SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Financial Statements

June 30, 2010

(With Independent Auditors' Report Thereon)

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Table of Contents

KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Honorable Board of Directors
San Joaquin Hills Transportation Corridor Agency:

We have audited the accompanying financial statements of San Joaquin Hills Transportation Corridor Agency (the agency) as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the agency'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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Joaquin Hills Transportation Corridor Agency as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. 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.

KPMG LLP

September 21, 2010

This discussion and analysis of the San Joaquin Hills Transportation Corridor Agency's (the agency) financial performance provides an overview of the agency's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the agency's financial statements and accompanying notes.

Background

The agency was formed in 1986 as a joint powers authority by the County of Orange and cities in Orange County, California. The agency was created to plan, design, finance, construct, and operate a 15-mile toll road, known as the San Joaquin Hills (State Route 73) Toll Road.

Planning began in the 1970s when local transportation studies identified the need for new highways, including the San Joaquin Hills Transportation Corridor (State Route 73), to serve Orange County's growing population. In the early 1980s, the corridor was envisioned as a free highway funded through state or federal gas-tax revenues, but with a shortage of gas-tax revenues to fund transportation improvements and increasing costs of building new roads, local officials began to study alternative ways to fund road projects.

In the mid-1980s, two state laws were passed authorizing the agency to collect tolls and development impact fees to fund road construction. With a pledged revenue stream from future tolls, the agency issued nonrecourse, toll-revenue bonds to fund road construction, rather than relying on the uncertainty of state gas-tax revenue. The agency also reached an agreement with the California Department of Transportation (Caltrans) to assume ownership, liability, and maintenance of the State Route 73 Toll Road as part of the state highway system. This agreement eliminated the need for the agency to seek additional funding sources for road maintenance.

In 1996, the State Route 73 Toll Road opened to traffic, the first publicly operated toll road in Southern California. Today, approximately 80,000 transactions are recorded on the State Route 73 Toll Road every weekday, serving as an important, time-saving alternative route to Interstate 405 and Interstate 5 Freeways.

Financial Highlights

Tolls, fees, and fines collected in fiscal year 2010 (FY10) totaled $94,782 compared to $91,957 in the prior fiscal year, an increase of 3.1%.

Interest and principal payments of $82,502 and $13,100, respectively, on the agency's long-term debt were made in FY10 compared to $82,502 and $8,205, respectively, in the prior fiscal year. Accretion on the agency's capital appreciation bonds totaled $30,315 compared to $29,213 in the prior fiscal year.

As of June 30, 2010, the agency has $354,721 in restricted cash and investments governed under the 1993 and 1997 master indentures of trust. The agency also has $16,504 in unrestricted cash.

Total net deficit at June 30, 2010 was $(1,716,630). The deficit results primarily from the recording of long-term debt, proceeds of which funded the construction of the corridor. Ownership of the corridor was transferred to Caltrans upon completion. The net deficit is also attributable to accretion recorded on the capital appreciation bonds, which is greater than principal payments made.

(In thousands)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the agency's financial statements, which comprises the statement of net deficit, statement of revenues, expenses, and changes in net deficit, the statement of cash flows, and notes to the financial statements.

The financial statements present the financial picture of the agency from the economic resources measurement focus using the accrual basis of accounting. These statements include all recordable assets of the agency as well as all liabilities. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of cash flows provides information about the agency's cash receipts, cash payments, and net changes in cash resulting from operating capital and related financing and investing activities during the reporting period.

The statement of net deficit and the statement of revenues, expenses, and changes in net deficit report the agency's net deficit and related changes. Net deficit is the difference between the recorded assets and liabilities. The recorded activities include all toll revenues and operating expenses related to the operation of the San Joaquin Hills Transportation Corridor. In addition, all of the agency's construction-related activities, including the design, construction, and mitigation on the San Joaquin Hills Transportation Corridor, as well as all financing costs and administration of the project, are reflected in the statements. Activities are financed by toll revenues, development impact fees, fees and fines, and investment income.

Financial Analysis

The following table summarizes the assets, liabilities, and net deficit of the agency as of June 30, 2010 and 2009:

		2010	2009	Percent increase (decrease)
Assets:				
Current assets	$	120,833	156,976	(23.0)%
Capital assets, net		19,928	13,458	48.1
Noncurrent assets		256,818	231,315	11.0
Total assets		397,579	401,749	(1.0)
Liabilities:				
Bonds payable		2,064,731	2,047,516	0.8
Other liabilities		49,478	51,173	(3.3)
Total liabilities		2,114,209	2,098,689	0.7
Total net deficit	$	(1,716,630)	(1,696,940)	1.2

The purpose of the agency is to provide traffic relief to Orange County through the construction and operation of the toll road. With nearly all construction complete, the agency's primary focus is on operation of the facility and collection of tolls to extinguish the related long-term bond debt. The debt, issued in the form of tax-exempt revenue bonds, was issued initially to construct the toll road. Subsequent to completion, the road was transferred to Caltrans. The net deficit results primarily from using bond proceeds to construct the corridor, which was then contributed to Caltrans, as well as to fund noncapitalized expenses related to the corridors and from the accretion of interest on the bonds.

