, which are carried at cost. Guaranteed investment contracts are carried at cost. Treasury mutual funds are carried at fair value based on each fund's share price. The OCIP is carried at fair value based on the value of each participating dollar as provided by the OCIP. LAIF is carried at fair value based on the value of each participating dollar as provided by LAIF. Commercial paper is carried at amortized cost (which approximates fair value).

OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of this Annual Investment Policy.

Outside portfolio managers must review the portfolios they manage (including bond proceeds portfolios) to ensure compliance with OCTA's diversification guidelines on an ongoing basis.

Issuer/Counter-Party Diversification Guidelines for all securities except Federal Agencies, Government Sponsored Enterprises, Investment Agreements and Repurchase Agreements; any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities (5%).

Issuer/Counter-Party Diversification Guidelines for Federal Agencies, Government Sponsored Enterprises and Repurchase Agreements; any one Federal Agency or Government Sponsored Enterprise (35%); any one repurchase agreement counter-party name if maturity/term is $<$ 7 days (50%), if maturity/term is $>$ 7 days (35%).

For the purpose of the statement of cash flows, OCTA considers all short-term investments with an initial maturity of three months or less to be cash equivalents. All deposits represent cash and cash equivalents for cash flow purposes.

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INTERFUND TRANSACTIONS

During the course of operations, numerous transactions occur between individual funds involving goods provided or services rendered. There are also numerous transfers of revenues from funds authorized to receive the revenue to funds authorized to expend it. Outstanding interfund balances, including internal financing balances, are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

As a centralized transportation planning and administration agency, OCTA allocates costs related to administrative services from certain funds to benefiting funds. For the 2006-07 fiscal year, $43,663 of administrative services were charged to other OCTA funds from the general fund. These charges for services are reported as general government expenditures in governmental fund types and as administrative services expenses in the proprietary fund types.

Internal service funds are utilized by OCTA to account for risk management activities in the areas of general liability, workers' compensation and employee health. Charges for risk management services provided are reported as general government expenditures in the governmental funds receiving the services and as wages, salaries and benefits or other operating expenses in the proprietary funds. The risk management internal service funds charged $27,793 to OCTA's operating funds.

INVENTORY

All inventory is valued at cost using the average cost method.

RESTRICTED CASH AND INVESTMENTS

Certain proceeds of OCTA's long-term debt, as well as certain resources set aside for their repayment and capital maintenance, are classified as restricted investments, because they are maintained in separate investment accounts and their use is limited by applicable debt covenants.

CAPITAL ASSETS

Capital assets, which include the toll facility franchise; land; buildings; machinery, equipment, and furniture; vehicles; and transponders are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by OCTA as assets with an initial, individual cost of more than $5 and a useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Freeway construction and certain purchases of right-of-way property, for which title vests with Caltrans, are included in capital outlay. Infrastructure consisting primarily of freeway construction and right-of-way acquisition is not recorded as a capital asset in those instances where OCTA does not have title to such assets or rights-of-way.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings; machinery, equipment, and furniture; vehicles; and transponders are depreciated using the straight line method over the following estimated useful lives:

Asset Type	Useful Life
Buildings	10-30 years
Machinery, equipment and furniture	3-10 years
Transit vehicles	3-12 years
Transponders	5 years

The toll facility franchise is amortized over the remaining life of the franchise agreement through December 2030.

Land Held for Resale

OCTA has received title to property in connection with the purchase of rights-of-way for infrastructure not held by OCTA (see above). This land is reported as Land held for resale in the governmental activities column in the government-wide financial statements. This land will be sold and proceeds will be reimbursed to the fund where the initial expenditure was recorded.

Compensated Absences

Vacation hours accumulated and not taken are accrued at fiscal year-end, and a liability is reported in the government-wide and proprietary fund financial statements. Vacation leave in governmental funds that is due and payable at year-end is reported as an expenditure and a fund liability of the governmental fund that will pay it.

Sick leave is recorded as an expenditure/expense when taken by the employee. Employees have the option of being paid for sick leave accumulated in excess of 120 hours, and this cost is recorded when paid on the first payday of December. Any sick leave in excess of 120 hours is accrued at fiscal year-end, and a liability is reported in the government-wide and proprietary fund financial statements. Sick leave in governmental funds that is due and payable at year-end is reported as an expenditure and a fund liability of the governmental fund that will pay it. Upon termination, an employee with over 10 years of service is paid any earned but unused sick leave up to a ceiling determined by the employee's applicable union agreement or personnel and salary resolution.

Long-Term Debt

In the government-wide financial statements and proprietary fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts and bond refunding costs, as well as issuance costs and deferred amounts on refundings, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and deferred bond refunding charges. Bond issuance costs are reported as other assets and amortized over the life of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Risk Management

OCTA accounts for its risk management activities in internal service funds. Separate internal service funds are used for general liability, workers' compensation and employee health. Effective January 1, 2006, the employee health plans were converted to fully insured plans. Charges by internal service funds to the general fund, certain special revenue funds and the OCTD and OCTAP enterprise funds are based on historical cost information and are adjusted over time, so that internal service fund revenues and expenses are approximately equal. Expenses for the actual or estimated loss from claims are recorded when it is probable that a loss has been incurred and the amount can reasonably be determined. OCTA's risk management activities are a combination of purchased insurance coverage and self-insured risk retention. OCTA real and personal property, including revenue and non-revenue vehicles are covered under a commercial property insurance policy. The 91 Express Lanes enterprise fund has obtained commercial property insurance including business interruption, earthquake and flood coverage related to the toll facility.

Property Taxes

Property taxes are allocated to OCTA from the County based upon a percentage of real property taxes levied by the County. Following is the property tax calendar:

Lien Date	January 1
Levy Date	4th Monday in September
Due Dates	November 1 and February 1
Collection Dates	December 10 and April 10

Contributions to other agencies

Contributions to other agencies primarily represent sales tax revenues received by LTA disbursed to cities for competitive projects and the turnback program, which is in accordance with the Measure M ordinance. Additionally, gas tax monies are transferred to local governmental agencies in exchange for nonrestricted funds.

Net Assets

In the government-wide financial statements, net assets represent the difference between assets and liabilities and are classified into three categories.

- *Invested in capital assets, net of related debt* – This reflects the net assets of OCTA that are invested in capital assets, net of related debt. Usually this indicates that these net assets are not accessible for other purposes.

- *Restricted Net Assets* – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties. The government-wide statement of net assets reports $544,806 of restricted net assets, which is restricted by enabling legislation.

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- *UNRESTRICTED NET ASSETS* – This represents those net assets that are available for general use.

FUND EQUITY

In the fund financial statements, governmental and enterprise funds report reservations of fund balance/net assets for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures during the reporting period. As such, actual results could differ from those estimates.

(2) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental funds balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets.

One element of that reconciliation explains that "Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds." The details of this $652,407 difference are as follows:

Capital assets	$ 667,814
Less accumulated depreciation	(15,407)
NET ADJUSTMENT TO INCREASE FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS – GOVERNMENTAL	**$652,407**

Another element of that reconciliation explains that "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this ($308,051) difference are as follows:

Bonds payable	$ (307,845)
Less deferred charge on refunding (to be amortized as interest expense)	1,346
Plus unamortized bond issuance premium (to be amortized to interest expense)	(1,404)
Compensated absences	(148)
NET ADJUSTMENT TO DECREASE FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS – GOVERNMENTAL	**$(308,051)**

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EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets - governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense."

The details of this $100,069 difference are as follows:

Capital outlay	$ 100,890
Depreciation expense	(821)
NET ADJUSTMENT TO INCREASE NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	**$ 100,069**

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets." The details of this ($1,784) difference are as follows:

Proceeds on sale of capital assets	$ (1,994)
Gain on sale of excess land	210
NET ADJUSTMENT TO DECREASE NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	**$ (1,784)**

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $68,731 difference are as follows:

Principal repayments - sales tax revenue bonds	$ 67,325
Change in accrued interest	1,450
Amortization of deferred charge on refunding	(336)
Amortization of premium	351
Amortization of issuance costs	(59)
NET ADJUSTMENT TO INCREASE NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	**$ 68,731**

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(3) DIVERSION OF TDA FUNDING

In September 1995, as a result of and to assist the County of Orange in recovering from its December 1994 bankruptcy, the California State Legislature adopted legislation diverting $38,000 annually to the County from OCTA's TDA sales tax revenue. In return, $23,000 in annual County gasoline tax revenue is being diverted to OCTA. Diversion from OCTA of the TDA revenue began on July 1, 1996, for a 15 year period. Diversion to OCTA of the gasoline tax revenue began on July 1, 1997, for a 16 year period. The net result of this diversion is a loss to OCTA of $202,000. As all anticipated bankruptcy litigation settlements have occurred and been distributed to Orange County Investment Pool participants, OCTA does not anticipate recovery of this loss.

OCTA entered into agreements with nine Orange County cities and the Southern California Regional Rail Authority (SCRRA) effective July 1, 1997 to exchange the gasoline tax funds for flexible funding from each agency that OCTA could use to provide bus transit services. OCTA has successfully exchanged funds for ten years as of June 30, 2007.

(4) CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2007:

DEPOSITS:	
Deposits	$ (5,815)
Petty Cash	4
TOTAL CASH	**(5,811)**
INVESTMENTS:	
With Orange County Treasurer	4,528
With LAIF	26,300
With Trustee	148,019
With Custodian	803,214
TOTAL INVESTMENTS	**982,061**
TOTAL CASH AND INVESTMENTS	**$976,250**

Total deposits and investments are reported in the following funds:

UNRESTRICTED CASH AND INVESTMENTS:	
Governmental Funds	$ 608,399
Proprietary Funds:	
Enterprise	213,268
Internal Service	52,362
Fiduciary Funds	13
RESTRICTED CASH AND INVESTMENTS:	
Governmental Funds	70,405
Proprietary Funds:	
Enterprise	31,803
TOTAL CASH AND INVESTMENTS	**$976,250**

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On a daily basis, cash balances are swept into an overnight investment vehicle. As of June 30, 2007, OCTA had a negative $6,364 deposit balance due to this sweep. Restricted investments at June 30, 2007, represent reserves for debt service.

As of June 30, 2007, OCTA had the following investments:

Investment	Fair Value	Principal	Interest Rate Range	Maturity Range	Weighted Average Maturity (Years)
Orange County Investment Pool	$ 4,528	$ 4,526	5.29%-5.40%	54-57 days	54 days or .14
Local Agency Investment Fund	26,300	26,312	4.707%-5.25%	152-176 days	176 days or .48
U. S. Treasuries	287,333	288,255	2.06%-5.00%	1/15/08-4/15/12	2.31
U. S. Agency Notes	244,931	246,470	4.14%-6.34%	5/15/08-2/24/11	2.32
Medium Term Notes	154,841	156,056	2.67%-7.17%	7/30/07-4/15/11	1.97
Mortgage and Asset Backed Securities	113,082	113,526	3.20%-6.00%	9/1/07-9/15/11	3.21
Money Market Mutual Funds	60,711	60,711	Variable	7/1/07	1 Day
Investment Agreements	76,377	64,667	Discount, 3.877%-5.791%	8/15/07-12/15/30	7.19
Negotiable Certificates of Deposit	8,165	8,165	5.23%	7/2/07	2 days or .01
Repurchase Agreements	5,793	5,793	4.75%	7/2/07	2 days or .01
Total Investments	$982,061	$974,481			
Portfolio Weighted Average Maturity					2.51

Interest rate risk

OCTA manages exposure to declines in fair value from increasing interest rates by having an investment policy that limits maturities to five years while also staggering maturities. OCTA maintains a low duration strategy, targeting an estimated average portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile, therefore less sensitive to interest rate changes. In accordance with the OCTA investment policy, amounts restricted for debt service reserves are invested in accordance with the maturity provision of their specific indenture, which may extend beyond five years.

As of June 30, 2007, asset-backed securities totaled $113,082. The underlying assets are consumer receivables that include credit cards, auto and home loans. The securities have a fixed interest rate and are rated AAA by at least two of the three nationally recognized rating services.

OCTA did not have any variable or floating rate securities at year end.

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are

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in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. OCTA's investment policy requires that a third party bank custody department hold all securities owned by OCTA. All trades are settled on a delivery versus payment basis through OCTA's safekeeping agent. At June 30, 2007, OCTA did not have any deposits or securities exposed to custodial credit risk and there was no securities lending.

CREDIT RISK

The Annual Investment Policy sets minimum acceptable credit ratings for investments from any of the three nationally recognized rating services S & P, Moody's, and Fitch. For an issuer of short-term debt, the rating must be no less than A-1 (S & P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an "AA". LAIF is not rated.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2007. (NR means Not Rated):

INVESTMENTS	S & P	MOODY'S	FITCH	% OF
Orange County Investment Pool	NR	Aaa	AAA/VI+	.47%
Local Agency Investment Fund	NR	NR	NR	2.70%
U. S. Treasuries	AAA	AAA	AAA	29.58%
U. S. Agency Notes	AAA	Aaa	AAA	25.29%
Medium Term Notes	A	A	A	16.01%
Mortgage and Asset Backed Securities	AAA	Aaa	AAA	11.65%
Money Market and Mutual Funds	AAA	Aaa	NR	6.23%
Investment Agreements	NR	NR	NR	6.64%
Negotiable Certificates of Deposit	AA	Aa2	AA	.84%
Repurchase Agreements	AAA	Aaa	AAA	.59%
TOTAL				100%

CONCENTRATION OF CREDIT RISK

At June 30, 2007, OCTA did not exceed the IPS limitation that states that no more than:

- 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, mutual funds, and external investment pools.

- 20% may be invested in any money market mutual fund.

