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

FRANCHISE AGREEMENT REPORT

Year Ended June 30, 2011

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

Franchise Agreement Report

For the fiscal year ended June 30, 2011

Contents

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited the accompanying special-purpose Franchise Agreement schedules of Orange County Transportation Authority's (OCTA) 91 Express Lane Fund (91 Express Lanes Fund), an enterprise fund of the OCTA as of and for the year ended June 30, 2011, as listed in the table of contents. These special-purpose financial schedules are the responsibility of OCTA's management. Our responsibility is to express an opinion on these financial schedules 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 91 Express Lane Fund's internal control over financial reporting. Accordingly, we express no such opinion. 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 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 described more fully in Note 1, the accompanying special-purpose Franchise Agreement schedules were prepared for the purpose of complying with Section 3.6(b) of the Amended and Restated Development Franchise Agreement for State Route 91 Median Improvements dated June 30, 1993 and amended December 20, 2002, between OCTA and the State of California Department of Transportation (Caltrans), and are not intended to present the 91 Express Lanes Fund's financial position as of June 30, 2011, and its changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the accompanying special-purpose Franchise Agreement schedules referred to above, as of June 30, 2011 and for the year then ended, are fairly presented, in all material respects, in conformity with the basis of accounting as described in Note 1.

As described more fully in Note 7, the 91 Express Lane Fund restated the beginning balance of the cumulative present value of Available Cash Flow retained by OCTA.

This report is intended solely for the information and use of the Board of Directors, OCTA and 91 Express Lane Fund management, and Caltrans and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Vavrinek, Trine, Day & Co. LLP

Laguna Hills, California
October 21, 2011

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91 Express Lanes Fund
(An Enterprise Fund of the Orange County Transportation Authority)
Schedule of Changes in Capital Costs
For the Year Ended June 30, 2011

Asset Category	Beginning Balance	Additions	Dispositions	Ending Balance	Accumulated Amortization and Depreciation
Toll Facility Franchise	$ 205,263,668	$ -	$ -	$ 205,263,668	$ (62,312,185)
Improvements and Equipment	14,864,606	2,361,293	480,409	16,745,490	(11,257,447)
Total	$ 220,128,274	$ 2,361,293	$ 480,409	$ 222,009,158	$ (73,569,632)

See accompanying notes to the Franchise Agreement Schedules.

91 Express Lanes Fund
(An Enterprise Fund of the Orange County Transportation Authority)
Schedule of Available Cash Flow - Base Return on Investment
For the Year Ended June 30, 2011

Total Revenues:		
Gross Tolls	$	41,245,590
Interest on Reserves		80,856
Interest on Cash Balances/Investment		677,595
Investment Gain on Derivative Instruments		10,724,981
Other Income		354,298
Total Revenues		53,083,320
Operating Costs:		
Management and Operational Services		6,483,400
Administrative Overhead		1,683,269
Other Operating Expenses		152,334
Insurance Claims and Premiums		333,268
Professional Services and Fees		3,809,813
General and Administrative		596,084
Net Operating Reserve Fund and Major Maintenance Reserve Fund Contributions		25,681
Total Operating Costs		13,083,849
Capital Costs:		
Capital Acquisition Costs		2,361,293
Net Reserve Fund and Supplemental Reserve Fund Contributions/(Distributions)		53,650
Total Capital Costs		2,414,943
Total Costs		15,498,792
Available Cash Flow, current period		37,584,528
Base Return Rate, current period		17%
Present Value of Available Cash Flow at Base Return Rate, current period		3,286,937
Cumulative present value of Available Cash Flow retained by OCTA as Base Return on Investment, beginning of period, as restated		47,385,678
Cumulative present value of Available Cash Flow, end of period	$	50,672,615
Available Cash Flow, current period	$	37,584,528
Change in working capital, current period		(837,701)
Other non-cash operating costs, current year		142,335
Available Cash Flow, current period, calculated on the cash basis	$	36,889,162

See accompanying notes to the Franchise Agreement Schedules.

