91 EXPRESS LANES FUND
(An Enterprise Fund of the Orange County Transportation Authority)

FINANCIAL STATEMENTS

Year Ended June 30, 2010

91 Express Lanes Fund
(An Enterprise Fund of the Orange County Transportation Authority)

Audited Financial Statements

For the Fiscal Year Ended June 30, 2010

Contents

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Board of Directors
Orange County Transportation Authority
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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the 91 Express Lanes Fund, an enterprise fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2010, which collectively comprise OCTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of OCTA's management. Our responsibility is to express an opinion 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 opinion.

As discussed in Note 1, the financial statements present only the 91 Express Lanes Fund of OCTA and do not purport to, and do not, present fairly the financial position of OCTA, as of June 30, 2010, and the changes in its financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 91 Express Lanes Fund of OCTA as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2010, OCTA changed the manner in which it accounts for derivative instruments as a result of the implementation of GASB Statement No. 53, as described further in note 5 to the financial statements.

Mayer Hoffman McCann P.C.

Irvine, California
October 25, 2010

91 Express Lanes Fund

(An Enterprise Fund of the Orange County Transportation Authority)

Statement of Fund Net Assets

June 30, 2010

Assets		
Current Assets:		
Cash and investments	$	41,241,252
Receivables:		
Interest		1,179,899
Violations, net		6,694,155
Other		722,161
Other assets		339,205
Total current assets		50,176,672
Noncurrent Assets:		
Restricted cash and investments:		
Cash equivalents		38,853,755
Unamortized debt issuance costs		2,905,998
Capital assets, net:		
Depreciable and amortizable		155,402,071
Total noncurrent assets		197,161,824
Total Assets		247,338,496
Liabilities		
Current Liabilities:		
Accounts payable		4,506,560
Accrued interest payable		8,865,129
Due to other governments		42,309
Unearned revenue		4,122,121
Other liabilities		332,083
Bonds payable - due within one year		4,740,000
Total current liabilities		22,608,202
Noncurrent Liabilities:		
Advances from other OCTA funds - due in more than one year		9,541,730
Derivative instrument liability		19,671,644
Bonds payable - due in more than one year		151,531,562
Total noncurrent liabilities		180,744,936
Total Liabilities		203,353,138
Net Assets		
Invested in capital assets, net of related debt		17,765,301
Restricted for:		
Debt service		6,877,289
Capital		10,115,684
Other purposes		3,225,990
Unrestricted		6,001,094
Total Net Assets	$	43,985,358

See accompanying notes to the financial statements.

91 Express Lanes Fund

(An Enterprise Fund of the Orange County Transportation Authority)

Statement of Revenues, Expenses and Changes in Fund Net Assets

For the Year Ended June 30, 2010

Operating revenues:	
User fees and charges	$ 43,008,572
Operating expenses:	
Contracted services	6,350,081
Administrative services	1,964,659
Other	423,212
Insurance claims and premiums	380,908
Professional services	3,671,836
General and administrative	539,586
Depreciation and amortization	9,072,294
Total operating expenses	22,402,576
Operating income	20,605,996
Nonoperating revenues (expenses):	
Federal assistance grants	39,547
Investment earnings	1,542,403
Investment loss on derivative instrument	(4,781,280)
Interest expense	(13,275,420)
Other	85,675
Total nonoperating revenues (expenses)	(16,389,075)
Income before transfers	4,216,921
Transfers out to other OCTA funds	(1,283,228)
Change in net assets	2,933,693
Total net assets - beginning, as restated	41,051,665
Total net assets - ending	$ 43,985,358

See accompanying notes to the financial statements.

91 Express Lanes Fund

(An Enterprise Fund of the Orange County Transportation Authority)