(In thousands)

Current assets have decreased this year due to expenditures for the Catalina View Mainline widening project and the designation of toll stabilization funds to pay debt service, which then resulted in the fulfillment of the reserve fund requirement under the master indentures of trust and an increase to noncurrent assets.

Capital assets, net have increased as a result of additions to construction in progress related to costs associated with the Catalina View Mainline widening project.

The increase in bonds payable results from the current year accretion on the capital appreciation bonds totaling $30,315 offset by a principal payment of $13,100.

The following is a summary of the agency's revenues, expenses, and changes in net deficit for the years ended June 30, 2010 and 2009:

		2010	2009	Percentage increase (decrease)
Operating revenues:				
Tolls, fees, and fines	$	94,782	91,957	3.1%
Development impact fees		452	985	(54.1)
Other revenue		—	11	(100.0)
Total operating revenues		95,234	92,953	2.5
Operating expenses		13,566	14,008	(3.2)
Operating income		81,668	78,945	3.4
Nonoperating expenses, net		(101,358)	(66,056)	53.4
Change in net deficit		(19,690)	12,889	(252.8)
Net deficit at beginning of year		(1,696,940)	(1,709,829)	(0.8)
Net deficit at end of year	$	(1,716,630)	(1,696,940)	1.2

Revenues for the agency consist primarily of tolls, fees, and fines, which comprised 99.5% of total revenue in FY10 as compared to 98.9% in FY09. Tolls, fees, and fines increased 3.1% over the prior year primarily due to an increase in toll rates and fees in July 2009. Development impact fees were $452 in FY10 compared to $985 in FY09, a decrease of 54.1%. This decrease is directly related to a continued downturn in residential and nonresidential development in Orange County within the area of benefit of the San Joaquin Hills Corridor.

(Continued)

(In thousands)

Operating expenses were $13,566 in FY10 compared to $14,008 in FY09, a decrease of 3.2%. This decrease is primarily due to the agency's efforts to reduce operating costs including payments to third-party contractors for systems and equipment, violation processing, service center, and toll collection operations. Also included in operating expenses is the noncash expense of depreciation on fixed assets of $1,380 compared to $1,371 in FY09.

Nonoperating expenses, net consist of investment income of $11,535 offset by interest expense of $112,817 and a settlement expense of $76 incurred in connection with settling a lawsuit related to the agency's toll violation processes. For FY09, nonoperating expenses, net consist of investment income of $13,778, a mitigation payment of $30,000 and contribution revenue of $2,613 representing land donated to the agency by Caltrans offset by interest expense of $111,715 and settlement expense of $732. Interest expense comprises both interest payments and change in accrued interest on long-term debt and accretion of bonds outstanding.

Capital Assets, Net

The following table summarizes the capital assets, net of depreciation, at June 30:

		2010	2009
Construction in progress	$	14,946	8,080
Right-of-way acquisitions, grading, or improvements		119	119
Furniture and equipment		4,863	5,259
Total capital assets, net	$	19,928	13,458

The increase in construction in progress at June 30, 2010 is a result of the Catalina View Mainline widening project. Right-of-way acquisitions, grading, or improvements include easements and environmental mitigation parcels. Furniture and equipment includes transponders, toll and violations collection equipment, toll booths and buildings, and changeable message signs.

More detailed information about the agency's capital assets is presented in note 5 to the financial statements.

Debt Administration

The agency has outstanding bonds payable of $2,064,731 at June 30, 2010, an increase from the prior year of $17,215 due to the accretion of principal on capital appreciation bonds totaling $30,315, offset by a principal payment of $13,100. All of the agency's toll revenue, less certain expenses, as defined in the indentures of trust, is pledged to repay these bonds. There were no changes to the debt structure during FY10.

The agency has several debt covenants contained in the master indentures of trust. Management of the agency represents that the agency was in compliance with all of its covenants as of and for the year ended June 30, 2010.

While toll revenue has generally increased over the last several years and the agency continues to pay its operating costs and debt service, revenue has not grown as fast as originally projected when the bonds were issued. Since 2000, the agency has taken numerous measures to help bridge the gap between actual and projected revenue, including establishing the toll rate stabilization fund, implementing toll rate increases, defeasing debt with proceeds from the Orange County bankruptcy settlement, and reducing operational costs by competitively bidding the major operations related contracts. The agency has achieved the required coverage ratio of 1.3x Annual Debt Service since the bonds were issued; however, absent capital infusion, it was anticipated that compliance would not be maintained as early as FY 2007.