91 Express Lanes Fund
(An Enterprise Fund of the Orange County Transportation Authority)
Schedule of Return on Investment
For the Year Ended June 30, 2011

		Base Return on Investment
Cumulative present value of Available Cash Flow, end of period	$	50,672,615
Less: Capital Cost at acquisition		(205,263,668)
Base Net Present Value and Total Net Present Value, respectively, end of period	$	(154,591,053)
Cumulative present value of Available Cash Flow retained by OCTA, beginning of period, as restated	$	47,385,678
Present value of Available Cash Flow retained by OCTA, current period		3,286,937
Cumulative present value of Available Cash Flow retained by OCTA, end of period	$	50,672,615

See accompanying notes to the Franchise Agreement Schedules.

91 Express Lanes Fund
(An Enterprise Fund of the Orange County Transportation Authority)
Schedule of Project Funds Distribution and Reconciliation of Cash Balances
For the Year Ended June 30, 2011

		Retained by OCTA		Paid to Caltrans		
	Available Cash Flow	Base Return	Incentive Return	Variable Franchise Fee	Excess Franchise Fee	Total
Balances, beginning of period, as restated	$ 47,385,678	$ 47,385,678	$ -	$ -	$ -	$ 47,385,678
Available Cash Flow, current period	3,286,937	3,286,937	-	-	-	3,286,937
Balances, end of period	$ 50,672,615	$ 50,672,615	$ -	$ -	$ -	$ 50,672,615

Reconciliation of Cash Balances:

Cash, beginning of period	$ 41,241,252
Total Revenues	53,083,320
Total Operating Costs	(13,083,849)
Less:	
Capital Costs	(2,361,293)
Interest Expense	(10,080,363)
Payment of Long-term Debt	(4,740,000)
Investment Gain on Derivative Instruments	(10,724,981)
Amortization of Premium on Toll Road Revenue Refunding Bonds	(252,542)
Increase in Capital Reserves	(53,650)
Payment on Advances from Other Funds	(9,865,561)
Payment on termination of derivative instrument	(4,821,334)
Transfers to Other Funds	(884,318)
Add:	
Accrued Interest on Subordinated Debt due to Other OCTA funds	323,831
Amortization of Deferred Amount on Refunding of Taxable Debt	1,067,806
Amortization of Cost of Issuance on Toll Road Revenue Refunding Bonds	142,335
Other changes in Assets and Liabilities	(7,635,319)
Cash, end of period	$ 31,355,334

See accompanying notes to the Franchise Agreement Schedules.

91 Express Lanes Fund
(An Enterprise Fund of the Orange County Transportation Authority)
Schedule of Changes in Reserve Balances
For the Year Ended June 30, 2011

Description:	Beginning Balance	Contributions	Distributions	Ending Balance	Interest Earned
Operating:					
Major Maintenance Reserve Fund	$ 10,115,684	$ 19,472	$ -	$ 10,135,156	$ 19,207
Operating Reserve Fund	3,225,990	6,209	-	3,232,199	6,125
Capital:					
Reserve Fund	12,870,958	27,067	-	12,898,025	28,012
Supplemental Reserve Fund	12,641,123	26,583	-	12,667,706	27,512
Total	$ 38,853,755	$ 79,331	$ -	$ 38,933,086	$ 80,856

See accompanying notes to the Franchise Agreement Schedules.

1. Basis of Presentation

The accompanying schedules have been prepared in accordance with Section 3.6(b) of the Franchise Agreement between the California Private Transportation Company, L.P. (CPTC) and the State of California Department of Transportation (Caltrans). On January 3, 2003, the Orange County Transportation Authority (OCTA) purchased from the CPTC its interest in the Franchise Agreement for a toll facility on a 10-mile segment of the Riverside Freeway/State Route (SR) 91 between Interstate 15 and the Costa Mesa Freeway/SR 55.