Statement of Cash Flows

For the Year Ended June 30, 2010

Cash flows from operating activities:		
Receipts from customers and users	$	42,922,225
Payments to suppliers		(11,402,050)
Payments for OCTA interfund services used		(1,964,659)
Miscellaneous revenue received		85,675
Net cash provided by operating activities		29,641,191
Cash flows from noncapital financing activities:		
Federal operating assistance grants received		39,547
Transfers to other OCTA funds		(1,283,228)
Repayment of advances from other OCTA funds		(17,000,000)
Net cash used for noncapital financing activities		(18,243,681)
Cash flows from capital and related financing activities:		
Principal payment on long term debt		(4,515,000)
Interest paid on long-term debt		(8,264,693)
Acquisition and construction of capital assets		(1,250,549)
Net cash used for capital and related financing activities		(14,030,242)
Cash flows from investing activities:		
Interest received		1,395,283
Net cash provided by investing activities		1,395,283
Net decrease in cash and cash equivalents		(1,237,449)
Cash and cash equivalents at beginning of year		81,332,456
Cash and cash equivalents at end of year	$	80,095,007
Noncash capital, financing and investing activities:		
Interest expense incurred on advances from other OCTA funds	$	1,226,363
Investment loss on derivative instruments	$	4,781,280
Amortization of bond premium	$	252,541
Amortization of bond deferred charges	$	1,067,806

See accompanying notes to the financial statements.

91 Express Lanes Fund

(An Enterprise Fund of the Orange County Transportation Authority)

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2010

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	20,605,996
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		1,741,448
Amortization of franchise agreement		7,330,846
Amortization of cost of issuance		142,335
Miscellaneous		85,675
Change in assets and liabilities:		
Violations receivables, net		(72,691)
Other receivables		24,755
Other assets		29,942
Accounts payable		(251,013)
Due to other governments		42,309
Unearned revenue		(23,433)
Other liabilities		(14,978)
Total adjustments		9,035,195
Net cash provided by operating activities	$	29,641,191
Reconciliation of cash and cash equivalents to statement of net assets:		
Cash and investments		41,241,252
Restricted cash and cash equivalents		38,853,755
Total cash and cash equivalents	$	80,095,007

See accompanying notes to the financial statements.

1. Reporting Entity

On January 3, 2003, the Orange County Transportation Authority (OCTA) purchased from the California Private Transportation Company (CPTC) its interest in a Franchise Agreement for the 91 Express Lanes. The 91 Express Lanes is a toll facility located 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 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. Pursuant to the Franchise Agreement, Caltrans retains legal title to the real property components of the toll facility.

OCTA purchased the franchise interest for $207,500,000, consisting of cash of $72,500,000 and certain assets and the assumption of certain liabilities. 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 passage of Senate Bill 1316 (Correa) in August 2008 approved extending the 91 Express Lanes toll facility along the SR 91 into Riverside County. The bill also allows the extension of the Franchise Agreement to a date no later than December 31, 2065.

These financial statements include only the activities of the 91 Express Lanes Fund, an enterprise fund of OCTA. These financial statements are not intended to present the activities of OCTA.

2. Summary of Significant Accounting Policies

The accounting policies of the 91 Express Lanes Fund are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Basis of Accounting

The financial statements of the 91 Express Lanes Fund are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, consisting substantially of tolls and fees, are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Toll amounts are collected from customers on a prepaid basis, and unearned tolls are reported as unearned revenue.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the 91 Express Lanes Fund are charges to customers for use of the toll facility. Operating expenses for the 91 Express Lanes Fund include the cost of services, administrative expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. The 91 Express Lanes Fund has elected not to follow subsequent private-sector guidance.

Cash and Investments

OCTA maintains cash and investments in accordance with the Annual Investment Policy (AIP) adopted initially by OCTA's Board of Directors (Board) on May 8, 1995, and most recently amended April 26, 2010. The AIP complies with, or is more restrictive than, applicable state statutes. The majority of OCTA's investments, including the investments of the 91 Express Lanes Fund, are managed by four private sector investment managers. At June 30, 2010, the investment portfolios were maintained at Union Bank 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 in the OCTA Commingled Investment Pool, with investment earnings allocated to the different accounts based on average daily dollar account balances.

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. Certain investment agreements are carried at cost while others are carried at fair value. Treasury mutual funds are carried at fair value based on each fund's share price. The Orange County Investment Pool (OCIP) is carried at fair value based on the value of each participating dollar as provided by the OCIP. The state managed Local Agency Investment Fund (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).

The AIP 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:

OCTA Notes and Bonds (25%)

Commercial Paper (25%)

- Must be rated by two of the three nationally recognized rating agencies at the following level or better: P-1 by Moody's Investor Service (Moody's), A-1 by Standard & Poor's Corporation (S & P), or F-1 by Fitch Ratings (Fitch).
- Must be issued by corporations rated A- or better by S & P, A3 or better by Moody's, or A- by Fitch, with further restrictions to issuer size.
- Maximum Term: 180 days.