In May 2004, the San Joaquin Hills and Foothill/Eastern Boards of Directors and their respective financial and legal advisors began developing and negotiating a conceptual mitigation and loan plan to help the agency avoid technical default and enable the Foothill/Eastern Transportation Corridor Agency (F/ETCA) to move forward with its 241 completion project. In November 2005, the agency and F/ETCA entered into an agreement, the terms of which include payments of $120,000 over four years from F/ETCA to mitigate for the projected loss of revenue due to the construction of the 241 completion project and a commitment from F/ETCA to provide loans, subject to the terms of the agreement and loan requirements of California Government Code Section 66484.3, paragraph (f), as needed of up to $1,040,000 to assist the agency in achieving its covenants to its bondholders. The agreement and loan requirements are discussed in note 6(b) to the financial statements. If the agency determines that expected toll revenues, mitigation payments, and/or loan proceeds are not likely to provide the required debt service coverage, the agency will take steps to increase toll revenues, decrease costs, and hire a traffic consultant as set forth in the indenture covenant. If after implementation of such actions, adjusted net toll revenues still fall short of the debt ratio covenant, the agency will repeat the process of analysis and implementation. Under this scenario, a failure to yield 1.3x annual debt service will not constitute an event of default.

Economic Factors

The agency continues to operate in a fiscally conservative manner by reducing costs and spending resources only on the most important programs to keep its systems in a state of good repair. To reduce administrative costs, the agency offered an incentive-based program to employees who voluntarily vacated their positions as of June 30, 2010; six employees applied for and were granted the separation incentive. Positions vacated cannot be filled for at least one year.

The agency is also continuing to seek ways to increase revenue and encourage more drivers to use FasTrak®, which is considered the most cost-effective way for the agency to collect tolls. During FY10, the agency implemented toll rate increases at selected locations. The agency also offered quarterly promotions in FY10 to attract new drivers and reward current customers throughout the year, including its "Drive-a-Week Free" campaign and "Refer-a-Friend" program.

Based on FY10 traffic and revenue trends, estimated transactions for FY11, and current economic conditions, specifically the high unemployment rate in Southern California, the agency did not implement toll rate increases for FY11. This was the first time there had not been an annual toll rate increase for 73 Toll Road customers since FY02.

In August 2003, the agency and F/ETCA formed a joint powers agency, the Transportation Corridor System (TCS), to explore the possibility of purchasing the assets of both the agency and F/ETCA and managing both toll roads as a single system. In August 2007, the TCS met to discuss a potential acquisition that would finance the purchase of the two agencies through the issuance of new bonds. The proceeds of the sale of their assets would be used by the agency and F/ETCA to defease or extinguish existing debt. Currently, this transaction is not economically feasible, and the agency continues to analyze stand-alone options to improve its financial position.

Contacting the Agency's Financial Management

This financial report is designed to provide a general overview of the agency's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Controller, San Joaquin Hills Transportation Corridor Agency, 125 Pacifica, Suite 100, Irvine, CA 92618 or to http://www.thetollroads.com.

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Statement of Net Deficit

June 30, 2010

(In thousands)

Assets		
Current assets:		
Cash and investments	$	16,504
Restricted cash and investments		97,903
Receivables:		
Accounts, net of allowance of $349		641
Fees		25
Interest		2,122
Total receivables		2,788
Due from Foothill/Eastern Transportation Corridor Agency		2,874
Other assets		764
Total current assets		120,833
Noncurrent assets:		
Restricted cash and investments		256,818
Capital assets, net		19,928
Total assets		397,579
Liabilities		
Current liabilities:		
Accounts payable		1,588
Deferred revenue		5,424
Due to Foothill/Eastern Transportation Corridor Agency		977
Employee compensated absences payable		238
Interest payable		41,251
Current portion of bonds payable		15,830
Total current liabilities		65,308
Long-term bonds payable		2,048,901
Total liabilities		2,114,209
Net Deficit		
Invested in capital assets, net of related debt		(2,044,803)
Restricted		311,669
Unrestricted		16,504
Total net deficit	$	(1,716,630)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Statement of Revenues, Expenses, and Changes in Net Deficit

Year ended June 30, 2010

(In thousands)

Operating revenues:		
Tolls, fees, and fines	$	94,782
Development impact fees		452
Total operating revenues		95,234
Operating expenses:		
Toll compliance and customer service		3,728
Salaries and wages		3,129
Toll systems		1,552
Depreciation		1,380
Toll collections		1,203
Insurance		787
Professional services		491
Facilities rent		446
Toll facilities		317
Marketing		176
Other operating expenses		357
Total operating expenses		13,566
Operating income		81,668
Nonoperating revenue (expenses):		
Investment income		11,535
Settlement expense		(76)
Interest expense		(112,817)
Nonoperating expenses, net		(101,358)
Change in net deficit		(19,690)
Net deficit at beginning of year		(1,696,940)
Net deficit at end of year	$	(1,716,630)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Statement of Cash Flows

Year ended June 30, 2010

(In thousands)