These schedules are not intended to be a presentation in conformity with accounting principles generally accepted in the United States; however, certain financial information has been derived from the audited financial statements of the 91 Express Lanes Fund, an enterprise fund of the Orange County Transportation Authority which accounts for the toll facility operations. The accompanying schedules have been prepared using the accrual basis of accounting, except for interest expense and depreciation and amortization expense, which are not included in operating costs, and have been reconciled to the cash basis of accounting where appropriate.

Available Cash Flow

Available Cash Flow, as defined by the Franchise Agreement, is Total Revenues minus Operating Costs and Capital Costs, as defined, for a Fiscal Year. A reconciliation of Available Cash Flow, calculated using the accrual basis of accounting, to Available Cash Flow, calculated using the cash basis of accounting, has been presented in accordance with the Franchise Agreement. Available Cash Flow may be retained by OCTA, as successor interest to CPTC, until such time as the Base Net Present Value, as defined, is zero or greater, after which OCTA must pay a portion of these excess amounts to Caltrans as franchise fees. The present value of Available Cash Flow is calculated as of the acceptance date of the toll facility, December 1995, discounted at the Base Return Rate.

Base Return Rate

The Base Return Rate, as defined by the Franchise Agreement, is 17% adjusted annually by 20% of the increase in the average yield of five-year United States Treasury securities between November 1995 (month preceding acceptance date of the toll facility) and the last month of each fiscal year following the acceptance date, if applicable. No adjustment was made to the Base Return Rate for the year ended June 30, 2011.

Incentive Return Rate

As defined by the Franchise Agreement, Incentive Return Rate represents the Base Return Rate plus an increase, if Annual Peak Hour Vehicle Occupant Volume for the current period exceeds the Base Peak Hour Vehicle Occupant Volume, which represents the average levels experienced during the first two years of operations (1996 and 1997) of 13,358.

Annual Peak Hour Vehicle Occupant Volume is the product of multiplying the Peak Hour Vehicle Count and the Estimate of Average Vehicle Occupants. The Peak Hour Vehicle Count is defined as the total number of vehicles passing through the Combined Transportation Facility during the 50th busiest hour of the period, and the Estimate of Average Vehicle Occupants is the average number of persons per vehicle. The Peak Hour Vehicle Count is determined by OCTA, as calculated by its contracted operator. The Estimate of Average Vehicle Occupants is calculated by OCTA's contracted operator.

OCTA has elected to use the Base Rate of Return as specified in the Franchise Agreement. As such, the calculation of the Annual Peak Hour Vehicle Occupant Volume and Incentive Return Rate for the current period has not been included in the schedules.

2. Summary of Significant Accounting Policies

Capital Costs

Capital Costs, as defined by the Franchise Agreement, includes costs related to the study, design, development, construction, acquisition, installation, modification, repair, reconstruction, replacement, and rehabilitation of the toll facility, as well as OCTA's continued compliance with the terms of the Franchise Agreement, as defined. Leasehold improvements and equipment include the costs to construct the electronic toll and traffic management system (ETTM) replacement, which identifies and reports traffic statistics generated from customer travel through the toll facility, and the costs to acquire transponders, which are electronic tags issued to customers for individual toll tracking by the ETTM.

Capital Costs at acquisition represents OCTA's purchase price of $207,500,000 for the toll facility interest, net of $2,236,332 in adjustments for certain assets acquired and the assumption of certain liabilities at the acquisition date.

3. Toll Road Revenue Refunding Bonds

On January 3, 2003, OCTA acquired certain restricted investments set aside for capital maintenance and debt service coverage in accordance with certain debt indenture requirements. 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 refinance the $135,000,000 taxable 7.63% Senior Secured Bonds and to reimburse OCTA for a portion of its prior payment of the costs of acquiring the Toll Road and certain other property and interests associated with the Toll Road. The Series 2003-A Bonds were issued as fixed rate bonds, the Series 2003-B-1 Bonds and the Series 2003-B-2 Bonds were issued as adjustable rate bonds.