Negotiable Certificates of Deposit (30%)

- Must be 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 Statistical Rating Organizations.

- The issuer must have the following minimum credit ratings of A-1 by S & P, P-1 by Moody's, F1 by Fitch.

- Maximum Term: 270 days.

Bankers Acceptances (30%)

- Must be rated by at least two of the Nationally Recognized Statistical Rating Organizations 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.

- Maximum Term: 180 days.

Mortgage or Asset-Backed Securities (20%)

- Must be rated AAA by S & P, Aaa by Moody's, or AAA by Fitch.

- The issuer must have an A or better rating by S & P, A2 or better by Moody's or A or better by Fitch or an equivalent rating by a Nationally Recognized Statistical Rating Organization recognized for rating service for its long-term debt.

- Maximum Term: Five year stated final maturity.

Repurchase Agreements (75%)

- Must be collateralized at 102%.

- Reverse repurchase agreements or securities lending are not permitted.

- Maximum Term: 30 days.

Medium-term notes (30%):

- Corporate securities which are rated A- or better by S & P, A3 or better by Moody's or A- by Fitch or an equivalent rating by two of the three Nationally Recognized Statistical Rating Organizations.

- Medium term notes must 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.

- Maximum Term: 5 years.

Other allowable investment categories include money market funds, mutual funds, and 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 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.

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

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, Repurchase Agreements, and 91 Express Lanes Debt - 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%).

- Issuer/Counter-Party Diversification Guidelines for OCTA's 91 Express Lanes Debt – OCTA can purchase all or a portion of OCTA's Toll Road Revenue Refunding Bonds (91 Express Lanes) Series B Bonds maturing December 15, 2030 providing the purchase does not exceed 25% of the maximum portfolio.

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 and certificates of deposit represent cash and cash equivalents for cash flow purposes.

Restricted Investments

Investments set aside in the Reserve Fund, Supplemental Reserve Fund, Major Maintenance Reserve Fund, and Operating Reserve Fund are pursuant to terms of the 2003 Indenture for the $195,265,000 Toll Road Revenue Refunding Bonds and their use is limited by applicable debt covenants.

Permitted investments per the debt covenants include: government obligations, State of California and local agency obligations, bankers acceptances, commercial paper, negotiable certificates of deposit, repurchase agreements, money market funds, other mutual funds, investment agreements, Orange County Investment Pool and variable and floating rate securities.

Receivables

Violations receivable represents an estimate of the total outstanding unpaid violations that the 91 Express Lanes Fund anticipates to collect. This estimate is based upon twelve-month average collections on violations for violations with a due date of 90 days or less. For unpaid violations exceeding 90 days, this estimate is based upon an approximate 3-year average collections on violations. The 91 Express Lanes utilizes an outside collection agency to assist in the recovery of unpaid violations exceeding 90 days.

Other receivables include amounts due from other California toll road agencies related to their customers' use of the 91 Express Lanes as well as customer fees and interest.

Other Assets

Other assets include prepaid expenses and refundable deposits.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs represent costs associated with issuing the 2003 Toll Road Revenue Refunding Bonds, issued to refund $135,000,000 of taxable debt, and are deferred and amortized over the life of the 2003 Toll Road Revenue Refunding Bonds.

Capital Assets

Capital assets include the toll facility franchise, improvements, equipment, furniture and fixtures, and transponders. Capital assets are defined by the 91 Express Lanes Fund as assets with an initial, individual cost of more than $5,000 and a useful life in excess of one year. It is also the 91 Express Lanes Fund's policy to capitalize transponder purchases, as they are considered a significant class of assets even though individually under $5,000. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Type	Useful Life
Improvements	10-30 years
Equipment, furniture, and fixtures	3-10 years
Transponders	5 years

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

Interest rate swaps

As a means of lowering borrowing costs on variable rate debt compared to fixed rate bonds at the time of issuance in November 2003, OCTA entered into two parity interest rate swaps totaling $100,000,000. The effective rate on the parity swaps was to effectively change OCTA's variable rate bonds to a synthetically fixed rate of 4.06227%. These agreements are recorded at fair value. The changes in fair value of these derivative instruments affect investment earnings/ (loss). As of June 30, 2010 all potential hedging derivatives of the 91 Express Lanes Fund are considered ineffective.