Cash flows from operating activities:		
Cash received from toll road patrons	$	94,487
Cash received from development impact fees		443
Cash payments to suppliers		(8,987)
Cash payments to employees		(3,032)
Net cash provided by operating activities		82,911
Cash flows from capital and related financing activities:		
Cash payments for settlement expenses		(808)
Cash payments for equipment		(941)
Cash payments for construction in progress		(7,924)
Cash payments for interest and principal		(95,602)
Net cash used in capital and related financing activities		(105,275)
Cash flows from investing activities:		
Cash received for interest, net of realized gains and losses		9,196
Cash payments for purchase of investments		(219,380)
Cash received from the maturity and sale of investments		224,504
Net cash provided by investing activities		14,320
Net decrease in cash and cash equivalents		(8,044)
Cash and cash equivalents at beginning of year		51,150
Cash and cash equivalents at end of year (note 4)	$	43,106
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	81,668
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		1,380
Changes in operating assets and liabilities:		
Accounts receivable		(85)
Fees receivable		(9)
Due from Foothill/Eastern Transportation Corridor Agency		(223)
Other assets		5
Accounts payable, less accounts payable for fixed assets and construction in progress		199
Deferred revenue		(63)
Due to Foothill/Eastern Transportation Corridor Agency		76
Employee compensated absences payable		(37)
Total adjustments		1,243
Net cash provided by operating activities	$	82,911
Noncash transactions:		
Interest expense recorded for accretion of bonds outstanding	$	(30,315)
Unrealized gain on investments		4,080
Amortization of discount/premium on investments		(1,893)

See accompanying notes to financial statements.

(1) Reporting Entity

In recognition of the regional transportation needs in the County of Orange (County), the California State Legislature has enacted various amendments to the California Government Code to authorize the financing of bridges and major thoroughfares by joint powers agencies. Pursuant to such authorization, the San Joaquin Hills Transportation Corridor Agency (the agency) was created in May 1986 by a joint exercise of powers agreement. Current members are the County and the cities of Aliso Viejo, Costa Mesa, Dana Point, Irvine, Laguna Hills, Laguna Niguel, Laguna Woods, Mission Viejo, Newport Beach, San Clemente, San Juan Capistrano, and Santa Ana (collectively, the member agencies). The purpose of the agency is to plan, design, construct, finance, administer funds for, and operate the San Joaquin Hills Transportation Corridor. The agency has the power to, among other things, incur debt and establish and collect tolls. The agency is governed by a Board of Directors comprising representatives from the member agencies.

The financial statements comprise the activities of the agency. There are no other organizations for which the agency is financially accountable or for which it is fiscally responsible. The agency and the Foothill/Eastern Transportation Corridor Agency (F/ETCA) are under common management and together are called the Transportation Corridor Agencies. However, each agency has an independent governing board.

(2) Summary of Significant Accounting Policies

The accounting policies of the agency are in conformity with U.S. 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.

(a) Basis of Presentation

The agency records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged in business-type activities. This model allows all financial information for the agency to be reported in a single column in each of the accompanying financial statements.

The agency distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from the collection of tolls, fees, and fines on the corridors. The agency's operating expenses include depreciation, materials, services, and other expenses related to the operation of the corridors. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(b) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That*

Use Proprietary Fund Accounting, the agency does not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Restricted resources are used in accordance with the agency's master indentures of trust. Unrestricted resources are used at the agency's discretion. When both restricted and unrestricted resources are available for use, it is the agency's policy to determine on a case-by-case basis when to use restricted or unrestricted resources.

(c) Budget

Fiscal year budgets are prepared by the agency's staff for estimated revenues and expenses. The Board of Directors adopts the annual budget at the June board meeting for the fiscal year commencing the following July. The approval of the budget requires the consent of at least two-thirds of the Board Members. No expenditures in excess of the total budget for each board-designated category are made without the approval of at least two-thirds of the Board Members, at which time a revised and amended budget is required to be submitted to the Board of Directors. All budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. All budget appropriations lapse at year-end. Any budgeted expenses not incurred by each year-end must be reappropriated in the next fiscal year.

(d) Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

(e) Investments

Investments in U.S. government securities and federal agency securities are carried at fair value based on quoted market prices. Commercial paper is carried at amortized cost (which approximates fair value). Treasury mutual funds are carried at fair value based on the fund's share price.

The agency classifies investments as current or noncurrent based on how readily the investment is expected to be converted to cash and whether any restrictions limit the agency's ability to use the resources.

(f) Receivables

Receivables include amounts due from member agencies for development impact fees collected on behalf of the agency, credit card receivables, interoperable receivables due from other California toll agencies, patron violation receivables, and interest.

(g) Capital Assets

Capital assets include easements and environmental mitigation parcels, toll and violation collection equipment, transponders, toll booths, buildings, changeable message signs, vehicles, furniture, and construction in progress. Capital assets are defined by the agency as assets with an initial, individual

(Continued)

cost of more than five thousand dollars, with the exception of transponders, which are valued in total, and an estimated useful life in excess of three years. Such assets are recorded at cost.