INVESTMENT IN STATE INVESTMENT POOL

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(5) GRANTS AND STATE ASSISTANCE

OPERATING ASSISTANCE GRANTS

Under provisions of the Federal Transit Administration (FTA) and the TDA, funds are available to OCTD for Americans with Disabilities Act (ADA) paratransit operating assistance, demonstration projects, transportation planning, and acquisition and construction of facilities, transit vehicles and related support equipment. For 2007, OCTA was awarded $23,115 in operating assistance and had a receivable of $23,268 outstanding as of June 30, 2007.

CAPITAL GRANTS

Under the provisions of a 1979 amendment to the TDA and the provisions of FTA, appropriations are available for the development and operation of a public transportation system. For 2007, OCTA was awarded $29,321 in capital grants and had a receivable of $14,845 outstanding as of June 30, 2007.

LOCAL TRANSPORTATION FUND

In 2007, LTF received revenues from a one-quarter percent state sales and use tax through provisions of the TDA, as amended. Under TDA, moneys are to be made available to OCTD for acquisitions of property, plant and equipment and for operating expenses. In 2007, OCTA and OCTD became entitled to $4,553 and $102,016 in LTF moneys, respectively. This entitlement was recorded as a transfer from LTF to OCTD. The remaining revenues received by LTF were contributed to other agencies for use in transit projects and OCTA planning. An additional $38,000 in TDA revenue was diverted to the County under provisions of bankruptcy recovery legislation passed by the California State legislature in September 1995 (see Note 3), and, accordingly, is not recorded in the financial statements.

STATE TRANSIT ASSISTANCE PROGRAM

In 2007, STAF was allocated a portion of the state gasoline tax. The gasoline tax is allocated to each county based on demographic factors. In 2007, OCTD became entitled to $36,678 in STAF moneys. This entitlement was recorded as a transfer from STAF to OCTD.

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(6) DUE FROM OTHER GOVERNMENTS

Amounts due from other governments as of June 30, 2007 are as follows:

	Governmental Funds					Enterprise Fund	
Receivables:	**General**	**LTA**	**LTF**	**CURE**	**Nonmajor Funds**	**OCTD**	**Total**
Sales taxes	$ -	$ 10,661	$ 3,676	$ -	$ -	$ -	$14,337
Project reimbursements	2,729	14,125	-	-	-	672	17,526
Vehicle registration fees	-	-	-	-	221	-	221
Gas tax exchange	-	-	-	-	-	5,783	5,783
Other	43	-	-	2	14,462	3,569	18,076
Total	**$ 2,772**	**$ 24,786**	**$ 3,676**	**$ 2**	**$ 14,683**	**$ 10,024**	**$55,943**

(7) INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The composition of interfund balances at June 30, 2007 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount	Explanation
General Fund	Nonmajor Governmental Funds	$ 32	Management fee
General Fund	OCTD Enterprise Fund	1,650	Transportation projects
LTA	Nonmajor Governmental Funds	4	Freeway construction projects
Nonmajor Governmental	LTA	934	Measure M II expenses
CURE Fund	OCTD Enterprise Fund	5,034	Operating assistance
OCTD Enterprise Fund	Nonmajor Governmental Funds	9,361	OCTD operations and senior/disabled subsidy
Total		**$17,015**	

Advances to/from other funds:

Receivable Fund	Payable Fund	Amount	Explanation
CURE Fund	91 Express Lanes Fund	$ 42,205	91 Express Lanes purchase
Total		**$42,205**	

In connection with the purchase of the toll facility franchise, to fund the debt service payment required on February 15, 2003, and to establish operations, the 91 Express Lanes Fund borrowed $83,641 from other OCTA funds at an interest rate, adjusted each January, representing OCTA's rate of return on short-term investments (5.08% at June 30, 2007). Interest accrues monthly, and the advance from other OCTA funds

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plus accrued interest will be repaid by the 91 Express Lanes Fund on an on-going basis with net revenues. On June 30, 2007, the 91 Express Lanes repaid $12,000 of the advance with net revenues. At June 30, 2007, these advances were $42,205 and are reported as interfund balances.

Interfund Transfers:

TRANSFERS OUT	TRANSFERS IN	AMOUNT	EXPLANATION
LTA Fund	LTA Debt Service Fund	$ 88,335	Debt service
LTA Fund	OCTD Enterprise Fund	1,000	Fare stabilization
LTA Fund	CURE Fund	27,000	Rail operations (Metrolink)
LTA Fund	Nonmajor Governmental Funds	195	Capital projects
Local Transportation Fund	General Fund	4,552	OCTA planning
Local Transportation Fund	OCTD Enterprise Fund	102,016	OCTD and CTSA operations
Local Transportation Fund	Nonmajor Governmental Funds	4,826	ADA bus stops
LTA Debt Service Fund	LTA Fund	7,441	Commercial Paper Program
CURE Fund	OCTD Enterprise Fund	2,636	Stationlink and Rail feeder service
Nonmajor Governmental Funds	General Fund	483	Transportation projects and Management fees
Nonmajor Governmental Funds	OCTD Enterprise Fund	36,678	OCTD operations and Senior/Disabled subsidy
Nonmajor Governmental Funds	LTA Fund	102	Capital projects
OCTD Enterprise Fund	General Fund	35,741	Bristol Street Widening
OCTD Enterprise Fund	CURE Fund	5,034	Rail operations (Metrolink)
OCTD Enterprise Fund	Nonmajor Governmental Funds	8	Management fee
Internal Service Funds	General Fund	1,621	Closing of Health Internal Service Funds
Internal Service Funds	OCTD Enterprise Fund	3,894	Closing of Health Internal Service Funds
Bus Operations Fund	OCTD Enterprise Fund	27,000	OCTD operations
		$348,562	

(8) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 134,247	$ 16,249	$ 104	$ 150,392
Construction in progress	53	-	-	53
Construction in progress held for Department of Transportation	414,266	83,718	-	497,984
Total capital assets, not being depreciated	548,566	99,967	104	648,429
Capital assets, being depreciated:				
Buildings and improvements	3,295	858	-	4,153
Machinery, equipment and furniture	14,649	600	17	15,232
Total capital assets, being depreciated	17,944	1,458	17	19,385

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	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings and improvements	(1,087)	(170)	-	(1,257)
Machinery, equipment and furniture	(13,516)	(651)	(17)	(14,150)
Total accumulated depreciation	(14,603)	(821)	(17)	(15,407)
Total capital assets, being depreciated, net	3,341	637	-	3,978
Governmental activities capital assets, net	**$551,907**	**$100,604**	**$ 104**	**$652,407**
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 44,925	$ 10,574	$ 116	$ 55,383
Construction in progress	7,069	10,628	17,292	405
Total capital assets, not being depreciated	51,994	21,202	17,408	55,788
Capital assets, being depreciated and amortized:				
Buildings and improvements, as restated	106,372	20,059	51	126,380
Transit vehicles	232,907	15,787	6,815	241,879
Machinery, equipment and furniture	60,050	7,063	823	66,290
Toll facility franchise	205,264	-	-	205,264
Total capital assets, being depreciated and amortized, as restated	604,593	42,909	7,689	639,813
Less accumulated depreciation and amortization for:				
Buildings and improvements	(37,013)	(3,950)	(18)	(40,945)
Transit vehicles	(141,023)	(20,070)	(6,756)	(154,337)
Machinery, equipment and furniture	(42,801)	(5,612)	(814)	(47,599)
Toll facility franchise	(25,658)	(7,331)	-	(32,989)
Total accumulated depreciation and amortization	(246,495)	(36,963)	(7,588)	(275,870)
Total capital assets, being depreciated and amortized, net, as restated	358,098	5,946	101	363,943
Business-type activities capital assets, net, as restated	**$410,092**	**$ 27,148**	**$17,509**	**$419,731**

The beginning balance for Business-type activities, Buildings and improvements of $106,372 includes a prior period adjustment of $3,800 for claims on the construction of the Santa Ana Bus Base that were erroneously coded to the Internal Service Fund and should have been recorded as a capital asset in the OCTD Enterprise Fund. Refer to footnote #16.

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Depreciation and amortization expense was charged to functions/programs as follows:

Governmental activities:	
General government	$ 726
Measure M program	89
Motorist services	6
TOTAL DEPRECIATION EXPENSE – GOVERNMENTAL ACTIVITIES	**$821**
Business-type activities:	
Fixed route	$ 23,501
Paratransit	4,175
Tollroad	9,287
TOTAL DEPRECIATION AND AMORTIZATION EXPENSE – BUSINESS-TYPE ACTIVITIES	**$36,963**

(9) RISK MANAGEMENT - CLAIMS LIABILITY

OCTA is self-insured for workers' compensation and general liability claims, and also purchases excess workers' compensation and general liability insurance. Workers' compensation claims are insured up to a maximum amount per claim of $750. General liability claims in excess of a $5,000 self-insured retention are insured for up to an additional $20,000 per occurrence. Settled claims have not exceeded insurance coverage in any prior fiscal years. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. General liability and workers' compensation reserves are actuarially determined. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Management is of the opinion that the recorded liabilities for OCTA's self-insured claims are adequate. Effective June 2007, OCTA closed the Employee Health Internal Service Fund as the self-insured health plans were converted to fully insured plans as of January 1, 2006.

OCTA's liability for claims where it has retained the risk of loss, as recorded in the appropriate internal service funds, is as follows:

	2007	2006
GENERAL LIABILITY		
UNPAID CLAIMS AS OF JULY 1, AS RESTATED	$4,359	$ 10,064
Incurred claims (including claims incurred but not reported as of June 30):		
Provision for current year events	926	4,290
Increase in provision for prior year events	565	2,438
Total incurred claims	1,491	6,728
PAYMENTS:		
Claims attributable to current year events	283	185
Claims attributable to prior year events	540	8,448
Total payments	(823)	(8,633)
Unpaid claims at June 30,	5,027	8,159

(THOUSANDS)

JUNE 30, 2007

	2007	2006
WORKERS' COMPENSATION		
UNPAID CLAIMS AS OF JULY 1,	15,003	16,038
Incurred claims (including claims incurred but not reported as of June 30):		
Provision for current year events	427	1,123
Decrease in provision for prior year events	(441)	2,645
Total incurred claims	(14)	3,768
PAYMENTS:		
Claims attributable to current year events	196	620
Claims attributable to prior year events	4,174	4,183
Total payments	(4,370)	(4,803)
Unpaid claims at June 30,	10,619	15,003
EMPLOYEE HEALTH		
UNPAID CLAIMS AS OF JULY 1,	100	674
Incurred claims (including claims incurred but not reported as of June 30):		
Provision for current year events	-	1,019
Increase in provision for prior year events	10	-
Total incurred claims	10	1,019
PAYMENTS:		
Claims attributable to current year events	10	1,230
Claims attributable to prior year events	100	363
Total payments	(110)	(1,593)
Unpaid claims at June 30,	-	100
TOTAL UNPAID CLAIMS AT JUNE 30,	15,646	23,262
Less current portion of unpaid claims	3,328	5,356
TOTAL LONG-TERM PORTION OF UNPAID CLAIMS	**$ 12,318**	**$ 17,906**

At June 30, 2006, $16,501 in unpaid workers compensation claims and claim adjustment expenses are presented at their net present value of $15,003. These claims are discounted at 3.63%.

Unpaid claims as of July 1, 2006 for General Liability of $4,359 includes a prior period adjustment of $3,800 for claims on the construction of the Santa Ana Bus Base were erroneously coded to the Internal Service Fund and should have been recorded as a capital asset in the OCTD Enterprise Fund. Refer to footnote #16.

(THOUSANDS)

JUNE 30, 2007

(10) SHORT-TERM DEBT

On March 13, 1995, LTA was authorized to issue up to $115,000 in Tax-Exempt Commercial Paper Notes (Notes). As a requirement for the issuance of the Notes, OCTA entered into an irrevocable direct-pay Letter of Credit and Reimbursement Agreement with a financial institution as liquidity support for the Notes. On August 30, 1999, OCTA transferred the Letter of Credit to Dexia Bank. The authorized amount was reduced to $74,200 with the available amount totaling $80,787. OCTA did not draw on this Letter of Credit authorization during the year ended June 30, 2007, nor were there any amounts outstanding under this Letter of Credit agreement at June 30, 2007.

As of June 30, 2007, LTA had outstanding Notes in the amount of $29,100. There were no additional Notes issued; $5,400 in Notes was retired in August 2006. On August 31, 2007, OCTA retired $6,000 in Notes, which reduced the outstanding principal balance to $22,600. The source of revenue to repay the Notes is the Measure M sales tax. Interest is payable on the respective maturity dates of the Notes, which are the earlier of 270 days from date of issuance or program termination. The maximum allowable interest rate on the Notes is 12.0%, with issuance rates at June 30, 2007 at 3.68%.

CHANGES IN SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2007, was as follows:

	BEGINNING BALANCE	ISSUED	REDEEMED	ENDING BALANCE
Tax exempt commercial paper	$ 34,500	$ -	$ 5,400	$ 29,100

(11) LONG-TERM DEBT

SALES TAX REVENUE BONDS

During fiscal years 1993, 1994 and 1998, LTA issued sales tax revenue bonds to assist in the financing of various highway, local street and road and transit projects in Orange County. The Measure M sales tax is the source of revenue for repaying this debt.

On August 26, 1997, LTA issued $57,730 in Measure M Sales Tax Revenue Refunding Bonds to advance refund $57,600 of outstanding 1992 Second Senior Bonds (1992 Second Senior Series). The net proceeds plus additional 1992 Second Senior Series sinking fund moneys and release of funds from the Bond Reserve Fund were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 Second Senior Series. In February 2002, the refunded bonds, which have been eliminated in the financial statements, were paid.

On March 24, 1998, LTA issued $20,270 in Measure M Sales Tax Revenue Refunding Bonds to advance refund $19,885 of outstanding 1992 First Senior Bonds (1992 First Senior Series). In addition to the refunding, LTA also issued $213,985 in revenue bonds to continue with the financing of Measure M related projects. The net proceeds plus additional 1992 First Senior Series sinking fund moneys were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 First Senior Series. In February 2002, the refunded bonds, which have been eliminated in the financial statements, were paid.