Risk Management

The 91 Express Lanes Fund purchases commercial property insurance including business interruption, earthquake and flood coverage related to the toll facility. Additionally, the 91 Express Lanes Fund participates in OCTA's self-insurance general liability program. The liability claims are resolved by OCTA and are an expense of the 91 Express Lanes Fund.

Net Assets

Net assets represent the difference between assets and liabilities and are classified into three categories:

- *Invested in capital assets, net of related debt* - Reflects net assets of the 91 Express Lanes Fund invested in capital assets, net of related debt. These net assets are not accessible for other purposes; a deficit would indicate that the related debt exceeds the capital assets.

- *Restricted net assets* - Represents net assets not accessible for general use, with the use subject to restrictions enforceable by third parties. The Statement of Net Assets includes restricted net assets that are restricted by enabling legislation.

- *Unrestricted net assets* - Represents net assets available for general use.

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.

3. Cash and Investments

Cash and investments are comprised of the following at June 30, 2010:

Deposits:	
Petty cash	$ 550
Deposits	220,551
Total deposits	221,101
Investments:	
With OCTA Commingled Investment Pool	40,991,871
With trustee	38,882,035
Total investments	79,873,906
Total cash and investments	$ 80,095,007

Total deposits and investments are reported in the financial statements as:

Unrestricted cash and investments	$ 41,241,252
Restricted cash and investments:	
Cash equivalents	38,853,755
Total cash and investments	$ 80,095,007

As of June 30, 2010, the 91 Express Lanes Fund had the following investments:

Investment	Fair Value	Principal	Interest Rate Range	Maturity Range	Weighted Average Maturity (Years)
OCTA Commingled Investment Pool	$ 40,991,871	$ 40,245,787	Discount, .370%-8.875%	7/1/10-6/17/15	2.13
Held by trustee:					
Money market mutual funds	25,540,363	25,540,363	0.00%	7/1/10	1 Day
Negotiable certificates of deposit	13,341,672	13,341,672	0.15%	7/1/10	1 Day
Total Investments	$ 79,873,906	$ 79,127,822			

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, with the exception of investment agreements which are not subject to term restrictions due to the bond indenture. 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 AIP, 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, 2010, the 91 Express Lanes Fund participated in OCTA's Commingled Investment Pool which had asset-backed securities totaling $66,859,661. 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.

As of June 30, 2010, OCTA's Commingled Investment Pool had the following variable rate notes:

Investment	Fair Value	Coupon Multiplier	Coupon Reset Date
American Express Credit Corp	$ 935,310	LIBOR + 170 basis points	Monthly
Bank America Corp	1,006,910	LIBOR + 20 basis points	Quarterly
Berkshire Hathaway Financial	600,096	LIBOR + 12.5 basis points	Quarterly
Citigroup Inc.	423,335	LIBOR + 33 basis points	Quarterly
Goldman Sachs Group	1,004,760	LIBOR + 25 basis points	Quarterly
Paccar Financial Corp	629,143	LIBOR + 45 basis point	Quarterly
Wachovia Bank NA	1,500,135	LIBOR + 7 basis points	Quarterly
Total Investments	$ 6,099,689		

The 91 Express Lanes Fund is invested in two pay-fixed, receive-variable interest rate swaps with a notional amount totaling $100,000,000. The 91 Express Lanes makes semiannual fixed payments to the counterparty of 4.06227% and receives monthly variable payments based on 67 percent of LIBOR if LIBOR is equal to or greater than 4.0% or the SIFMA Index if LIBOR is less than 4.0%. These interest rate swaps were executed in November 2003 and mature in December 2030. At June 30, 2010, these interest rate swaps had a negative fair value of $(19,671,644).

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 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, 2010, OCTA did not have any deposits or securities exposed to custodial credit risk and there was no securities lending.