The San Joaquin Hills Corridor and the related purchases of right-of-way, for which title vests with the California Department of Transportation (Caltrans), are not included as capital assets because the agency does not have title to such assets or right-of-way. The costs of normal maintenance and repairs and mitigation that do not add to the value of the asset or materially extend asset lives are not capitalized.

Assets that are determined to be impaired are recorded at the lower of cost or estimated net realizable value.

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

Asset type	Useful life
Toll booths and buildings	28 – 30 years
Changeable message signs	15 years
Toll revenue equipment	5 years
Vehicles	5 years
Other equipment and furniture	3 – 5 years

(h) Deferred Revenue

Deferred revenue represents prepaid tolls collected from patrons using FasTrak®, an electronic toll collection system that allows drivers to pay tolls without stopping at a toll booth.

(i) Revenue Recognition

Toll revenue is recognized at the time the vehicle passes through the toll plaza. Other revenues are recognized when earned.

(j) Allocation of Common Costs

Expenses directly related to the agency are charged entirely to the agency, and those incurred on behalf of both the agency and F/ETCA were allocated between the two agencies based on the estimated benefit to each. In addition, the agency also has amounts due from F/ETCA related to F/ETCA FasTrak customers incurring tolls on the agency's corridor and has amounts due to F/ETCA related to the agency's FasTrak customers incurring tolls on State Routes 241, 261, and 133 and other expenses. At June 30, 2010, the agency has a net receivable due from F/ETCA of $1,897 for such items.

 (Continued)

(In thousands)

(k) Net Assets

The agency's net assets are classified into the following net asset categories:

Invested in Capital Assets, Net of Related Debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, and improvement of those assets and the assets transferred to Caltrans.

Restricted: Net assets subject to externally imposed conditions that can be fulfilled by the actions of the agency or by the passage of time. These net assets relate primarily to restricted bond proceeds and certain revenues collected.

Unrestricted: All other categories of net assets.

(l) Use of Estimates

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

(3) Development Impact Fees

The sources of development impact fees were the following for the year ended June 30, 2010:

City of Laguna Niguel	$ 255
County of Orange	51
City of San Juan Capistrano	47
City of Irvine	30
City of San Clemente	28
City of Newport Beach	19
City of Dana Point	14
City of Laguna Hills	8
	$ 452

(In thousands)

(4) Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Cash and investments	$	16,504
Current restricted cash and investments		97,903
Noncurrent restricted cash and investments		256,818
	$	371,225

Cash and investments as of June 30, 2010 consist of the following:

		Cash and cash equivalents	Investments	Total
Cash on hand	$	43	—	43
Demand deposits		4,595	—	4,595
Money market		26,530	—	26,530
Federal agency securities		—	12,361	12,361
Investments held with trustee per debt agreements		11,938	315,758	327,696
Total	$	43,106	328,119	371,225

(a) Cash Deposits

Custodial Credit Risk Related to Cash Deposits

The custodial credit risk for deposits is the risk that the agency will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. This risk is mitigated in that of the total cash balance, $43 was cash on hand, and $4,595 was insured by federal depository insurance and collateralized in accordance with Section 53652 of the California Government Code with securities held by the pledging financial institution in the agency's name.

At June 30, 2010, the carrying amount of the agency's cash deposits was $4,595, and the corresponding bank balance was $4,574. The difference of $21 was principally due to deposits in transit. The agency's petty cash fund and toll change funds totaled $43.

(b) Investments

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The agency mitigates these risks by holding a diversified portfolio of high-quality investments. The agency's investment policy sets specific parameters by type of investment for credit quality, maturity length, and maximum percentage investment. Both the policy and the agency's debt agreements state that, generally, all securities must be issued by companies with a long-term debt rating of at least "A" by two of the Nationally Recognized Rating Agencies (NRRA) or at least "AA" by one NRRA. The policy and debt agreements also indicate specific rating requirements for certain types of investments. Percentage limitations on specific types of securities shall be based on the purchase price of the security as compared to the market value of the portfolio at the time of purchase and does not require sales in a portfolio for subsequent changes in market value of the total portfolio to avoid exceeding the prescribed allocation level.