(THOUSANDS)

On October 10, 2001, LTA issued $67,335 in Measure M Sales Tax Revenue Refunding Bonds to advance refund $18,805 of the 1992 First Senior Bonds and $48,400 of the 1994 Second Senior Bonds. The proceeds plus additional sinking fund moneys were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 and 1994 bonds. The amount of the refunded bonds, which have been eliminated in the financial statements, were paid February 17, 2004.

A summary of the bonds outstanding is as follows:

	1992 1ST SENIOR BOND	1992 2ND SENIOR BOND	1994 2ND SENIOR BOND	1997 2ND SENIOR	1998 2ND SENIOR	2001 2ND SENIOR BOND
Issuance Date	08/27/92	09/18/92	02/24/94	08/15/97	03/15/98	10/15/01
Original issue amount	$ 350,000	$ 190,000	$ 200,000	$ 57,730	$ 213,985	$ 48,430
Original issue (discount)/ premium	(2,612)	(727)	(165)	3,800	11,687	3,510
Net bond	$ 347,388	$ 189,273	$ 199,835	$ 61,530	$ 225,672	$ 51,940
Issuance costs	$ 3,508	$ 2,323	$ 2,535	$ 780	$ 2,194	$ 590
Reserve requirements	$ -	$ 14,465	$ 11,535	$ 2,009	$ 22,567	$ 6,334
Cash reserve balance	$ -	$ 14,649	$ 12,005	$ 2,219	$ 23,243	$ 6,581
Interest Rate	2.8%-12.23%	2.9%-12.03%	2.8%-12.55%	3.8%-5.7%	3.9%-5.5%	4.0-5.0%
Effective blended rate	6.0%	5.96%	4.94%	5.06%	4.45%	3.70%
Annual principal payment	$23,625-27,200	-	$14,585	$13,210-15,445	$19,870-23,300	$15,460-16,850
Maturity	2011	2011	2011	2011	2011	2011
Bonds outstanding	$101,325	-	$14,585	$57,315	$86,190	$48,430
Less deferred loss on refunding	-	-	-	-	-	(1,345)
Plus unamortized premium	-	-	-	-	-	1,404
TOTAL	**$101,325**	**$ -**	**$14,585**	**$57,315**	**$86,190**	**$48,489**

The sales tax revenue bonds contain certain financial covenants, and management believes OCTA is in compliance with such covenants as of June 30, 2007.

(THOUSANDS)

JUNE 30, 2007

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2007, are as follows:

YEAR ENDING JUNE 30	PRINCIPAL	INTEREST
2008	$ 71,290	$ 17,168
2009	75,355	13,201
2010	78,405	9,000
2011	82,795	4,627
TOTAL	**$307,845**	**$43,996**

CERTIFICATES OF PARTICIPATION

In 1993, OCTD issued Certificates of Participation (COPs) to provide for the acquisition of buses. For the 1993 COPs, sources of revenue include FTA Section 5307 grants, LTF and STAF allocations, and property taxes.

A summary of the terms of the COPs is as follows:

Issuance date	6/01/93
Original issue amount	$ 21,100
Cash reserve requirements	$ 2,082
Cash reserve balance	$ 2,220
Interest rate	3.75% to 5.25%
Maturity	July 2007
Principal payment date	July 1
Current balance	$1,235
Unamortized premium	$ -

The COP's contain certain financial covenants, and management believes OCTA is in compliance with such covenants as of June 30, 2007.

Annual debt service requirements of the COPs to maturity as of June 30, 2007 are as follows:

YEAR ENDING JUNE 30	PRINCIPAL	INTEREST
2008	1,235	32
TOTAL	**$1,235**	**$32**

TAXABLE SENIOR SECURED BONDS

On January 3, 2003, as part of the purchase agreement, the 91 Express Lanes Fund assumed $135,000 of taxable 7.63% Senior Secured Bonds. On November 12, 2003, the taxable bonds were refunded as noted below. As required by the indenture, OCTA paid $26,428 Yield Maintenance Premium which is deferred and amortized over the life of the bonds.

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JUNE 30, 2007

Toll Road Revenue Refunding Bonds

On November 12, 2003, the OCTA issued $195,265 in Toll Road Revenue Refunding Bonds (91 Express Lanes) Series 2003-A, Series 2003-B-1 and Series 2003-B-2 to refinance the $135,000 taxable 7.63% Senior Secured Bonds and to reimburse the OCTA for a portion of its prior payment of the costs of acquiring the Toll Road and certain other property and interests associated with the Toll Road. The Series 2003 A Bonds were issued as fixed rate bonds, the Series 2003-B-1 Bonds and the Series B-2 Bonds were issued as adjustable rate bonds.

Interest Rate Swaps

As a means to lower its borrowing costs, when compared against fixed rate bonds at the time of issuance in September 2003, OCTA entered into two parity interest rate swaps totaling $100,000 in connection with its $195,265 Toll Road Revenue Refunding Bonds. $95,265 was issued on a fixed rate basis and $100,000 was issued on a variable rate basis. The Series 2003-B-1 swap was for $75,000 and the counterparty is Lehman Brothers Special Funding Incorporated (Lehman Brothers). The Series-B-2 swap was for $25,000 and the counterparty is Bear Stearns Capital Markets Incorporated (Bear Stearns). The effective rate on the parity swaps was to effectively change OCTA's variable rate bonds to a synthetic fixed rate of 4.06227%.

Terms

The bonds and the related parity swap agreements mature on December 15, 2030. The parity swaps notional amount of $100,000 matches the $100,000 variable rate bonds. The parity swaps were entered into at the same time the bonds were sold (November 2003). Starting in fiscal year 2022, the notional amount of the parity swaps declines and the principal amount of the associated variable rate declines an identical amount. Under the parity swaps, OCTA pays the counterparties a fixed payment of 4.06227% and the counterparties pay OCTA a floating rate equal to 67% of one month LIBOR index if one month LIBOR index is equal to or greater than 4.0% or the BMA Municipal Swap Index if LIBOR is less than 4.0%.

Fair Value

As of June 30, 2007, the negative fair value for the $75,000 swap with Lehman Brothers was estimated by Lehman Brothers to be $2,366. As of June 30, 2007, the negative fair value for the $25,000 swap with Bear Stearns was estimated by Bear Stearns to be $542. Therefore, if the swaps were terminated on June 30, 2007, the OCTA would have made a termination payment of $2,366 and $542 to Lehman Brothers and Bear Stearns, respectively. The termination payments that would have been owed by the OCTA if the swaps were terminated on June 30, 2007 are a result of the change in interest rate levels and certain interest rate relationships. The rate used to calculate the fixed swap payment owed by the OCTA to the swap providers is 4.06227%. As of June 30, 2007, this fixed rate was higher than the current rate for a swap of identical terms and conditions. The fair values were estimated by the counterparties using proprietary methodologies.

Credit Risk

To mitigate the potential for credit risk, the $75,000 swap with Lehman Brothers and the $25,000 swap with Bear Stearns is collateralized with U.S. government securities at all times.

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JUNE 30, 2007

BASIS RISK

Basis risk is the risk that the variable rate paid to a borrower by a swap counterparty does not completely offset, or equal the borrower's variable rate payment to bondholders. This may result in positive or negative basis differential. In order to minimize basis risk, OCTA selected a swap structure that pays a variable receiver rate based on a percentage of LIBOR in high interest rate environments where rate compression should be less of an issue, but pays a BMA receiver rate in low interest rate environments, where rate compression has historically been at its highest.

Under the parity swap agreements, OCTA pays the counterparties a fixed payment of 4.06227% and the counterparties pay OCTA a floating rate equal to 67% of LIBOR if LIBOR is equal to or greater than 4.0% or the BMA Municipal Swap Index if LIBOR is less than 4.0%. As of June 30, 2007, OCTA experienced $132 in cumulative positive basis differential.

TERMINATION RISK

Termination risk is the risk that an event occurs that causes a termination of the parity swaps and the OCTA would incur replacement costs. The Lehman Brothers and Bear Stearns have posted collateral pursuant to the parity swap agreements to guarantee replacement at no cost to OCTA.

SWAP PAYMENTS AND ASSOCIATED DEBT

As of June 30, 2007, debt service requirements of OCTA's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows:

	$75,000 Series 2003-B-1 (1)			$25,000 Series-B-2 (1)			
Year Ending June 30	Principal	Interest	Interest Rate Swap Net	Principal	Interest	Interest Rate Swap Net	Total
2008	$ -	$ 2,723	$ 374	$ -	$ 925	$ 125	$ 4,147
2009	-	2,723	374	-	925	125	4,147
2010	-	2,723	374	-	925	125	4,147
2011	-	2,723	374	-	925	125	4,147
2012	-	2,723	374	-	925	125	4,147
2013-2017	-	13,613	1,869	-	4,625	623	20,730
2018-2022	4,595	13,446	1,846	1,530	4,568	615	26,600
2023-2027	35,615	9,015	1,237	11,880	3,063	412	61,222
2028-2031	34,790	1,964	270	11,590	667	90	49,371
	$ 75,000	$ 51,653	$ 7,092	$ 25,000	$ 17,548	$ 2,365	$ 178,658

As rates vary, variable-rate bond interest payments and net swap payments will vary. The variable rate on the 2003-B-1 and B-2 debt was 3.63% for Lehman Brothers and 3.70% for Bear Stearns on June 30, 2007. As part of the Swap Agreement, OCTA receives 67% of one-month LIBOR which amounted to 3.56% on June 30, 2007.

(1) Assumes an interest rate swap rate of 4.06227% per annum for the Series 2003-B-1 Bonds and the Series-B-2 Bonds based on the Series 2003-B Parity Swap Agreements.

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A summary of the terms of the Toll Road Revenue Refunding Bonds is as follows:

Issuance date	11/12/03
Original issue amount	$ 195,265
Cash reserve requirements	$ 27,985
Cash reserve balance	$ 29,602
Interest rate	2.0% to 5.375% *
Maturity	December 2030
Principal payment date	August 15
Current balance	$183,510
Unamortized premium	$5,913
Deferred amount on refunding	($22,513)

* 2003 Series B-1 and B-2 are issued as variable rate revenue bonds with a floating-to-fixed interest rate swap transaction in place. Refer to interest rate swap description within this footnote. Both the $75,000 Series B-1 bonds and the $25,000 Series B-2 bonds was swapped to a fixed rate of 4.06227%.

The toll road refunding bonds contain certain financial covenants, and management believes OCTA is in compliance with such covenants as of June 30, 2007.

Annual debt service requirements on the tax-exempt bonds as of June 30, 2007, are as follows:

YEAR ENDING JUNE 30	PRINCIPAL	INTEREST	TOTAL
2008	$ 4,225	$ 8,028	$ 12,253
2009	4,345	7,910	12,255
2010	4,515	7,743	12,258
2011	4,740	7,517	12,257
2012	4,980	7,274	12,254
2013-2017	29,175	32,097	61,272
2018-2022	37,655	23,641	61,296
2023-2027	47,495	14,416	61,911
2028-2031	46,380	3,886	50,266
TOTAL	$183,510	$112,512	$296,022

The interest rate used to determine the future annual debt service requirements for the variable rate bonds was 4.06227% at June 30, 2007.

(THOUSANDS)

JUNE 30, 2007

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
Sales tax revenue bonds	$ 375,170	$ -	$ 67,325	$ 307,845	$ 71,290
Unamortized deferred loss on refunding	(1,682)	-	(336)	(1,346)	-
Unamortized premium	1,755	-	351	1,404	-
Compensated absences	2,046	3,240	3,013	2,273	2,125
Total governmental activities long-term liabilities	**$377,289**	**$ 3,240**	**$ 70,353**	**$310,176**	**$73,415**
Business-type activities:					
Certificates of participation	$ 2,470	$ -	$ 1,235	$ 1,235	$ 1,235
Tax-exempt bonds	187,625	-	4,115	183,510	4,225
Capital lease	6,534	10,407	1,200	15,741	3,188
Unamortized premium	6,166	-	253	5,913	-
Unamortized Deferred Amount on Refunding	(23,581)	-	(1,068)	(22,513)	-
Claims payable, as restated	19,362	1,477	5,193	15,646	3,328
Compensated absences	5,805	10,404	10,269	5,940	5,495
Total business-type activities Long-term liabilities, As Restated	**$204,381**	**$ 22,288**	**$ 21,197**	**$205,472**	**$17,471**

Compensated absences will be paid from the general fund for governmental activities and from the OCTD and OCTAP enterprise funds for business-type activities.

The beginning balance for Business-type activities, claims payable of $19,362 includes a prior period adjustment of $3,800 for claims on the construction of the Santa Ana Bus Base were erroneously coded to the Internal Service Fund and should have been recorded as a capital asset in the OCTD Enterprise Fund. Refer to footnote #16.

Arbitrage Rebate

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. In general, arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Failure to follow the arbitrage regulations could result in all interest paid to bondholders retroactively rendered taxable.

In accordance with the arbitrage regulations, if excess earnings were calculated, 90% of the amount calculated would be due to the Internal Revenue Service (IRS) at the end of each five year period. The remaining 10%

would be recorded as a liability and paid after all bonds had been redeemed. During the current year, no excess earnings were calculated, therefore no payments were made.

(12) PENSION PLANS

Plan Description - OCTA contributes to two retirement plans, the Public Employees' Retirement System (PERS) of the State of California and the Orange County Employees Retirement System (OCERS). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

PERS is a cost-sharing multiple-employer defined benefit public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and agency ordinance. An annual report for the OCTA plan within PERS is not available, however, a copy of PERS' annual financial report may be obtained from its executive office: 400 P Street, Sacramento, CA 95814.