Credit risk

The AIP 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 must be rated no less than an "A" by two of the three rating services. LAIF and OCTA's Commingled Investment Pool are 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, 2010. (NR means Not Rated):

Investments	S & P	Moody's	Fitch	% of Portfolio
OCTA Commingled Investment Pool	NR	NR	NR	51.32%
Held by trustee:				
Money market mutual funds	AAA	Aaa	NR	31.98%
Negotiable certificates of deposit	AA	Aa2	AA	16.70%
Total				100.00%

Lehman Brothers Commercial Bank, the counterparty for the pay-fixed interest rate swap Series 2003-B-1 was rated NR- by S & P, WR by Moody's, and NR by Fitch. JPMorgan Chase Bank, N.A, the counterparty for the pay-fixed interest rate swap Series 2003-B-2 was rated AA- by S & P, Aa1 by Moody's, and AA- by Fitch.

As of June 30, 2010, the 91 Express Lanes Fund participated in OCTA's Commingled Investment Pool which held one investment in Lehman Brothers Holding Inc. Medium Term Notes. The investment had a $1,000,000 par maturing January 24, 2013. On September 15, 2008, Lehman Brothers Holding Inc. filed for bankruptcy. At June 30, 2010, the market value of the security was 20.25% of par.

Concentration of credit risk

At June 30, 2010, OCTA did not exceed the AIP 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 federal agencies, government sponsored enterprises, investment agreements, repurchase agreements, and 91 Express Lanes debt.
- 20% may be invested in money market mutual funds.

The AIP limitation excludes investment agreements pursuant to the bond indenture. OCTA's Commingled Investment Pool had the following investment agreements outstanding at June 30, 2010:

Investment Agreements	Amount
FSA Capital Management Services LLC	$ 10,248,419
U.S. Treasury Notes Coupon Components	18,978,886
Total Investment Agreements	$ 29,227,305

Investment in State Investment Pool

OCTA is a voluntary participant in LAIF which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of OCTA's investment in this pool is reported in the accompanying financial statements based on OCTA'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.

4. Capital Assets

Capital asset activity for the 91 Express Lanes Fund for the year ended June 30, 2010 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated and amortized:				
Toll facility franchise	$ 205,263,668	$ -	$ -	$ 205,263,668
Improvements	2,766,438	61,012	-	2,827,450
Communications equipment	5,602,202	-	-	5,602,202
Computer hardware and software	1,180,202	593,529	-	1,773,731
Transponders	4,433,039	541,528	475,715	4,498,852
Equipment, furniture and fixtures	107,891	54,480	-	162,371
Total capital assets, being depreciated and amortized	219,353,440	1,250,549	475,715	220,128,274
Less accumulated depreciation and amortization for:				
Toll facility franchise	(47,650,494)	(7,330,846)	-	(54,981,340)
Improvements	(702,325)	(143,622)	-	(845,947)
Communications equipment	(3,707,973)	(843,826)	-	(4,551,799)
Computer hardware and software	(1,017,418)	(99,097)	-	(1,116,515)
Transponders	(2,996,306)	(637,872)	(475,715)	(3,158,463)
Equipment, furniture and fixtures	(55,108)	(17,031)	-	(72,139)
Total accumulated depreciation and amortization	(56,129,624)	(9,072,294)	(475,715)	(64,726,203)
Total capital assets, being depreciated and amortized, net	$ 163,223,816	$ (7,821,745)	$ -	$ 155,402,071

5. Interest Rate Swaps

As a means of lowering borrowing costs on variable rate debt compared to fixed rate bonds at the time of issuance in November 2003, OCTA entered into two parity interest rate swaps totaling $100,000,000. The effective rate on the parity swaps was to effectively change OCTA's variable rate bonds to a synthetically fixed rate of 4.06227%. The Series 2003-B-1 swap was for $75,000,000 and the counterparty was Lehman Brothers Special Funding Incorporated (Lehman Brothers). The Series 2003-B-2 swap was for $25,000,000 and the counterparty was Bear Stearns Capital Markets Incorporated. On May 30, 2008, JP Morgan completed its acquisition of The Bear Stearns Companies Incorporated. As a result of the merger, JP Morgan assumed the $25,000,000 interest rate swap between OCTA and Bear Stearns Capital Markets Incorporated.

On November 23, 2005, Lehman Brothers Holding Inc. named Lehman Brothers Commercial Bank as the counterparty for the Series 2003-B-1 interest rate swap replacing Lehman Brothers Special Financing Inc. On September 15, 2008, Lehman Brothers Holding Inc. declared bankruptcy. As of the date of this report, Lehman Brothers Commercial Bank had not declared bankruptcy.