(In thousands)

The table below identifies the investment types that are authorized by the agency's investment policy. The table also identifies certain provisions of the agency's investment policy that addresses interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the agency, rather than by the general provisions of the agency's investment policy.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum investment in one issuer	Specific rating requirement
U.S. Treasury bills, notes, and bonds	5 years	100%	100%	N/A
Federal agency and U.S. government-sponsored enterprise notes and bonds	5 years	100	25	N/A
Federal agency mortgage-backed securities	5 years	20	20	N/A
Negotiable certificates of deposit	5 years	30	30	"AA" or better by two NRRAs
Banker's acceptances	180 days	30	25	Drawn on and accepted by a bank that is rated "AA" or better by two NRRAs
Commercial paper	270 days	15	10% of outstanding paper of an issuing corporation	P1, A1, F1, or D1 by two NRRAs
Repurchase agreements	90 days	25	25	N/A
Reverse repurchase agreements	30 days	10	10	N/A
Medium-term maturity corporate notes	5 years	30	30	N/A

(Continued)

(In thousands)

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum investment in one issuer	Specific rating requirement
State of California Local Agency Investment Fund	N/A	15%	15%	N/A
County or local agency investment pools	N/A	15	15	N/A
Asset-backed securities	5 years	20	20	“AAA” by one NRRA; issuer must have underlying rating of “A” or better from two NRRAs
Shares in a California common law trust	N/A	None	None	N/A
Money market mutual funds	N/A	15	15	N/A
Investment agreements	10 years	40	40	N/A
Bonds or notes issued by any municipality in the State of California	5 years	30	30	One of the two highest rating categories by Moody’s and Standard & Poor’s (S&P), and if rated by Fitch, in one of the two highest rating categories
Bonds or notes issued by any state	5 years	30	30	One of the two highest rating categories by Moody’s and S&P, and if rated by Fitch, in one of the two highest rating categories

* Excluding amounts held by trustee, which are subject to provisions of the bond indentures.

(Continued)

At June 30, 2010, 5% or more of the agency's investments were in the Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank, and the Federal Home Loan Mortgage Corporation as authorized by the agency's investment policy. These investments are 22%, 21%, 16%, and 11%, respectively, of the agency's investments.

Investment of debt proceeds and toll revenues held by the agency's trustee are governed by provisions of the debt agreements, rather than by the general provisions of the California Government Code or the agency's investment policy. The table below identifies the investment types that are authorized for these moneys, and if noted, the specific rating requirements.

Investments authorized by debt agreements*	Specific rating requirement
Government obligations (including U.S. Treasury strips and RFCO strips)	N/A
Federal agency debt instruments	N/A
Municipal securities	One of the two highest rating categories by Moody's and S&P, and if rated by Fitch, in one of the two highest rating categories
Negotiable certificates of deposit insured by FDIC, BIF, and SAIF or secured by government obligations	Two highest ratings by two NRRAs
Banker's acceptances	Prime-1 or A3 or better by Moody's, A-1 or A or better by S&P and, if rated by Fitch, F-1 or A or better
Commercial paper	Prime-1 or better by Moody's and A-1 or better by S&P and, if rated by Fitch, F-1 or better
Repurchase agreements	A or better by both Moody's and S&P and, if rated by Fitch, A or better
Medium-term maturity corporate notes	One of the three highest applicable rating categories, or approved in writing, by S&P, and, if rated by Fitch, rated in one of the three highest applicable rating categories
Money market mutual funds	AAAm-G, AAA-m, or AA-m by S&P and, if rated by Moody's, Aaa, Aa1, or Aa2 and, if rated by Fitch, AAA, or AA
Investment agreements	N/A

* Other investments may be allowed if the agency certifies to the trustee that the investment was approved in writing by each rating agency, which has assigned a rating to the agency's bonds, and by the agency's bond insurer.

(Continued)

(In thousands)

At June 30, 2010, all of the agency's investments held were rated at or above the minimum required rating per the agency's investment policy and debt agreements: the federal agency securities, U.S. Treasury bills, and U.S. Treasury notes that were held by the agency were rated AAA by S&P and AAA by Moody's; the money market funds were rated AAA by S&P; and commercial paper was rated A-1+ by S&P, and P1 by Moody's.

Custodial Credit Risk

Custodial credit risk for investments is the risk that the agency will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the agency are deposited in the agency's trustee bank, which is different from the agency's primary bank, in the agency's name. Securities are not held in broker accounts.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The agency mitigates this risk by matching maturity dates, to the extent possible, with the agency's expected cash flow.

A summary of all the agency's investments governed by both the agency's investment policy and its bond agreements, including money market funds of $26,530 and investments held with trustee of $11,938 that are considered cash equivalents held at June 30, 2010, is as follows:

		Remaining maturity		
Investment type	**Fair value**	**12 months or less**	**13 to 24 months**	**25 to 60 months**
Federal agency securities	$ 258,969	29,899	89,070	140,000
U.S. Treasury bills	45,483	45,483	—	—
U.S. Treasury notes	31,094	31,094	—	—
Money market funds	26,530	26,530	—	—
Commercial paper	4,511	4,511	—	—
Total	$ 366,587	137,517	89,070	140,000

(In thousands)