Full time employees of the OCTA, except for those former employees of the OCTC who elected to participate in PERS, participate in OCERS, a cost-sharing multiple-employer defined benefit plan. OCERS provides for retirement, death, disability and cost-of-living benefits and is subject to provisions of the County Employees Retirement Law of 1937 and other applicable statutes. Copies of OCERS' annual financial report may be obtained from its executive office: 2223 Wellington Avenue, Santa Ana, CA 92701.

Funding Policy (PERS) - Beginning in 1991, OCTA elected to contribute 7% of gross salary to PERS for all participating employees employed as of June 30, 1991. The election is subject to renewal every year. OCTA is required to contribute at an actuarially determined rate. OCTA's actuarially determined contribution requirement was 0.0% of annual covered payroll. The contribution requirements are established and may be amended by PERS.

Funding Policy (OCERS) - Plan members contribute between 5.16% to 11.73% to the plan. OCTA's actuarially determined contribution requirement was 14.10% of total covered payroll.

Annual Pension Cost (PERS) – Annual required contributions for fiscal year 2007 were based on the June 30, 2005 actuarial valuation, the latest available from PERS. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75% per annum compounded annually and an inflation factor of 3.0%; and (b) projected annual salary increases that vary by duration of service and include a factor of 3.0% for inflation, .25% for across the board salary increases and various amounts for merit according to longevity.

OCTA's contributions to PERS were $0 for the years ended June 30, 2007, 2006, and 2005, and were equal to the required contribution calculated by the PERS actuary for each year.

Annual Pension Cost (OCERS) – Annual required contributions for fiscal year 2007 were based on the OCERS actuarial valuation as of December 31, 2005, in which the investment return assumption was 7.75%, the salary increase rate assumption was 4.5%, and the Consumer Price Index increase rate assumption was 4.0%.

(THOUSANDS)

JUNE 30, 2007

OCTA's contributions to OCERS for the years ended June 30, 2007, 2006, and 2005 were $13,579, $11,439, and $9,924, respectively, and were equal to the required contribution calculated by the OCERS actuary for each year.

(13) Purchase commitments

OCTA has various long-term outstanding contracts that extend over several years and rely on future years' revenues. Total commitments at June 30, 2007 are as follows:

	Total Purchase Commitments	Reserve for Encumbrances	Unencumbered Purchase Commitments
Governmental Funds:			
General	$ 200,411	$ 5,873	$ 194,538
LTA	439,372	83,530	355,842
CURE	8,969	36	8,933
Nonmajor governmental	8,707	1,567	7,140
Total Governmental Funds	657,459	91,006	566,453
Proprietary Funds:			
OCTD	172,269	164,289	7,980
91 Express Lanes	26,871	726	26,145
Internal Service	3,996	920	3,076
Total Proprietary Funds	203,136	165,935	37,201
Total	**$ 860,595**	**$ 256,941**	**$ 603,654**

The majority of the contracts relate to the expansion of Orange County's freeway and road systems and purchases of transit vehicles.

(14) Other Commitments and Contingencies

Litigation

OCTA is a defendant in various legal actions. Management believes that the ultimate resolution of these actions will not have a significant effect on OCTA's financial position or changes in financial position.

Federal Grants

OCTA receives Federal grants for capital projects and other reimbursable activities which are subject to audit by the grantor agency. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits would not have a material effect on OCTA's financial position or changes in financial position.

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JUNE 30, 2007

Lease Commitments

Operating leases

OCTA is committed under various leases for building, office space, tires for revenue vehicles, and office equipment. These leases are considered for accounting purposes to be operating leases. The terms of the lease for OCTA's administrative headquarters in Orange are for fifteen years beginning in September 1993, with two five-year renewal options. Lease expenditures for the year ended June 30, 2007 amounted to $7,064.

Future minimum payments for these leases are as follows:

Fiscal year ending		
2008	$	7,004
2009		4,669
2010		4,116
2011		3,765
2012		3,765
2013-2017		20,089
2018		3,637
Total	**$**	**47,045**

Capital leases

OCTA is also committed under multiple leases for design and construction of Compressed Natural Gas Fueling Facilities which are considered to be capital leases. As of fiscal year 2007, one of the three facilities has been completed at a cost of $6,534 and is included in building and improvements. The other two facilities are expected to begin construction in fiscal year 2008. When construction begins, the facilities will be recorded in CIP using the percentage of completion method. Once these assets are complete they will be transferred to buildings and improvements and depreciated over a 20 year life. The cost of these two assets is expected to be $10,407. The terms of the leases are for five years commencing July 21, 2006 for the first lease and October 30, 2007 for the other two leases.

Future minimum payments for these leases are as follows:

Fiscal year ending		
2008	$	3,188
2009		3,766
2010		3,766
2011		3,765
2012		2,309
2013		577
Total minimum lease payments		17,371
Less: interest costs		(1,630)
Present value of net minimum lease payments	**$**	**15,741**

(THOUSANDS)

JUNE 30, 2007

(15) JOINT VENTURE

OCTA is one of five members of the SCRRA, a joint powers authority created in 1992. The SCRRA's board consists of one member from the Ventura County Transit Commission (VCTC); two each from OCTA, the San Bernardino Associated Governments (SANBAG) and the Riverside County Transportation Commission (RCTC); and four members from the Los Angeles County Metropolitan Transportation Authority (LACMTA). SCRRA is responsible for maintaining and operating a regional commuter rail system (Metrolink) in five southern California counties. As a member of the agency, OCTA makes annual capital and operating contributions for its prorata share of rail lines serving Orange County. OCTA expended $46,007 during 2007 for its share of Metrolink capital and operating costs. Separate financial statements are prepared by and available from the SCRRA, which is located at 700 N. Flower Street, 26th floor, Los Angeles, CA 90017.

(16) PRIOR PERIOD ADJUSTMENT

In the prior fiscal year, expenditures of $3,800 for the construction of the Santa Ana Bus Base were erroneously coded to the General Liability Internal Service Fund, and should have been recorded in the OCTD Enterprise Fund.

The following is a summary for the effect of this adjustment:

	Business-type Activities Net Assets	Total Internal Service Funds Total Net Assets
Beginning balance, as previously reported	$ 515,282	$ 29,475
Adjustment	3,800	3,800
Beginning balance, as restated	**$ 519,082**	**$ 33,275**

Unrealized gains/(losses) were incorrectly calculated for the Local Transportation Fund and the State Transit Assistance Fund resulting in an overstatement of $1,585.

The following is a summary for the effect of this adjustment:

	Governmental Activities Net Assets	Local Transportation Fund Fund Balance	Nonmajor Governmental Funds Fund Balances
Beginning balance, as previously reported	$ 917,712	$ 16,454	$ 23,909
Adjustment	(1,585)	(1,512)	(73)
Beginning balance, as restated	**$ 916,127**	**$ 14,942**	**$ 23,836**

(THOUSANDS)

JUNE 30, 2007

Additionally, deferred revenue related to reimbursements received by the State for the SR-22 freeway construction project was incorrectly recorded for the Local Transportation Authority resulting in an understatement of $8,931.

The following is a summary for the effect of this adjustment:

	Local Transportation Authority Fund Balance
Beginning balance, as previously reported	$ 440,738
Adjustment	8,931
Beginning balance, as restated	**$449,669**

(17) Effect of New Pronouncements

GASB Statement No. 45

In June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. OCTA has not determined its effects on OCTA's financial statements. This statement is effective for OCTA's fiscal year ending June 30, 2008.

GASB Statement No. 47

In June 2005, GASB issued Statement No. 47, Accounting for Termination Benefits. This statement provides guidance on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations such as early retirement window programs and involuntary termination benefits, such as severance payments. The statement requires employers to disclose a description of the termination benefit arrangement, the cost of their termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefits provided through an existing defined benefit OPEB plan. The provisions of this statement should be implemented simultaneously with the requirement of GASB Statement No. 45. This statement is effective for OCTA's fiscal year ending June 30, 2008.

OCTA allows retiring Administrative and employees covered by the Transportation Communications International Union the option of continuing health coverage at the active employee rate from age 50 to 65. Coach operators and mechanics covered by collective bargaining agreements are not eligible for this program. The retiree must pay 100% of the premium amount. Employees electing a deferred retirement are not eligible for participation. OCTA does not make any contributions related to this plan. As of June 30, 2007, fourteen retirees were participating in the program.

(THOUSANDS)

JUNE 30, 2007

GASB STATEMENT NO. 49

In November 2006, GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This statement address accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is effective for OCTA's fiscal year ending June 30, 2009.

GASB STATEMENT NO. 50

In May 2007, GASB issued Statement No. 50, Pension Disclosures – an amendment to GASB Statements No. 25 and No. 27. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhance information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement is effective for OCTA's fiscal year ending June 30, 2008.

GASB STATEMENT NO. 51

In June 2007, GASB issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement is effective for OCTA's fiscal year ending June 30, 2010.

Required Supplementary Information
Budgetary Comparison Schedule
General Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Fines	$ 166	$ 166	$ 176	$ 10
Contributions from other agencies	620	620	5,128	4,508
Charges for services	45,421	45,421	43,663	(1,758)
Interest and investment income	338	338	282	(56)
Capital assistance grants	3,692	8,425	2,248	(6,177)
Operating assistance grants	4,125	4,125	-	(4,125)
Miscellaneous	233	233	180	(53)
TOTAL REVENUES	54,595	59,328	51,677	(7,651)
EXPENDITURES				
Current:				
General government:				
Salaries and benefits	32,230	32,230	30,918	1,312
Supplies and services	32,486	32,126	22,122	10,004
Transportation:				
Contributions to other local agencies	1,824	46,090	38,801	7,289
Capital outlay	812	832	925	(93)
TOTAL EXPENDITURES	67,352	111,278	92,766	18,512
Excess (deficiency) of revenues over (under) expenditures	(12,757)	(51,950)	(41,089)	10,861
OTHER FINANCING SOURCES (USES)				
Transfers in	7,738	7,738	42,397	34,659
TOTAL OTHER FINANCING SOURCES (USES)	7,738	7,738	42,397	34,659
Net change in fund balance	$ (5,019)	$ (44,212)	$ 1,308	$ 45,520

See accompanying notes to the required supplementary information.

Required Supplementary Information
Budgetary Comparison Schedule
Local Transportation Authority Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Sales tax revenue	$ 296,173	$ 296,173	$ 275,646	$ (20,527)
Contributions from other agencies	-	5,707	12,541	6,834
Interest and investment income	16,895	16,895	24,191	7,296
Capital assistance grants	13,622	28,384	13,918	(14,466)
Miscellaneous	77	77	258	181
Total revenues	326,767	347,236	326,554	(20,682)
Expenditures				
Current:				
General government:				
Supplies and services	33,491	46,359	18,263	28,096
Transportation:				
Contributions to other local agencies	73,245	100,532	106,694	(6,162)
Capital outlay	257,266	289,766	128,396	161,370
Debt service:				
Interest on long-term debt and commercial paper	1,018	1,018	1,309	(291)
Total expenditures	365,020	437,675	254,662	183,013
Excess (deficiency) of revenues over (under) expenditures	(38,253)	(90,439)	71,892	162,331
Other financing sources (uses)				
Transfers in	-	-	7,543	7,543
Transfers out	(131,498)	(131,498)	(116,530)	14,968
Proceeds from sale of capital assets	-	-	1,994	1,994
Total other financing sources (uses)	(131,498)	(131,498)	(106,993)	24,505
Net change in fund balance	$ (169,751)	$ (221,937)	$ (35,101)	$ 186,836

See accompanying notes to the required supplementary information.

Required Supplementary Information
Budgetary Comparison Schedule
Local Transportation Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Sales tax revenue	$ 111,550	$ 111,550	$ 108,793	$ (2,757)
Interest and investment income	572	572	432	(140)
Total revenues	112,122	112,122	109,225	(2,897)
Expenditures				
Current:				
General government:				
Supplies and services	1,362	1,362	1,585	(223)
Transportation:				
Contributions to other local agencies	2,833	2,833	3,500	(667)
Total expenditures	4,195	4,195	5,085	(890)
Excess of revenues over expenditures	107,927	107,927	104,140	(3,787)
Other financing uses				
Transfers out	(108,105)	(108,105)	(111,394)	(3,289)
Total other financing uses	(108,105)	(108,105)	(111,394)	(3,289)
Net change in fund balance	$ (178)	$ (178)	$ (7,254)	$ (7,076)

See accompanying notes to the required supplementary information.

Required Supplementary Information
Budgetary Comparison Schedule
Commuter Urban Rail Endowment Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Fines	$ 22	$ 22	$ 15	$ (7)
Contributions from other agencies	-	-	60	60
Interest and investment income	2,779	2,779	11,247	8,468
Federal capital assistance grants	31,955	31,955	26,214	(5,741)
Miscellaneous	608	608	606	(2)
Total revenues	35,364	35,364	38,142	2,778
Expenditures				
Current:				
General government:				
Supplies and services	17,385	16,135	15,142	993
Transportation:				
Contributions to other local agencies	61,654	60,854	34,648	26,206
Total expenditures	79,039	76,989	49,790	27,199
Excess (deficiency) of revenues over (under) expenditures	(43,675)	(41,625)	(11,648)	29,977
Other financing sources (uses)				
Transfers in	55,718	55,718	32,034	(23,684)
Transfers out	(1,716)	(1,716)	(2,636)	(920)
Total other financing sources (uses)	54,002	54,002	29,398	(24,604)
Net change in fund balance	$ 10,327	$ 12,377	$ 17,750	$ 5,373

See accompanying notes to the required supplementary information.