On October 2, 2008, OCTA provided a Notice of Event of Default and Reservation of Rights letter to Lehman Brothers Special Financing and Lehman Brothers Commercial Bank regarding the investment rating downgrade and missed counterparty payment. Since Lehman Brothers Commercial Bank's Event of Default, OCTA has not remitted its payment to Lehman Brothers Commercial Bank as part of the swap agreement. OCTA continues to work with general counsel and bond counsel to determine the impact of the bankruptcy on OCTA's interest rate swap.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, and the changes in fair value of such derivative instruments for the year then ended are as follows:

	Changes in Fair Value		Fair Value at June 30, 2010		
	Classification	Amount	Classification	Amount	Notional
Investment derivatives -					
Pay-fixed interest rate swaps:					
Series 2003-B-1	Investment Loss	$ (3,585,972)	Investment	$ (14,753,752)	$ 75,000,000
Series 2003-B-2	Investment Loss	$ (1,195,308)	Investment	$ (4,917,892)	$ 25,000,000
		$ (4,781,280)		$ (19,671,644)	$ 100,000,000

As of the beginning of the fiscal year, the 91 Express Lanes Fund determined that the pay-fixed interest rate swaps classified as investment derivative instruments did not meet the criteria for effectiveness. Accordingly, a prior period adjustment has been made to record the accumulated negative changes in fair value of the swap of $14,890,364 at June 30, 2009. The decrease in the fair value of the swaps in fiscal year 2010 of $4,781,280 is reported as investment loss on derivative instruments for the year ended June 30, 2010.

The fair values of the interest rate swaps were estimated using proprietary methodologies developed by DerivActiv, LLC. The methods and significant assumptions used by DerivActiv to estimate the fair values have not been made available to OCTA.

Terms

The bonds and the related parity swap agreements mature on December 15, 2030. The parity swaps notional amount of $100,000,000 matches the $100,000,000 variable rate bonds. The parity swaps were entered into at the same time the bonds were issued (November 2003). Starting in fiscal year 2022, the notional amount of the parity swaps declines and the principal amount of the associated variable rate bonds 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 Securities Industry Financial Markets Association (SIFMA) Index if LIBOR is less than 4.0%.

Fair Value

As of June 30, 2010, the negative fair value for the $75,000,000 swap with Lehman Brothers was estimated by DerivActiv, LLC to be $14,753,752. As of June 30, 2010, the negative fair value for the $25,000,000 swap with JP Morgan was estimated by DerivActiv to be $4,917,892. Therefore, if the swaps were terminated on June 30, 2010, OCTA would have made a termination payment of $14,753,752 and $4,917,892 to Lehman Brothers and JP Morgan, respectively. The termination payments that would have been owed by OCTA if the swaps were terminated on June 30, 2010 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 OCTA to the swap providers is 4.06227%. At June 30, 2010, this fixed rate was higher than the current rate for a swap of identical terms and conditions. The fair values were estimated using proprietary methodologies. OCTA's swaps do not qualify for hedge accounting treatment under the criteria established by GASB 53. Accordingly, the change in the fair value of the swaps is reported as an element of investment income in the accompanying financial statements.

Credit Risk

To mitigate the potential for credit risk, the $75,000,000 swap with Lehman Brothers and the $25,000,000 swap with JP Morgan require collateralization with U.S. government securities at all times, if a termination payment is required. Due to the fact that interest rates declined since the swaps were executed, the counterparties did not owe OCTA a termination payment as of June 30, 2010.

The aggregate fair value of derivative instruments at June 30, 2010 was $(19,671,644). This represents the maximum loss as of that date that would be recognized at the reporting date if the swaps were terminated.

Lehman Brothers Commercial Bank, the counterparty for the pay-fixed interest rate swap Series 2003-B-1 was not rated (NR) by S & P, withdrawn (WR) by Moody's, and NR by Fitch. JPMorgan Chase Bank, N.A, the counterparty for the pay-fixed interest rate swap Series 2003-B-2 was rated AA- by S & P, Aa1 by Moody's, and AA- by Fitch.

Interest Rate Risk

OCTA is exposed to interest rate risk on its interest rate swap. On its pay-fixed, receive-variable interest rate swap, as LIBOR or the SIFMA swap index decreases, OCTA's net payment on the termination of the swap increases.