(5) Capital Assets

Capital assets activity consists of the following:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$ 8,080	6,866	—	14,946
Right-of-way acquisitions, grading, or improvements	5,231	—	—	5,231
Furniture and equipment	10,856	984	(729)	11,111
	24,167	7,850	(729)	31,288
Impairment loss on right-of-way acquisitions, grading, or improvements	(5,112)	—	—	(5,112)
Furniture and equipment accumulated depreciation	(5,597)	(1,380)	729	(6,248)
	$ 13,458	6,470	—	19,928

Transfer of Ownership

Ownership of the San Joaquin Hills Transportation Corridor was transferred to Caltrans during the year ended June 30, 1997, upon satisfaction of all conditions contained within the Cooperative Agreement between the agency and Caltrans. Subsequent to the transfer, the agency incurred expenditures for improvements and enhancements to major thoroughfares already transferred to Caltrans. The improvements and enhancements are covered by separate project-specific Cooperative Agreements with Caltrans and are recognized as a contribution expense when transferred to Caltrans.

(In thousands)

(6) Long-Term Obligations

The following is a summary of changes in general long-term obligations during the year ended June 30, 2010:

		Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 1997A Toll Road Refunding Revenue Bonds:						
Current Interest Bonds	$	604,885	—	—	604,885	—
Convertible Capital Appreciation Bonds		680,000	—	—	680,000	—
Capital Appreciation Bonds		542,451	30,315	(13,100)	559,666	15,830
Series 1993 Senior Lien Toll Road Revenue Bonds:						
Current Interest Bonds		220,180	—	—	220,180	—
Total bonds payable	$	2,047,516	30,315	(13,100)	2,064,731	15,830

(a) Toll Road Revenue Bonds

In October 1997, the agency issued $1,448,274 in the aggregate principal amount of serial, term, and capital appreciation toll road refunding revenue bonds consisting of current interest bonds in the principal amount of $604,885, convertible capital appreciation bonds in the principal amount of $404,289, and capital appreciation bonds in the principal amount of $439,100. The 1997A bonds are subordinate to the remaining 1993 bonds of $220,180 and are collateralized by net revenues, as defined in the master indentures, consisting primarily of toll revenues less current expenses.

Interest on the 1997A current interest bonds is payable semiannually at rates ranging from 5.25% to 5.50%. The bonds mature in annual installments from January 15, 2028 to January 15, 2030. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2007 by payment of accrued interest, principal, and a premium of up to 2.00%.

The 1997A convertible capital appreciation bonds accrue interest at rates ranging from 5.60% to 5.75% compounded semiannually. Interest is payable semiannually based on accreted amounts commencing on July 15, 2007. The bonds mature in annual installments from January 15, 2016 to January 15, 2024. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2014 by payment of accrued interest, principal, and a premium of up to 2.00%.

The 1997A capital appreciation bonds accrue interest at rates ranging from 4.20% to 5.67% compounded semiannually. The bonds mature in annual installments from January 15, 2000 to January 15, 2036.

(In thousands)

Interest on the remaining 1993 current interest bonds is payable semiannually at a rate of 5.00%. The bonds mature on January 1, 2033. The bonds are subject to early redemption, at the option of the agency, beginning January 1, 2003 by payment of accrued interest and principal with no premium.

The master indentures require the trustee to hold bond proceeds, toll revenues, and any other proceeds included in pledged funds for debt service. These moneys are included in the restricted cash and investments held by the trustee.

The following is a summary of the agency's annual debt service requirements by fiscal year for the 1993 senior lien toll road revenue bonds and the 1997A toll road refunding revenue bonds as of June 30, 2010:

	Principal	Interest[1]	Total
2011	$ 15,830	82,952	98,782
2012	29,757	85,000	114,757
2013	30,877	86,935	117,812
2014	30,547	88,845	119,392
2015	30,253	90,869	121,122
2016 – 2020	323,491	379,622	703,113
2021 – 2025	468,286	375,410	843,696
2026 – 2030	690,037	279,944	969,981
2031 – 2035	420,161	525,612	945,773
2036	25,492	80,824	106,316
	$ 2,064,731	2,076,013	4,140,744

[1] Includes payments on January 1 and January 15 of such fiscal year and July 1 and July 15 of the next fiscal year.

Included in principal is $556,939 related to accreted principal on convertible capital appreciation bonds and capital appreciation bonds.

A portion of the Series 1997A toll refunding bonds was used to purchase U.S. government securities, which were placed in an irrevocable escrow fund to be used for the debt service payments related to the refunded portion of the 1993 bonds. As of June 30, 2010, the amount of the refunded bonds outstanding, which were previously eliminated in the financial statements as a result of the refunding, was $704,819.

(b) Debt Compliance

While the agency has currently been able to pay its operating costs and debt service payments, actual revenues continue to run below projected revenues. Since 2000, the agency has taken numerous measures to help bridge the gap between actual and projected revenues, including establishing the toll rate stabilization fund, implementing toll rate increases, defeasing debt with proceeds from the settlement of the Orange County bankruptcy, and reducing operational costs by competitively bidding the major operations related contracts. The agency has achieved the required coverage ratio of 1.3x annual debt service since the bonds were issued; however, absent capital infusion, it was anticipated that compliance would not be maintained as early as fiscal year 2007.