(THOUSANDS)

JUNE 30, 2007

(1) BUDGETARY DATA

OCTA establishes accounting control through formal adoption of an annual operating budget for all governmental funds. The operating budget is prepared in conformity with accounting principles generally accepted in the United States (GAAP) except for multi-year contracts, for which the entire amount of the contract is budgeted and encumbered in the year of execution. The adopted budget can be amended by the Board to increase both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Division heads are authorized to approve appropriation transfers within major objects. Major objects are defined as Salaries and Benefits, Supplies and Services, and Capital Outlay. Supplies and Services includes Contributions to Other Local Agencies, Debt Service and Transfers. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, for budgeted funds, is at the major object level for the budgeted governmental funds. A Fourth Quarter Budget Status Report, June 2007 is available from the OCTA Finance, Administration and Human Resources Division. With the exception of accounts which have been encumbered, appropriations lapse at year end.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations for the following major governmental funds as of June 30, 2007:

FUND	ACCOUNT	APPROPRIATIONS	EXPENDITURES	EXPLANATIONS
General Fund	Capital outlay	$ 832	$ 925	Contract encumbered in OCTD Enterprise Fund
LTF	Supplies and services	$ 1,362	$ 1,585	Higher than anticipated SBOE fees.
LTF	Contributions to other local agencies	$ 2,833	$ 3,500	Draw down on City of Laguna Beach apportionment
LTF	Transfers out	$ 108,105	$ 111,394	Draw down from prior year's unallocated apportionment

(THOUSANDS)

JUNE 30, 2007

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Orange County Unified Transportation Trust (OCUTT) – This fund is used to account for the revenues received and expenditures made for disbursements to OCTA, California Department of Transportation and cities within Orange County for various transportation projects. The source of revenue is the interest earned by the general capital projects fund. Expenditures of moneys in this fund must be made in accordance with provisions of the California Transportation Development Act (TDA).

Service Authority for Freeway Emergencies (SAFE) – This fund is used to account for revenues received and expenditures made for the implementation and maintenance of the motorist emergency aid system. Funding is provided from a one dollar per vehicle registration fee on vehicles registered in Orange County. Expenditure of moneys in this fund must be made in accordance with the provisions of Chapter 14 of the California Streets and Highways Code.

Service Authority for Abandoned Vehicles (SAAV) – This fund is used to account for revenues received and expenditures made for the removal of abandoned vehicles from streets and roads throughout Orange County. The source of revenue is provided by a one dollar per vehicle registration fee on vehicles registered in Orange County. Expenditure of moneys in this fund must be made in accordance with the provisions of Section 22710 of the California Vehicle Code.

State Transit Assistance Fund (STAF) – This fund is used to account for revenues received and expenditures made for OCTD transit operations and fare assistance for seniors and disabled persons. Funding is provided by sales taxes on gasoline and use taxes on diesel fuel. Expenditure of these funds is governed by the provisions of the TDA.

Gas Tax Fund – Beginning July 1, 1997, OCTA began receiving $23,000 in gas tax revenue from the County of Orange. The revenues are restricted and must either be used for their designated purpose or swapped with other Orange County government agencies which can utilize the revenues for their intended purpose and in return provide OCTA with unrestricted revenues. OCTA carries the responsibility of annually pursuing and securing the swapping of restricted revenues with unrestricted revenues from Orange County government agencies.

CAPITAL PROJECTS FUNDS

General Capital Projects Fund – This fund, formerly known as the Transit Development Reserve, is used to account for transportation capital projects.

OCTD Capital Projects Fund – This fund is used to account for transit capital projects.

Rail Capital Project Fund – This fund is used to account for the development of a proposed light-rail transit corridor within Orange County.

Combining Balance Sheet - Nonmajor Governmental Funds

(thousands)

June 30, 2007	Special Revenue OCUTT	Special Revenue SAFE	Special Revenue SAAV	Special Revenue STAF	Special Revenue Gas Tax	Special Revenue Total
Assets						
Cash and investments	$ 10,210	$ 2,812	$ 2,332	$ 559	$ 543	$ 16,456
Receivables:						
Interest	161	44	20	9	-	234
Capital grants	-	-	-	-	-	-
Other	-	50	-	-	-	50
Due from other funds	934	-	-	-	-	934
Due from other governments	-	3,292	632	9,170	-	13,094
Total Assets	$ 11,305	$ 6,198	$ 2,984	$ 9,738	$ 543	$ 30,768
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$ 2	$ 428	$ -	$ -	$ -	$ 430
Due to other funds	-	-	32	9,361	-	9,393
Due to other governments	-	7	1,427	-	-	1,434
Deferred revenue	9	-	-	-	-	9
Total Liabilities	11	435	1,459	9,361	-	11,266
Fund Balances:						
Reserved for:						
Encumbrances	-	450	-	-	-	450
Transportation programs	-	-	-	377	543	920
Motorist services	-	5,313	1,525	-	-	6,838
Unreserved (deficit), reported in:						
Special revenue funds	11,294	-	-	-	-	11,294
Capital project funds	-	-	-	-	-	-
Total fund balances	11,294	5,763	1,525	377	543	19,502
Total liabilities and fund balances	$ 11,305	$ 6,198	$ 2,984	$ 9,738	$ 543	$ 30,768

Combining Balance Sheet - Nonmajor Governmental Funds, *continued*

(thousands)

June 30, 2007	Capital Projects General	OCTD	Rail Capital Project	Total	Total Nonmajor Governmental Funds
Assets					
Cash and investments	$ 7,640	$ 23	$ 1,089	$ 8,752	$ 25,208
Receivables:					
Interest	-	-	62	62	296
Capital grants	486	-	-	486	486
Other	-	-	-	-	50
Due from other funds	-	-	-	-	934
Due from other governments	1,589	-	-	1,589	14,683
Total Assets	$ 9,715	$ 23	$ 1,151	$ 10,889	$ 41,657
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 1,749	$ 8	$ -	$ 1,757	$ 2,187
Due to other funds	4	-	-	4	9,397
Due to other governments	-	-	-	-	1,434
Deferred revenue	-	-	-	-	9
Total Liabilities	1,753	8	-	1,761	13,027
Fund Balances:					
Reserved for:					
Encumbrances	325	759	33	1,117	1,567
Transportation programs	-	-	-	-	920
Motorist services	-	-	-	-	6,838
Unreserved (deficit), reported in:					
Special revenue funds	-	-	-	-	11,294
Capital project funds	7,637	(744)	1,118	8,011	8,011
Total fund balances	7,962	15	1,151	9,128	28,630
Total liabilities and fund balances	$ 9,715	$ 23	$ 1,151	$ 10,889	$ 41,657

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

(thousands)

for the year ended June 30, 2007	Special Revenue					
	OCUTT	SAFE	SAAV	STAF	Gas Tax	Total
Revenues:						
Sales taxes	$ -	$ -	$ -	$ 36,628	$ -	$ 36,628
Gasoline taxes	-	-	-	-	23,000	23,000
Vehicle registration fees	-	2,556	2,558	-	-	5,114
Contributions from other agencies	-	3,071	-	-	-	3,071
Interest and investment income	943	195	88	56	-	1,282
Federal capital assistance grants	-	-	-	-	-	-
Miscellaneous	-	68	-	-	-	68
Total revenues	943	5,890	2,646	36,684	23,000	69,163
Expenditures:						
Current:						
General government:						
Supplies and services	34	5,252	15	1	-	5,302
Transportation:						
Contributions to other local agencies	-	-	1,442	-	23,000	24,442
Capital outlay	-	-	-	-	-	-
Total expenditures	34	5,252	1,457	1	23,000	29,744
Excess (deficiency) of revenues over (under) expenditures	909	638	1,189	36,683	-	39,419
Other financing sources (uses):						
Transfers in	-	-	-	-	-	-
Transfers out	(355)	-	(128)	(36,678)	-	(37,161)
Total other financing sources (uses)	(355)	-	(128)	(36,678)	-	(37,161)
Net change in fund balances	554	638	1,061	5	-	2,258
Fund balances-beginning, as restated	10,740	5,125	464	372	543	17,244
Fund balances-ending	$ 11,294	$ 5,763	$ 1,525	$ 377	$ 543	$ 19,502

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, *continued*

Nonmajor Governmental Funds

(thousands)

for the year ended June 30, 2007	Capital Projects: General	Capital Projects: OCTD	Capital Projects: Rail Capital Project	Capital Projects: Total	Total Nonmajor Governmental Funds
Revenues:					
Sales taxes	$ -	$ -	$ -	$ -	$ 36,628
Gasoline taxes	-	-	-	-	23,000
Vehicle registration fees	-	-	-	-	5,114
Contributions from other agencies	1,301	-	-	1,301	4,372
Interest and investment income	-	-	51	51	1,333
Federal capital assistance grants	963	-	-	963	963
Miscellaneous	420	-	-	420	488
Total revenues	2,684	-	51	2,735	71,898
Expenditures:					
Current:					
General government:					
Supplies and services	1,846	8	12	1,866	7,168
Transportation:					
Contributions to other local agencies	67	-	-	67	24,509
Capital outlay	3,009	184	-	3,193	3,193
Total expenditures	4,922	192	12	5,126	34,870
Excess (deficiency) of revenues over (under) expenditures	(2,238)	(192)	39	(2,391)	37,028
Other financing sources (uses):					
Transfers in	4,826	192	11	5,029	5,029
Transfers out	(102)	-	-	(102)	(37,263)
Total other financing sources (uses)	4,724	192	11	4,927	(32,234)
Net change in fund balances	2,486	-	50	2,536	4,794
Fund balances-beginning, as restated	5,476	15	1,101	6,592	23,836
Fund balances-ending	$ 7,962	$ 15	$ 1,151	$ 9,128	$ 28,630

Budgetary Comparison Schedule

Local Transportation Authority Debt Service Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Interest and investment income	$ 4,031	$ 4,031	$ 4,946	$ 915
TOTAL REVENUES	4,031	4,031	4,946	915
EXPENDITURES				
Current:				
General government:				
Supplies and services	152	152	152	-
Debt service:				
Principal payments on long-term debt	67,325	67,325	67,325	-
Interest on long-term debt and commercial paper	20,994	20,994	20,994	-
TOTAL EXPENDITURES	88,471	88,471	88,471	-
Excess (deficiency) of revenues over (under) expenditures	(84,440)	(84,440)	(83,525)	915
OTHER FINANCING SOURCES (USES)				
Transfers in	88,319	88,319	88,335	16
Transfers out	-	-	(7,441)	(7,441)
TOTAL OTHER FINANCING SOURCES (USES)	88,319	88,319	80,894	(7,425)
Net change in fund balance	$ 3,879	$ 3,879	$ (2,631)	$ (6,510)

Budgetary Comparison Schedule

Orange County Unified Transportation Trust Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Interest and investment income	$ 820	$ 820	$ 943	$ 123
TOTAL REVENUES	820	820	943	123
EXPENDITURES				
Current:				
General government:				
Supplies and services	423	423	34	389
TOTAL EXPENDITURES	423	423	34	389
Excess of revenues over expenditures	397	397	909	512
OTHER FINANCING SOURCES (USES)				
Transfers out	(2,550)	(2,550)	(355)	2,195
TOTAL OTHER FINANCING SOURCES (USES)	(2,550)	(2,550)	(355)	2,195
Net change in fund balance	$ (2,153)	$ (2,153)	$ 554	$ 2,707

Budgetary Comparison Schedule

Service Authority for Freeway Emergencies Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Vehicle registration fees	$ 2,584	$ 2,584	$ 2,556	$ (28)
Contributions from other agencies	3,080	3,080	3,071	(9)
Interest and investment income	215	215	195	(20)
Miscellaneous	15	15	68	53
Total revenues	5,894	5,894	5,890	(4)
Expenditures				
Current:				
General government:				
Supplies and services	7,029	7,029	5,252	1,777
Total expenditures	7,029	7,029	5,252	1,777
Excess (deficiency) of revenues over (under) expenditures	(1,135)	(1,135)	638	1,773
Net change in fund balance	$ (1,135)	$ (1,135)	$ 638	$ 1,773

Budgetary Comparison Schedule

Service Authority for Abandoned Vehicles Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Vehicle registration fees	$ 2,584	$ 2,584	$ 2,558	$ (26)
Interest and investment income	21	21	88	67
Total revenues	2,605	2,605	2,646	41
Expenditures				
Current:				
General government:				
Supplies and services	56	56	15	41
Transportation:				
Contributions to other local agencies	2,350	2,350	1,442	908
Total expenditures	2,406	2,406	1,457	949
Excess of revenues over expenditures	199	199	1,189	990
Other financing uses				
Transfers out	(125)	(125)	(128)	(3)
Total other financing uses	(125)	(125)	(128)	(3)
Net change in fund balance	$ 74	$ 74	$ 1,061	$ 987

Budgetary Comparison Schedule

State Transit Assistance Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Sales tax revenue	$ 13,582	$ 13,582	$ 36,628	$ 23,046
Interest and investment income	31	31	56	25
TOTAL REVENUES	13,613	13,613	36,684	23,071
EXPENDITURES				
Current:				
General government:				
Supplies and services	-	-	1	(1)
TOTAL EXPENDITURES	-	-	1	(1)
Excess of revenues over expenditures	13,613	13,613	36,683	23,070
OTHER FINANCING USES				
Transfers out	(13,582)	(13,582)	(36,678)	(23,096)
TOTAL OTHER FINANCING USES	(13,582)	(13,582)	(36,678)	(23,096)
Net change in fund balance	$ 31	$ 31	$ 5	$ (26)

Budgetary Comparison Schedule

Gas Tax Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Gasoline tax revenue	$ 23,000	$ 23,000	$ 23,000	$ -
Total revenues	23,000	23,000	23,000	-
Expenditures				
Current:				
Transportation:				
Contributions to other local agencies	23,000	23,000	23,000	-
Total expenditures	23,000	23,000	23,000	-
Net change in fund balance	$ -	$ -	$ -	$ -