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 SIFMA 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 SIFMA Index if LIBOR is less than 4.0%. As of June 30, 2010, OCTA experienced $12,013,177 in cumulative negative basis differential since inception of the swap program in November 2003. This negative amount has been funded with toll road revenues.

Termination Risk

Termination risk is the risk that an event occurs that causes a termination of the parity swaps and OCTA would incur replacement costs. As of the June 30, 2010 valuation, there had not been a termination event.

Swap Payments and Associated Debt

As of June 30, 2010, debt service requirements of outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same for their term are as follows:

	$75,000,000 Series 2003-B-1 (1)			$25,000,000 Series-B-2 (1)			
Year ending June 30	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Interest Rate Swaps, Net	Total
2011	$ -	$ 2,887,500	$ 2,814,203	$ -	$ 962,500	$ 938,068	$ 7,602,271
2012	-	2,887,500	2,814,203	-	962,500	938,068	7,602,271
2013	-	2,887,500	2,814,203	-	962,500	938,068	7,602,271
2014	-	2,887,500	2,814,203	-	962,500	938,068	7,602,271
2015	-	2,887,500	2,814,203	-	962,500	938,068	7,602,271
2016-2020	-	14,437,500	14,071,015	-	4,812,500	4,690,340	38,011,355
2021-2025	25,005,000	12,301,736	11,989,464	8,335,000	4,101,092	3,996,989	65,729,281
2026-2030	40,715,000	5,256,959	5,123,514	13,575,000	1,751,629	1,707,167	68,129,269
2031	9,280,000	54,285	52,907	3,090,000	18,079	17,620	12,512,891
	$75,000,000	$46,487,980	$45,307,915	$25,000,000	$15,495,800	$15,102,456	$222,394,151

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

As rates vary, variable-rate bond interest payments and net swap payments will vary. The OCIP rate on the Series 2003-B Bonds was 3.85% on June 30, 2010. As part of the swap agreement, OCTA receives the SIFMA Index which was 0.31% on June 30, 2010.

6. Bonds Payable

taxable Senior Secured Bonds

On January 3, 2003, as part of the purchase agreement, the 91 Express Lanes Fund assumed $135,000,000 of taxable 7.63% Senior Secured Bonds. On November 12, 2003, the taxable bonds were refunded as noted below. As required by the tax-exempt bond indenture, OCTA paid $26,428,197 Yield Maintenance Premium which is deferred and amortized over the life of the tax-exempt bonds.

Toll Road Revenue Refunding Bonds

On November 12, 2003, OCTA issued $195,265,000 in Toll Road Revenue Refunding Bonds (91 Express Lanes) Series 2003-A, Series 2003-B-1 and Series 2003-B-2 to refund the $135,000,000 taxable 7.63% Senior Secured Bonds and to reimburse OCTA for a portion of its payment of the costs of acquiring the Toll Road and certain other property and interests associated with the Toll Road. The $195,265,000 Series 2003-A Bonds were issued as fixed rate bonds. The $75,000,000 Series 2003-B-1 Bonds and the $25,000,000 Series 2003-B-2 Bonds (collectively the "Series 2003-B Bonds") were issued as adjustable rate bonds.

On November 24, 2008, OCTA remarketed the $100,000,000 Series 2003-B Bonds. In connection with the mandatory tender of the Series 2003-B Bonds required by the Indenture, the interest rate was converted to a Long Term Interest Rate equal to the Orange County Investment Pool (OCIP) Rate, or 3.85%. The Series 2003-B Bonds are subject to mandatory tender for repurchase by or for the benefit of OCTA on December 19, 2010.