On November 10, 2005, the agency's Board of Directors, with the Board of Directors of F/ETCA, entered into a Mitigation Payment and Loan Agreement (the Agreement). The terms of the Agreement call for F/ETCA to make payments to the agency totaling $120,000 over four years to mitigate for the anticipated loss of revenue due to the construction of the 241 completion project. All scheduled payments totaling $120,000 were made by F/ETCA as of June 2009.

In addition, F/ETCA committed to provide loans, subject to the terms of the Agreement, on an as-needed basis, up to $1,040,000 to assist the agency in achieving its debt service coverage of 1.3x. Accrued interest will not count toward the $1,040,000 principal limitation. Payments of accrued interest and outstanding principal will begin in the fiscal year when the agency has a surplus in revenues that exceeds the amount needed to meet the debt coverage requirement. All principal and accrued interest is due and payable on January 1, 2037 to the extent that the agency has surplus revenues available to pay all amounts due. At June 30, 2010, no amounts had been borrowed.

The Agreement was designed to meet the near-term needs of each agency while preserving the flexibility to continue to pursue alternatives. The Agreement provides that F/ETCA loans will be made only to the extent that surplus revenues are available and all findings and determinations required by law are met, including California Government Code Section 66484.3, paragraph (f), which requires that the following findings must be met before F/ETCA can make a loan: 1) F/ETCA will benefit mutually financially by sharing and/or loaning revenues with the agency, 2) F/ETCA possesses adequate financial resources to fund all costs of construction of existing and future projects that it plans to undertake prior to the final maturity of the loan, and 3) the funding of the loan will not materially impair its financial condition or operations during the term of the loan. The agency's obligation to repay the loans is, in turn, secured by and payable only from its surplus revenues. The Agreement also stipulates that F/ETCA will not be obligated to increase toll rates to ensure sufficient revenues are available and that any liens or revenue pledges required in order to finance the 241 completion project and complete certain other capital projects would have priority over loans to the agency. If the commencement and diligent pursuit of the construction of the 241 completion project does not occur by December 31, 2015, the mitigation payments will be added to the principal amount of the loan.

If toll revenues, mitigation payments, and/or loan proceeds do not yield the required debt service coverage, the agency will take steps to increase toll revenues, decrease costs, and hire a traffic consultant as set forth in the indenture covenant. If after implementation of such actions, adjusted net toll revenues still fall short of the debt ratio covenant, the agency will repeat the process of analysis and implementation. Under this scenario, a failure to yield 1.3x annual debt service will not constitute an event of default.

(Continued)

(7) Commitments and Contingencies

(a) Toll Collection and Revenue Management System Agreements

The agency and F/ETCA entered into agreements with various contractors for a customer service center, hardware maintenance, toll collection systems operation and maintenance, toll attendant staffing and supervision, and violation processing. The agreements expire on various dates through October 31, 2015. Additionally, all agreements are cancelable by the agency, without further obligation, upon written notice, generally within 90 days.

(b) Corridor Operations Facility Lease

In January 2000, the agency relocated to the Corridor Operations Facility and signed a lease agreement with F/ETCA. Future minimum payments at June 30, 2010 due to F/ETCA under the terms of the lease agreement through June 30, 2011 are $411. Future minimum payments after June 30, 2010 are based on the fair market rental value and adjust annually.

(c) Project Costs

As of June 30 2010, the agency has outstanding commitments and contracts of approximately $1,338 for improvements and enhancements to the existing corridor.

The agency also has a commitment to Caltrans to provide a maintenance facility for State Route 73. At June 30, 2010, the agency has earmarked $7,790 in order to fulfill the commitment.

(d) Litigation

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

(e) Risk Management

The agency maintains insurance coverage for various risks including but not limited to property, liability, earthquake, and flood coverage. Coverage is purchased at levels in accordance with the agency's master indentures of trust.

(8) Employees' Retirement Plan

The agency's employees participate in the Orange County Employees Retirement System (OCERS), a cost-sharing multiple-employer public employee retirement system established in 1945. OCERS provides for retirement, death, disability, and cost-of-living benefits and is subject to the provisions of the County Employees Retirement Law of 1937 and other applicable statutes. OCERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost-sharing plans that are administered by OCERS. This report can be obtained from OCERS at 2223 Wellington Avenue, Santa Ana, California 92701.

(Continued)

Plan members contribute a percentage of their annual covered salary at actuarially determined rates based on the age of entry into the plan; however, the agency pays up to 7% of the employee's required contribution. The agency is also required to contribute a percentage of each employee's covered salary into the plan. The agency has contributed 100% of its required contributions of approximately \$373, \$364, and \$325 to the plan for the years ended June 30, 2010, 2009, and 2008, respectively.