Budgetary Comparison Schedule
General Capital Projects Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Contributions from other agencies	$ -	$ -	$ 1,301	$ 1,301
Capital assistance grants	508	508	963	455
Operating assistance grants	5,669	5,669	-	(5,669)
Miscellaneous	-	-	420	420
Total revenues	6,177	6,177	2,684	(3,493)
Expenditures				
Current:				
General government:				
Supplies and services	7,068	7,068	1,846	5,222
Transportation:				
Contributions to other local agencies	36,000	67	67	-
Capital outlay	4,573	4,628	3,009	1,619
Total expenditures	47,641	11,763	4,922	6,841
Excess (deficiency) of revenues over (under) expenditures	(41,464)	(5,586)	(2,238)	3,348
Other financing sources (uses)				
Transfers in	38,787	38,787	4,826	(33,961)
Transfers out	-	-	(102)	(102)
Total other financing sources (uses)	38,787	38,787	4,724	(34,063)
Net change in fund balance	$ (2,677)	$ 33,201	$ 2,486	$ (30,715)

Budgetary Comparison Schedule

Orange County Transit District Capital Projects Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Interest and investment income	$ 9	$ 9	$ -	$ (9)
Total revenues	9	9	-	(9)
Expenditures				
Current:				
General government:				
Supplies and services	142	142	8	134
Capital outlay	958	958	184	774
Total expenditures	1,100	1,100	192	908
Excess (deficiency) of revenues over (under) expenditures	(1,091)	(1,091)	(192)	899
Other financing sources (uses)				
Transfers in	-	-	192	192
Total other financing sources (uses)	-	-	192	192
Net change in fund balance	$ (1,091)	$ (1,091)	$ -	$ 1,091

Budgetary Comparison Schedule
Rail Capital Project Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2007	Budgeted Amounts: Original	Budgeted Amounts: Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Interest and investment income	$ 36	$ 36	$ 51	$ 15
TOTAL REVENUES	36	36	51	15
EXPENDITURES				
Current:				
General government:				
Supplies and services	1,173	1,173	12	1,161
TOTAL EXPENDITURES	1,173	1,173	12	1,161
Excess (deficiency) of revenues over (under) expenditures	(1,137)	(1,137)	39	1,176
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	11	11
TOTAL OTHER FINANCING SOURCES (USES)	-	-	11	11
Net change in fund balance	$ (1,137)	$ (1,137)	$ 50	$ 1,187

(THOUSANDS)

JUNE 30, 2007

INTERNAL SERVICE FUNDS

GENERAL LIABILITY - This fund is used to account for OCTA's risk management activities in the areas of public liability, property damage and automobile liability.

WORKERS' COMPENSATION - This fund is used to account for OCTA's risk management activities in the area of workers' compensation.

EMPLOYEE HEALTH - This fund was used to account for OCTA's three primary areas of employee health coverage – administrative employees, coach operators, and maintenance employees. Effective June 2007, OCTA closed the Employee Health Internal Service Fund as the self-insured health plans were converted to fully insured plans as of January 1, 2006.

Combining Statement of Fund Net Assets - Internal Service Funds

(thousands)

June 30, 2007	General Liability	Workers' Compensation	Employee Health	Total Internal Service Funds
Assets				
Current assets:				
Cash and investments	$ 29,027	$ 23,335	$ -	$ 52,362
Receivables:				
Interest	288	193	-	481
Other	17	292	-	309
Other assets	255	791	-	1,046
Total Assets	29,587	24,611	-	54,198
Liabilities				
Accounts payable	97	353	-	450
Claims payable	1,691	1,637	-	3,328
Other liabilities	-	103	-	103
Noncurrent liabilities:				
Claims payable	3,336	8,982	-	12,318
Total Liabilities	5,124	11,075	-	16,199
Net Assets				
Unrestricted	24,463	13,536	-	37,999
Total Net Assets	$ 24,463	$ 13,536	$ -	$ 37,999

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds

(thousands)

for the year ended June 30, 2007	General Liability	Workers' Compensation	Employee Health	Total Internal Service Funds
Operating revenues:				
Charges for services	$ 1,492	$ 10,296	$ 16,005	$ 27,793
Total operating revenues	1,492	10,296	16,005	27,793
Operating expenses:				
Administrative services	113	85	17	215
Other	-	83	-	83
Insurance claims and premiums	2,009	481	16,625	19,115
Professional services	630	412	104	1,146
General and administrative	-	3	-	3
Total operating expenses	2,752	1,064	16,746	20,562
Operating income (loss)	(1,260)	9,232	(741)	7,231
Nonoperating revenues (expenses):				
Investment earnings	1,570	1,130	183	2,883
Other	26	92	7	125
Total nonoperating revenues (expenses)	1,596	1,222	190	3,008
Income (loss) before contributions and transfers	336	10,454	(551)	10,239
Capital contributions				-
Transfers in	-	-	-	-
Transfers out	-	-	(5,515)	(5,515)
Change in net assets	336	10,454	(6,066)	4,724
Total net assets - beginning, as restated	24,127	3,082	6,066	33,275
Total net assets - ending	$ 24,463	$ 13,536	$ -	$ 37,999

Combining Statement of Cash Flows - Internal Service Funds

(thousands)

for the year ended June 30, 2007	General Liability	Workers' Compensation	Employee Health	Total Internal Service Funds
Cash flows from operating activities:				
Receipts from third party administrator	$ -	$ -	$ 250	$ 250
Receipts from interfund services provided	1,492	10,279	16,250	28,021
Payments to suppliers	(712)	(455)	(56)	(1,223)
Payments to claimants	(1,341)	(4,763)	(16,826)	(22,930)
Payments for interfund services used	(113)	(85)	(17)	(215)
Net cash provided by (used for) operating activities	(674)	4,976	(399)	3,903
Cash flows from noncapital financing activities:				
Transfers out	-	-	(5,566)	(5,566)
Net cash provided by noncapital financing activities	-	-	(5,566)	(5,566)
Cash flows from investing activities:				
Investment earnings	1,523	1,067	226	2,816
Net cash provided by (used for) investing activities	1,523	1,067	226	2,816
Net increase (decrease) in cash and cash equivalents	849	6,043	(5,739)	1,153
Cash and cash equivalents at beginning of year	28,178	17,292	5,739	51,209
Cash and cash equivalents at end of year	$ 29,027	$ 23,335	$ -	$ 52,362
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ (1,260)	$ 9,232	$ (741)	$ 7,231
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Insurance recoveries	26	92	7	125
Change in assets and liabilities:				
Receivables	36	(17)	245	264
Other assets	(175)	(23)	250	52
Accounts payable	31	(27)	(59)	(55)
Claims payable	668	(4,281)	(101)	(3,714)
Total adjustments	586	(4,256)	342	(3,328)
Net cash provided by (used for) operating activities	$ (674)	$ 4,976	$ (399)	$ 3,903

Metrolink

91 Express Lanes

Schedule 1

Net Assets by Component, Last Six Fiscal Years

(accrual basis of accounting - thousands)

	Fiscal Year 2002	2003	2004	2005	2006	2007
Governmental activities:						
Invested in capital assets, net of related debt	$ 166,410	$ 160,756	$ 139,044	$ 278,006	$ 551,907	$ 652,407
Restricted	396,455	455,630	566,921	637,820	568,581	531,638
Unrestricted	(392,245)	(327,947)	(305,530)	(231,120)	(204,361)	(128,311)
Total government activites net assets	$ 170,620	$ 288,439	$ 400,435	$ 684,706	$ 916,127	$ 1,055,734
Business-type activities:						
Invested in capital assets, net of related debt	$ 227,694	$ 198,772	$ 241,883	$ 249,263	$ 230,878	$ 259,930
Restricted	-	25,439	22,942	25,771	28,046	13,168
Unrestricted	324,717	328,129	273,330	249,883	260,158	248,194
Total business-type activites net assets	$ 552,411	$ 552,340	$ 538,155	$ 524,917	$ 519,082	$ 521,292
Primary government:						
Invested in capital assets, net of related debt	$ 394,104	$ 359,528	$ 380,927	$ 527,269	$ 782,785	$ 912,337
Restricted	396,455	481,069	589,863	663,591	596,627	544,806
Unrestricted	(67,528)	182	(32,200)	18,763	55,797	119,883
Total primary government net assets	$ 723,031	$ 840,779	$ 938,590	$ 1,209,623	$ 1,435,209	$ 1,577,026

Source: Accounting and Financial Reporting Department

Notes: GASB 34 was implemented July 1, 2001.

Fiscal year 2005 Governmental Activities Invested in Capital Assets, Net of Related Debt includes a prior period adjustment of $17,672 for construction management costs related to the SR-22 freeway project that should have been recorded as a capital asset.

Fiscal year 2006 Governmental Activities Unrestricted Net Assets includes a prior period adjustment of $1,585 for unrealized gains/(losses) which were incorrectly calculated for the Local Transportation Fund and the State Transit Assistance Fund.

Fiscal year 2006 Business-type Activities Invested in Capital Assets, Net of Related Debt includes a prior period adjustment of $3,800 for the construction of the Santa Ana Bus Base erroneously coded to the General Liability Internal Service Fund, that should have been recorded in the OCTD Enterprise Fund.

Schedule 2
Changes in Net Assets, Last Six Fiscal Years
(accrual basis of accounting - thousands)

	Fiscal Year					
Expenses	2002	2003	2004	2005	2006	2007
Governmental activities:						
General government	$ 84,319	$ 72,284	$ 76,583	$ 79,777	$ 80,961	$ 125,160
Measure M program	156,775	134,900	147,135	108,370	133,524	174,314
Motorist services	7,986	8,681	7,619	7,672	8,451	6,717
Commuter rail	11,029	10,294	10,463	20,505	18,442	49,791
Urban rail	1,312	37,992	15,755	10,115	128	-
Total governmental activites expenses	261,421	264,151	257,555	226,439	241,506	355,982
Business-type activities:						
Fixed Route	175,460	184,495	199,375	220,037	223,160	233,827
Paratransit	19,497	23,567	28,935	32,558	28,285	28,002
Tollroad	-	16,575	33,508	33,886	33,693	34,430
Taxicab administration	262	311	243	245	271	366
Total business-type activites expenses	195,219	224,948	262,061	286,726	285,409	296,625
Total primary government expenses	$ 456,640	$ 489,099	$ 519,616	$ 513,165	$ 526,915	$ 652,607
Program Revenues						
Governmental activities:						
Charges for services:						
General government	$ 33,321	$ 33,977	$ 37,189	$ 39,429	$ 37,517	$ 43,840
Other activities	795	664	797	735	713	880
Operating grants and contributions	5,280	4,483	4,325	35,263	29,632	31,963
Capital grants and contributions	27,420	45,548	38,787	154,565	107,349	62,830
Total governmental activites program revenues	66,816	84,672	81,098	229,992	175,211	139,513
Business-type activities:						
Charges for services:						
Fixed route	59,316	46,143	47,940	52,636	54,178	48,562
Tollroad	-	14,398	32,391	39,598	44,238	49,838
Other activities	3,052	3,608	3,770	4,660	5,016	6,063
Operating grants and contributions	33,564	55,962	55,094	42,681	44,555	46,493
Capital grants and contributions	64,818	14,351	22,910	25,218	8,750	15,948
Total business-type activites program revenues	160,750	134,462	162,105	164,793	156,737	166,904
Total primary government program revenues	$ 227,566	$ 219,134	$ 243,203	$ 394,785	$ 331,948	$ 306,417
Net (expense)/revenue						
Governmental activities	$ (194,605)	$ (179,479)	$ (176,457)	$ 3,553	$ (66,295)	$ (216,469)
Business-type activities	(34,469)	(90,486)	(99,956)	(121,933)	(128,672)	(129,721)
Total primary government net expense	$ (229,074)	$ (269,965)	$ (276,413)	$ (118,380)	$ (194,967)	$ (346,190)

Source: Accounting and Financial Reporting Department

Notes:

GASB 34 was implemented July 1, 2001.

The 91 Express Lanes were purchased in January, 2003.

In fiscal year 2005, the OCTA Board directed staff to cease all efforts towards the CenterLine project and redirect resources to other rapid transit projects.

The fiscal year 2007 increase in Commuter rail expenses is primarily due to contributions to Metrolink for the purchase of new rail cars and locomotives.

The fiscal year 2007 decrease in Capital grants and contributions revenue is primarily due to grant reimbursements related to the SR-22 construction project received in prior fiscal years.

Fiscal year 2005 Measure M Program expenditures includes a prior period adjustment of $17,672 related to SR22 expenditures erroneously coded to an operating expense, which should have been coded to a capital asset.

Fiscal year 2006 Fixed Route expenses includes a prior period adjustment of $3,800 for the construction of the Santa Ana Bus Base erroneously coded to the General Liability Internal Service Fund, that should have been recorded in the OCTD Enterprise Fund.

Schedule 2

Changes in Net Assets, Last Six Fiscal Years, *continued*

(accrual basis of accounting- thousands)

	Fiscal Year 2002	2003	2004	2005	2006	2007
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Sales taxes	$ 297,705	$ 301,011	$ 328,853	$ 351,185	$ 385,090	$ 421,067
Vehicle registration	4,699	4,801	4,840	-	-	-
Motor fuel taxes	23,000	23,000	23,000	-	-	-
Unrestricted investment earnings	43,461	35,132	8,513	20,496	16,583	37,322
Loss on sale of capital assets	(15)	(3,180)	-	-	-	-
Other miscellaneous revenue	188	3,224	3,046	310	494	668
Transfers	(74,318)	(66,690)	(79,799)	(91,273)	(104,451)	(102,981)
Total governmental activites	294,720	297,298	288,453	280,718	297,716	356,076
Business-type activities:						
Taxes						
Property taxes	6,690	7,239	7,846	8,473	9,762	10,338
Unrestricted investment earnings	22,210	16,215	2,900	8,506	8,127	18,117
Gain (loss) on sale of capital assets	(1,799)	41	-	-	-	-
Other miscellaneous revenue	308	230	287	443	497	495
Transfers	74,318	66,690	79,799	91,273	104,451	102,981
Total business-type activites	101,727	90,415	90,832	108,695	122,837	131,931
Total primary government	$ 396,447	$ 387,713	$ 379,285	$ 389,413	$ 420,553	$ 488,007
Change in Net Assets						
Governmental activities	$ 100,115	$ 117,819	$ 111,996	$ 284,271	$ 231,421	$ 139,607
Business-type activities	67,258	(71)	(9,124)	(13,238)	(5,835)	2,210
Total primary government	$ 167,373	$ 117,748	$ 102,872	$ 271,033	$ 225,586	$ 141,817

Source: Accounting and Financial Reporting Department

Notes:

GASB 34 was implemented July 1, 2001.