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

Issuance date	11/12/03
Original issue amount	$195,265,000
Cash reserve requirements	$38,019,585
Cash reserve balance	$38,853,755
Interest rate	2.0% to 5.375% *
Maturity	December 2030
Principal payment date	August 15
Current balance	$170,425,000
Unamortized premium	$5,156,053
Deferred amount on refunding	($19,309,491)

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

Annual debt service requirements on the tax-exempt bonds as of June 30, 2010, are as follows:

Year ending June 30	Principal	Interest	Total
2011	$ 4,740,000	$ 7,517,170	$ 12,257,170
2012	4,980,000	7,274,170	12,254,170
2013	5,245,000	7,008,711	12,253,711
2014	5,525,000	6,729,626	12,254,626
2015	5,815,000	6,438,858	12,253,858
2016-2020	34,055,000	27,221,706	61,276,706
2021-2025	43,405,000	18,154,663	61,559,663
2026-2030	54,290,000	8,222,035	62,512,035
2031	12,370,000	264,792	12,634,792
Total	$170,425,000	$88,831,731	$259,256,731

The interest rate used to determine the future annual debt service requirements for the variable rate bonds was 4.06227% at June 30, 2010.

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Tax-exempt bonds	$174,940,000	$ -	$ 4,515,000	$170,425,000	$4,740,000
Unamortized premium	5,408,594	-	252,541	5,156,053	-
Unamortized deferred amount on refunding	(20,377,297)	-	(1,067,806)	(19,309,491)	-
Total Long-Term Liabilities	$159,971,297	$ -	$ 3,699,735	$156,271,562	$4,740,000

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.

Pledged Revenue

The 91 Express Lanes debt issuance outstanding is repaid and secured by the pledging of certain revenues, as defined in the debt agreement. The amount and term of the remainder of this commitment is indicated in the debt service to maturity table. The purpose for which the proceeds of the debt issuance was utilized is disclosed in the debt description. For the year ended June 30, 2010, the 91 Express Lanes paid an additional $3,780,329 in interest associated with the downgrade of Ambac Insurance Corporation and the bankruptcy of Lehman Brothers Holding Inc. Debt service payments as a percentage of the pledged gross revenue for the year ended June 30, 2010, was as follows:

Description of Pledged Revenue	Annual Amount of Pledged Revenue	Annual Debt Service Payments	Debt Service as a Percentage of Pledged Revenue
91 Express Lanes Toll Road Revenue	$44,665,333	$16,038,230	35.9%

7. Advances from Other OCTA Funds

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 $83,640,595 from other OCTA funds at an interest rate, adjusted each January, representing OCTA's rate of return on short-term investments (4.66% at June 30, 2010). Interest accrues monthly, and the advances from other OCTA funds plus accrued interest will be repaid on an annual basis with net revenues or as a result of a refinancing. Total interest of $1,226,363 accrued on the advances for the year ended June 30, 2010. On June 30, 2010, the 91 Express Lanes Fund repaid $17,000,000 of the advance with net revenues. At June 30, 2010, these advances were $9,541,730 and are reported as advances from other OCTA funds.

8. Commitments and Contingencies

Operator Agreement

In connection with the purchase of the toll facility interest, OCTA entered into an operating agreement with Cofiroute Global Mobility (Cofiroute), to provide operating services in the annual amount of $4,994,000 plus inflation for three initial years with two one-year extension options, subject to Board of Directors approval. The agreement was in effect from January 3, 2003 through January 2, 2006. Cofiroute is responsible for the day-to-day operations of the toll facility. On January 6, 2006, OCTA entered into a second operating agreement with Cofiroute, effective January 3, 2006 through January 2, 2011. The annual amount of the base contract is $5,448,768 plus inflation adjustments after the first year. The agreement carried two two-year extension options through January 2, 2015. On April 27, 2009, the Board of Directors approved a subsequent amendment, which authorizes the addition of two five-year extension options beginning January 3, 2011 through January 2, 2021.

Lease Commitments

The 91 Express Lanes Fund is committed under two leases for office space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the year ended June 30, 2010 were $385,131.

Future minimum payments for these leases approximate the following:

For the year ending June 30:		
2011	$	376,956
2012		386,145
2013		124,929
2014		31,461
Total	$	919,491

9. Prior Period Adjustment

During fiscal year ending June 30, 2010, the 91 Express Lanes Fund implemented GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. As of the beginning of the fiscal year, the 91 Express Lanes Fund determined that the pay-fixed interest rate swaps listed as investment derivative instruments did not meet the criteria for effectiveness. Accordingly, a prior period adjustment has been made to record the accumulated negative changes in fair value of the swap of $(14,890,364) at July 1, 2009.

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

	Net Assets
Beginning balance, as previously reported	$ 55,942,029
Adjustment	(14,890,364)
Beginning balance, as restated	$ 41,051,665