Vehicle registration, Motor fuel taxes and loss on sale of capital assets are now reported as charges for services, operating grants and contributions and expenses, respectively.

Fiscal year 2006 Governmental Activities Unrestricted Investment Earnings includes a prior period adjustment of $1,585 for unrealized gains/(losses) which were incorrectly calculated for the Local Transportation Fund and the State Transit Assistance Fund.

Schedule 3

Fund Balances, Governmental Funds, Last Six Fiscal Years

(modified accrual basis of accounting-thousands)

	Fiscal Year 2002	2003	2004	2005	2006	2007
General Fund						
Reserved	$ 4,006	$ 5,626	$ 8,183	$ 5,052	$ 4,708	$ 9,195
Unreserved	2,992	2,427	(1,189)	759	(1,096)	(4,275)
Total general fund	$ 6,998	$ 8,053	$ 6,994	$ 5,811	$ 3,612	$ 4,920
All Other Governmental Funds						
Reserved	$ 470,769	$ 533,315	$ 571,931	$ 649,596	$ 588,661 (a)	$ 584,054
Unreserved, reported in:						
Special revenue funds	141,302	151,255	160,938	150,419	134,571	111,018
Capital projects funds	4,417	3,143	6,370	6,241	2,293	8,011
Total all other governmental funds	$ 616,488	$ 687,713	$ 739,239	$ 806,256	$ 725,525	$ 703,083

Source: Accounting and Financial Reporting Department

Notes: GASB 34 was implemented July 1, 2001.

Fiscal year 2006 All Other Governmental Funds, Reserved includes a prior period adjustment of $ (1,585) for unrealized gains/(losses) which were incorrectly calculated for the Local Transportation Fund and the State Transit Assistance Fund. Additonally, a prior period adjustment of $8,931 for deferred revenue related to reimbursements received by the State for the SR-22 freeway construction project was erroneously recorded for the Local Transportation Authority.

Schedule 4
Changes in Fund Balances, Governmental Funds, Last Six Fiscal Years

(modified accrual basis of accounting-thousands)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Revenues						
Sales taxes	$ 297,705	$ 301,011	$ 328,853	$ 351,185	$ 385,090	$ 421,067
Gasoline taxes	23,000	23,000	23,000	23,000	23,000	23,000
Vehicle registration fees	4,699	4,801	4,840	4,816	5,096	5,114
Fines	185	185	160	172	170	191
Contributions from other agencies	17,023	23,516	12,639	117,572	45,595	22,101
Charges for services	29,805	33,804	37,087	39,242	37,354	43,663
Interest	43,390	35,074	5,472	19,262	17,072	42,431
Federal capital assistance grants	15,678	30,291	8,585	27,549	71,250	43,343
Miscellaneous	916	3,871	3,833	1,056	1,203	1,532
Total revenues	432,401	455,553	424,469	583,854	585,830	602,442
Expenditures						
Current:						
General government:						
Salaries and benefits	17,968	21,986	25,921	27,968	28,635	30,918
Supplies and services	48,847	94,989	70,935	78,611	61,131	64,432
Contributions to other local agencies	97,386	84,366	93,340	90,517	98,701	208,152
Capital outlay	72,881	28,590	20,745	141,805	301,496	132,514
Debt service:						
Principal payments on long-term debt	51,565	54,200	57,660	60,615	63,720	67,325
Advance refunding escrow	593	-	-	-		
Interest on long-term debt and commercial paper	37,267	34,337	30,963	28,325	25,306	22,303
Total expenditures	326,507	318,468	299,564	427,841	578,989	525,644
Excess of revenues over expenditures	105,894	137,085	124,905	156,013	6,841	76,798
Other financing sources (uses):						
Transfers in	106,357	121,818	120,095	138,679	103,709	175,338
Transfers out	(180,675)	(188,508)	(199,894)	(229,951)	(208,095)	(275,264)
Proceeds from sale of capital assets and land held for resale	-	1,885	5,361	1,093	7,269	1,994
Proceeds of refunding bonds	71,485	-	-	-	-	-
Payment to refunded bond escrow agent	(70,757)	-	-	-	-	-
Total other financing sources (uses)	(73,590)	(64,805)	(74,438)	(90,179)	(97,117)	(97,932)
Net changes in fund balances	$ 32,304	$ 72,280	$ 50,467	$ 65,834	$ (90,276)	$ (21,134)
Debt service as a percentage of noncapital expenditures	28.5%	27.9%	29.7%	29.1%	29.3%	21.1%

Source: Accounting and Financial Reporting Department

Notes:

GASB 34 was implemented July 1, 2001.

In fiscal year 2004, there were no significant projects that received federal capital assistance grants.

In fiscal year 2005, $124 million in Traffic Congestion Relief Program funds were re-allocated to OCTA for the Garden Grove SR-22 project.

For both fiscal year 2005 and 2006 the increase in capital outlay was due to the SR-22 construction project which was substantially completed in November 2006.

The increase in contributions to other local agencies for fiscal year 2007 is primarily due to an increase in freeway construction projects, street and road projects, and contributions to Metrolink for the purchase of new rail cars and locomotives.

SCHEDULE 5

PROGRAM REVENUES BY FUNCTION/PROGRAM - LAST SIX FISCAL YEARS

(accrual basis of accounting- thousands)

PROGRAM REVENUES	Fiscal Year					
	2002	2003	2004	2005	2006	2007
FUNCTION/PROGRAM						
Governmental activities:						
General government	$ 35,046	$ 34,672	$ 39,919	$ 66,437	$ 62,570	$ 76,481
Measure M program	28,638	18,335	30,354	148,759	106,740	27,950
Motorist services	2,614	2,199	2,140	9,096	5,387	8,186
Commuter rail	518	535	574	553	514	26,896
Urban rail	-	28,931	8,111	5,147	-	-
Total governmental activites	66,816	84,672	81,098	229,992	175,211	139,513
Business-type activities:						
Fixed route	154,304	112,884	122,914	115,180	102,824	106,127
Paratransit	6,217	6,954	6,575	9,740	9,345	10,505
Tollroad	-	14,398	32,391	39,598	44,238	49,838
Taxicab administration	229	226	225	225	330	434
Total business-type activites	160,750	134,462	162,105	164,743	156,737	166,904
Total primary government	$ 227,566	$ 219,134	$ 243,203	$ 394,735	$ 331,948	$ 306,417

Source: Accounting and Financial Reporting Department

Notes:

GASB 34 was implemented July 1, 2001.

The 91 Express Lanes were purchased in January, 2003.

In fiscal year 2005, $124 million in Traffic Congestion Relief Program funds were re-allocated to OCTA for the Garden Grove SR-22 project.

In fiscal year 2006, OCTA received $70 million in Congestion Mitigation Air Quality for the SR-22 project.

Begining in fiscal year 2005, OCTA reported Gas Tax revenue as a program revenue.

The fiscal year 2007 decrease in Measure M program revenues is primarily due to grant reimbursements related to the SR-22 construction project received in the prior fiscal year.

Schedule 6

Tax Revenues by Source, Governmental funds, Last Ten fiscal Years

(accrual basis of accounting- thousands)

Fiscal Year	Sales & Use	Gasoline (a)	Total
1998	$ 209,067	$ -	$ 209,067
1999	230,300	23,000	$ 253,300
2000	245,573	23,000	$ 268,573
2001	273,394	23,000	$ 296,394
2002	303,817	23,000	$ 326,817
2003	297,705	23,000	$ 320,705
2004	301,012	23,000	$ 324,012
2005	328,853	23,000	$ 351,853
2006	385,090	23,000	$ 408,090
2007	421,067	23,000	$ 444,067
Change			
1998 - 2007	101.4%	0.0%	112.4%

Source: Accounting and Financial Reporting Department

Notes:

(a) In 1995, as a result of the Orange County 1994 bankruptcy, the California State Legislature diverted $38 million to the County from OCTA's TDA sales tax revenue.
In return, $23 million in annual County gasoline tax revenue is being diverted to OCTA.

SCHEDULE 7
TAXABLE SALES BY CATEGORY, LAST TEN CALENDAR YEARS

(thousands)

	Calendar Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (a)
1 Apparel stores	$ 1,346,631	$ 1,361,470	$ 1,211,410	$ 1,364,366	$ 1,446,572	$ 1,508,011	$ 1,697,120	$ 1,881,882	$ 2,062,892	$ 974,046
2 General merchandise	3,401,958	3,650,906	4,067,855	4,334,887	4,432,881	4,618,932	4,855,674	5,205,075	5,467,357	2,609,792
3 Specialty stores	3,880,974	4,122,837	4,609,085	5,119,964	4,999,099	4,837,212	5,085,612	5,700,317	6,028,089	2,953,286
4 Food stores	1,322,157	1,359,193	1,436,680	1,509,744	1,534,244	1,551,611	1,574,528	1,563,145	1,716,228	885,827
5 Eating and drinking establishments	2,790,135	2,990,871	3,247,127	3,535,316	3,749,604	3,884,388	4,149,117	4,475,791	4,798,676	2,474,105
6 Home furnishings and applicances	1,081,546	1,206,212	1,358,467	1,486,155	1,501,585	1,722,573	1,985,255	2,135,876	2,269,650	1,062,979
7 Building material	1,400,233	1,581,890	1,842,935	2,013,714	2,157,196	2,275,964	2,480,249	2,950,592	3,000,086	1,497,139
8 Automotive	5,183,112	5,532,584	6,324,273	7,378,529	7,957,760	8,482,604	9,651,049	10,585,091	11,283,156	5,671,936
9 Other	576,577	650,144	690,742	742,314	739,760	765,523	809,093	944,184	1,046,700	533,383
10 Business and personal services	2,127,762	2,338,242	2,441,463	2,625,459	2,673,666	2,615,150	2,699,250	2,819,934	2,938,129	1,464,847
11 All other outlets	11,810,272	12,314,001	13,136,053	14,352,012	13,402,947	12,607,188	12,530,119	13,420,172	14,452,283	7,349,394
Total	$ 34,921,357	$ 37,108,350	$ 40,366,090	$ 44,462,460	$ 44,595,314	$ 44,869,156	$ 47,517,066	$ 51,682,059	$ 55,063,246	$ 27,476,734
Measure M Ordinance direct sales tax rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%

Source: California State Board of Equalization

Notes:

(a) Represents the first and second quarter only.

Schedule 8

Direct and Overlapping Sales Tax Rates, last ten calendar years

(thousands)

Calendar Year	Measure M Direct rate	County of Orange
1998	0.50%	7.25%
1999	0.50%	7.25%
2000	0.50%	7.25%
2001	0.50%	7.00%
2002	0.50%	7.25%
2003	0.50%	7.25%
2004	0.50%	7.25%
2005	0.50%	7.25%
2006	0.50%	7.25%
2007	0.50%	7.25%

Sources: County of Orange information provided by the California State Board of Equilization,
Notes:
Measure M information provided by the Measure M Ordinance
General fund surplus at the state level forced a 0.25% reduction in state sales tax by law.

Schedule 9

Principal Taxable Sales Generation by City, Current Year and Nine Years Ago

(thousands)

	2005			1996		
City	Taxable Sales	Rank	Percentage of Total	Taxable Sales	Rank	Percentage of Total
Aliso Viejo	$ 363,944	30	0.74%	$ (a)		
Anaheim	5,725,673	1	11.65%	3,366,752	1	11.94%
Brea	1,582,264	12	3.22%	975,821	11	3.46%
Buena Park	1,504,214	14	3.06%	857,408	13	3.04%
Costa Mesa	4,059,880	3	8.26%	2,357,142	4	8.36%
Cypress	1,112,357	16	2.26%	637,271	16	2.26%
Dana Point	392,818	27	0.80%	215,513	27	0.76%
Fountain Valley	994,689	18	2.02%	741,413	15	2.63%
Fullerton	1,659,029	10	3.38%	1,191,617	7	4.23%
Garden Grove	1,788,182	8	3.64%	1,130,057	10	4.01%
Huntington Beach	2,479,780	6	5.04%	1,582,927	6	5.61%
Irvine	4,617,019	2	9.39%	2,736,725	3	9.70%
La Habra	832,329	19	1.69%	406,858	19	1.44%
La Palma	457,900	26	0.93%	127,424	30	0.45%
Laguna Beach	381,867	28	0.78%	217,767	26	0.77%
Laguna Hills	658,626	21	1.34%	460,097	17	1.63%
Laguna Niguel	1,024,372	17	2.08%	412,385	18	1.46%
Laguna Woods	93,350	33	0.19%	(b)		
Lake Forest	1,273,898	15	2.59%	381,075	20	1.35%
Los Alamitos	250,553	32	0.51%	180,530	28	0.64%
Mission Viejo	1,609,328	11	3.27%	801,497	14	2.84%
Newport Beach	2,358,641	7	4.80%	1,187,127	8	4.21%
Orange	3,051,952	5	6.21%	1,695,227	5	6.01%
Placentia	518,753	25	1.06%	308,314	23	1.09%
Rancho Santa Margarita	560,067	23	1.14%	(c)		
San Clemente	577,390	22	1.17%	276,503	24	0.98%
San Juan Capistrano	750,992	20	1.53%	318,946	21	1.13%
Santa Ana	3,950,188	4	8.04%	2,882,103	2	10.22%
Seal Beach	305,700	31	0.62%	136,300	29	0.48%
Stanton	368,769	29	0.75%	221,437	25	0.79%
Tustin	1,753,089	9	3.57%	1,185,542	9	4.20%
Villa Park	14,652	34	0.03%	12,842	31	0.05%
Westminster	1,531,790	13	3.12%	882,175	12	3.13%
Yorba Linda	550,871	24	1.12%	313,310	22	1.11%
Total	49,154,926		100%	28,200,105		100%
Unincorporated Cities	5,908,320			4,333,101		
Total Orange County	$ 55,063,246			32,533,206		

Source: California State Board of Equilization, www.boe.ca.gov

Notes:

(a) The City of Aliso Viejo was incorporated in July 2001 as Orange County's 34th city.

(b) The City of Laguna Woods was incorporated in 1999 as Orange County's 32nd city.

(c) The City of Rancho Santa Margarita was incorporated in January 2000 as Orange County's 33rd city.

Schedule 10

Ratios of Outstanding Debt by Type, last ten fiscal years

(thousands except per capita)

	Governmental Activities		Business-Type Activities					
Fiscal Year	Sales Tax Revenue Bonds	Commercial Paper Notes	Certificates of Participation	Toll Road Revenue Bonds	Capital Lease	Total Primary Government	Percentage of Personal Income	Per Capita
1998	790,365	74,200	25,500	-	-	$ 890,065	983%	323.71
1999	758,645	74,200	22,420	-	-	$ 855,265	888%	305.14
2000	711,845	74,200	19,145	-	-	$ 805,190	760%	281.19
2001	662,800	67,200	15,920	-	-	$ 745,920	684%	255.59
2002	611,365	60,200	12,708	-	-	$ 684,273	612%	230.95
2003	557,165	53,200	9,805	135,000	-	$ 755,170	641%	251.36
2004	499,505	47,400	7,410	195,265	-	$ 749,580	596%	246.90
2005	438,890	40,900	4,965	191,630	-	$ 676,385	508%	221.98
2006	375,170	34,500	2,470	187,625	6,534	$ 606,299	n/a	197.37
2007	307,845	29,100	1,235	183,510	15,741	$ 537,431	n/a	173.47

Source: Accounting and Financial Reporting Department

Notes:

See schedule 13 for personal income data

n/a - data not available

Schedule 11
Legal Debt Margin Information, Last Ten Fiscal Years

(thousands)

Measure M Ordinance No. 2		Toll Road Revenue Bonds	
Legal Debt Margin Calculation for Fiscal Year 2007		Legal Debt Margin Calculation for Fiscal Year 2007	
Debt service	$ 88,557	Debt service	$ 12,635
Debt coverage (1.3 % of debt service)	115,124	Debt coverage (1.3 % of debt service)	16,426
Sales tax revenue	272,287	Toll revenues	49,838
Less: local revenue	(41,126)	Less: operating expenses	(14,482)
Net sales tax revenues	231,161	Net sales tax revenues	35,356
Legal debt margin	$ 116,037	Legal debt margin	$ 18,931

Fiscal Year	Debt limit (a)	Total net debt applicable to limit	Legal debt margin	Total net debt applicable to limit as a percentage of debt limit	Debt limit	Total net debt applicable to limit	Legal debt margin	Total net debt applicable to limit as a percentage of debt limit
1998	$ 117,259	88,684	28,575	75.6%	-	-	-	-
1999	$ 126,244	88,684	37,560	70.2%	-	-	-	-
2000	$ 141,813	88,684	53,129	62.5%	-	-	-	-
2001	$ 156,807	88,684	68,123	56.6%	-	-	-	-
2002	$ 152,009	88,557	63,452	58.3%	-	-	-	-
2003	$ 157,322	88,557	68,765	56.3%	5,402	12,323	(6,921)	228.1%
2004	$ 171,359	88,557	82,802	51.7%	15,978	12,635	3,343	79.1%
2005	$ 183,091	88,557	94,534	48.4%	21,288	12,635	8,653	59.4%
2006	$ 198,671	88,557	110,114	44.6%	25,933	12,635	13,298	48.7%
2007	$ 204,594	88,557	116,037	43.3%	31,566	12,635	18,931	40.0%

Source: Treasury and Accounting and Financial Reporting Departments

Note:

The 91 Express Lanes were purchased in January, 2003.

Schedule 12
Pledged-Revenue Coverage, Last Ten Fiscal Years
(thousands)

	Sales Tax Revenue Bonds					Toll Road Revenue Bonds					Certificates of Participation			
Fiscal Year	Sales Tax Revenue	Less: Turnback	Debt Service Principal	Debt Service Interest	Coverage	Toll Road Revenue	Less: Operating Expenses (a)	Debt Service Principal	Debt Service Interest	Coverage	Grant Revenues	Debt Service Principal	Debt Service Interest	Coverage
1998	168,459	(24,595)	30,520	33,616	2.24	-	-	-	-	-	3,504	3,020	1,479	0.78
1999	178,980	(26,131)	31,720	42,110	2.07	-	-	-	-	-	3,427	3,070	1,186	0.81
2000	197,211	(28,793)	46,800	41,604	1.91	-	-	-	-	-	3,491	3,275	972	0.82
2001	214,768	(31,356)	49,045	39,351	2.07	-	-	-	-	-	3,531	3,225	828	0.87
2002	209,105	(30,529)	51,565	36,076	2.04	-	-	-	-	-	-	3,265	679	-
2003	215,327	(31,438)	54,200	33,689	2.09	14,398	(5,299)	-	7,291	1.25	9,779	2,850	536	2.89
2004	231,763	(33,837)	57,660	30,335	2.25	32,375	(12,607)	912	10,283	1.77	914	2,395	414	0.33
2005	245,501	(35,843)	60,615	27,603	2.38	39,584	(14,506)	3,635	8,313	2.10	2,341	2,445	302	0.85
2006	263,378	(38,139)	63,720	24,466	2.55	44,231	(14,507)	4,005	8,249	2.43	2,146	2,495	187	0.80
2007	272,287	(41,126)	67,325	20,994	2.62	49,838	(14,482)	4,115	8,142	2.88	831	1,235	97	0.62

Source: Accounting and Financial Reporting Department
Notes:
The 91 Express Lanes were purchased in January, 2003.
(a) Excludes depreciation and amortization expense.

Schedule 13
Demographic and Economic Statistics, Last Ten Calendar Years

Fiscal Year	Population (a)	Personal Income *(thousands) (b)*	Per Capita Personal Income (c)	Median Age (d)	School Enrollment (e)	Unemployment Rate (f)
1998	2,749,564	90,579	32,663	n/a	458,489	2.9%
1999	2,802,818	96,288	34,194	n/a	471,404	2.7%
2000	2,863,529	106,003	37,103	33.3	483,360	3.5%
2001	2,918,427	109,010	37,651	33.0	494,178	4.0%
2002	2,962,808	111,750	38,169	33.7	503,351	5.0%
2003	3,004,371	117,722	39,745	34.5	512,105	4.8%
2004	3,036,002	125,670	42,115	34.7	515,464	4.3%
2005	3,047,054	133,032	44,453	35.1	513,744	3.8%
2006	3,071,924	n/a	n/a	35.4	510,114	3.7%
2007	3,098,121	n/a	n/a	n/a	503,955	3.9%

Notes:
n/a - data not available
(a) July 1 estimates from U.S. Census Bureau for 1997 - 2004;
January 1 estimates from U.S. Census Bureau for 2005, 2006 and 2007
(b) U.S. Department of Commerce, Bureau of Economic Analysis, http://www.beau.gov/
(c) U.S. Department of Commerce, Bureau of Economic Analysis, http://www.beau.gov/
(d) U.S. Census Bureau
(e) California Department of Education, http://www.cde.ca.gov
(f) CA Employment Development Department, http://www.labormarketinfo.edd.ca.gov

Schedule 14

Principal Employers, Current Year and Nine Years Ago

	2007			1998		
Employer	Employees	Rank	Percentage of Total county Employment	Employees	Rank	Percentage of Total county Employment
Walt Disney Co.	20,250	1	1.29%	12,633	2	0.91%
County of Orange	18,301	2	1.17%	16,475	1	1.19%
University of California, Irvine	16,374	3	1.04%	11,000	3	0.79%
Boeing Co.	11,242	4	0.72%			
St. Joseph Health System	9,482	5	0.60%	6,535	6	0.47%
Yum! Brands Inc.	7,000	6	0.45%			
AT & T Inc.	6,116	7	0.39%			
California State University, Fullerton	5,337	8	0.34%			
Home Depot, Incorporated	5,200	9	0.33%			
Memorial Health Services Inc.	4,961	10	0.32%			
Tenet Healthcare Corporation				10,500	4	0.76%
American Stores Company				7,900	5	0.57%
BankAmerica Corporation				5,300	7	0.38%
Tricon Global Restaurants Incorporated				4,820	8	0.35%
Ralphs Grocery Company				4,688	9	0.34%
Pacific Telesis				4,650	10	0.34%

Source: Orange County Business Journal Book of Lists - County of Orange

Schedule 15
Full-Time Equivalent Government Employees by Function/Program for Ten Years

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government	252	253	258	252	244	263	222	210	215	233
Measure M program	4	5	6	10	20	21	24	27	27	29
Motorist services	1	1	1	1	1	1	1	1	1	1
Commuter rail	1	1	1	1	1	1	1	1	2	2
Urban rail	-	-	-	-	-	1	1	1	4	-
Fixed route	1,132	1,172	1,210	1,313	1,462	1,555	1,581	1,619	1,587	1,611
Paratransit	35	26	25	9	9	11	13	13	14	13
Tollroad	-	-	-	-	-	4	4	4	4	4
Taxicab	1	2	3	3	3	3	3	3	3	3
Total	1,426	1,460	1,504	1,589	1,740	1,860	1,850	1,879	1,857	1,896

Source: Financial Planning & Analysis Department

SCHEDULE 16
OPERATING INDICATORS BY FUNCTION/PROGRAM

		Fiscal Year									
FUNCTION/PROGRAM		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Measure M program (thousands)											
Freeways		$ 136,212	$ 183,599	$ 107,063	$ 63,048	$ 25,199	$ 19,812	$ 13,801	$ 141,969	$ 298,667	$ 112,732
Regional streets and roads		16,500	36,743	35,532	24,422	23,680	14,062	15,752	10,493	17,198	65,247
Local streets and roads		34,039	32,778	37,327	42,104	41,142	41,186	49,375	43,996	41,057	32,481
Transit		48,076	17,702	20,492	19,375	48,386	29,166	35,829	23,195	8,169	55,916
Total program expenditures		$ 234,828	$ 270,822	$ 200,413	$ 148,948	$ 138,407	$ 104,227	$ 114,757	$ 219,653	$ 365,091	$ 266,376
Motorist services											
Calls made from call boxes		92,150	77,138	62,126	47,114	38,138	30,020	28,753	18,540	15,600	7,459
Vehicles removed		18,367	23,212	19,258	25,721	9,000	31,200	33,300	13,413	9,096	434
Vehicles assisted by FSP		55,000	58,133	63,049	63,383	73,802	58,284	58,000	68,160	70,000	70,935
Commuter rail											
Weekday trips		17	29	31	31	40	40	40	40	44	44
Annual boardings		1,582,220	1,734,246	1,891,851	2,149,571	2,186,170	2,733,483	2,764,870	3,230,988	3,547,697	3,841,259
Fixed route											
Annual boardings		51,237,458	54,619,406	56,477,228	58,359,358	64,038,048	65,123,546	67,551,870	67,009,989	67,779,946	69,035,226
Vehicle revenue hours		1,293,360	1,359,230	1,435,589	1,566,924	1,678,500	1,752,322	1,799,253	1,835,463	1,846,458	1,910,707
Miles of fixed route		1,425	1,790	1,950	2,021	2,295	2,321	2,318	2,320	2,378	2,488
Paratransit											
Annual boardings		787,908	715,735	663,996	697,894	779,967	909,156	1,085,329	1,181,892	1,114,639	1,231,346
Vehicle revenue hours		322,893	326,406	344,185	388,963	424,604	489,754	577,053	597,821	565,543	614,620
Eligible riders	(c)	n/a	n/a	n/a	n/a	15,762	21,317	24,955	25,569	26,204	26,110
Tollroad	(b)										
Annual drivers trips		n/a	n/a	n/a	n/a	n/a	4,958,660	11,213,741	12,741,319	14,182,916	14,639,848
Taxicab											
Permits Issued		902 (a)	1,404 (a)	1,661 (a)	1,609	1,541	1,590	1,510	1,662	1,698	2,170

Source: Various departments within OCTA

Notes:

The first full year of construction on the I-5 freeway widening project ocurred in fiscal year 1999.

The SR-22 project began in fiscal year 2005.

In fiscal year 2000, the Regional Center of Orange County (RCOC) shifted trips to other providers.

In fiscal year 2003, the Regional Center of Orange County (RCOC) shifted trips back to OCTA and the Office on Aging established programs that required consumers to apply for OCTA service.

(a) Estimate

(b) The 91 Express Lanes were purchased in January, 2003.

(c) Data for Paratransit eligible riders from 2001 and prior is not available.

Schedule 17
Capital Asset Statistics by Function/Program

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Fixed route										
Bus bases	3	3	3	3	3	3	3	4	4	4
Large revenue vehicles	438	448	462	472	495	507	558	563	570	566
Small revenue vehicles	24	60	60	87	53	92	85	84	80	82
Paratransit										
Paratransit vehicles	82	82	82	179	207	248	238	249	264	263
Tollroad (a)										
Transponders in use	n/a	n/a	n/a	n/a	n/a	143,533	157,635	172,220	171,589	176,818

Source: Various departments within the Orange County Transportation Authority

Notes:

n/a = data not available

(a) The 91 Express Lanes were purchased in January, 2003.

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