On November 24, 2008, OCTA remarketed $100,000,000 in Toll Road Revenue Refunding Bonds (91 Express Lanes) Series 2003-B-1 and Series 2003-B-2 (collectively the "Series 2003-B Bonds"). The Series 2003-B Bonds were purchased by the Orange County Investment Pool (OCIP). 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 OCIP Rate, or 3.85%. The Series 2003-B Bonds were subject to mandatory tender for repurchase by or for the benefit of OCTA on December 19, 2010. On December 20, 2010, OCTA entered into a new transaction with OCIP for the Series 2003-B Bonds at a 1.55% rate. The 2003-B Bonds have mandatory tender date of August 15, 2013.

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 in connection with its $195,265,000 Toll Road Revenue Refunding Bonds. $95,265,000 was issued on a fixed rate basis and $100,000,000 was issued on a variable rate basis. The parity swaps were entered into 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 (LBCB) 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. On October 2, 2008, OCTA provided a Notice of Event of Default and Reservation of Rights letter to Lehman Brothers Special Financing and LBCB regarding the investment rating downgrade and missed counterparty payments. Since LBCB's Event of Default, OCTA had not remitted payment to LBCB as part of the swap agreement.

In February 2009, LBCB changed its name to Woodlands Commercial Bank (Woodlands). The net amount owed between OCTA and LBCB/Woodlands totaled approximately $6.6 million through February 2011. On March 15, 2011, OCTA terminated the Series 2003-B-1 swap and remitted the net amount owed to the counterparty for unpaid swap payments.

4. Reserves

Section 9.7 of the Franchise Agreement allows for the establishment of limited cash reserves for major maintenance, debt service, capital improvements and working capital needs. Pursuant to the 2003 Toll Road Revenue Refunding Bonds Master Indenture of Trust, the following four reserve funds were created:

- *Reserve Fund* – The balance in the Reserve Fund is required to be at least equal to the Reserve Fund Requirement. As of the date of issuance of the Series 2003 Bonds, and for the fiscal year ending June 30, 2011, the Reserve Fund Requirement of $12,634,792 has been satisfied.

- *Supplemental Reserve Fund* – The Supplemental Reserve Fund was initially funded with $6,000,000 from the proceeds of the issuance of the Series 2003 Bonds. Commencing January 2006, OCTA shall deposit into the Supplemental Reserve Fund $100,000 per month until the Supplemental Reserve Fund equals $12,634,792. The Supplemental Reserve Fund balance requirement has been satisfied. The Supplemental Reserve Fund may be released to OCTA if one of two conditional requirements are met: (i) for the two consecutive 12 month periods following the completion of the General Purpose Lanes Capacity Project, the aggregate amount of the Adjusted Net Toll Revenues is not less than 1.75 times Annual Debt Service; or (ii) as of July 1, 2017, the aggregate amount of the Adjusted Net Toll Revenues is not less than 2.5 times Annual Debt Service for the prior two Fiscal Years and the aggregate amount of the projected Adjusted Net Toll Revenues is not less than 2.0 times Annual Debt Service for the next two Fiscal Years based upon an opinion from a Traffic Consultant.

- *Major Maintenance Reserve Fund* – OCTA shall deposit into the Major Maintenance Reserve Fund $100,000 per month commencing January 2004 through December 2006 and $200,000 per month commencing January 2007 through December 2009 or until the Major Maintenance Reserve Fund equals $10,000,000. The Major Maintenance Reserve Fund shall be used for the payment of Capital Expenditures. The Major Maintenance Reserve Fund balance requirement has been satisfied.

- *Operating Reserve Fund* – OCTA shall deposit into the Operating Reserve Fund $115,000 per month commencing January 2004 through December 2006, or until the Operating Reserve Fund equals $2,750,000. The Operating Reserve Fund shall be used for the payment of Current Expenses. The Operating Reserve Fund balance requirement has been satisfied.

Reserve fund contributions and distributions have been included in Operating Costs and Capital Costs in the calculation of Available Cash Flow for purposes of determining Base Return on Investment and Reasonable Return on Investment.

Additional information on debt and reserves may be found in OCTA's Comprehensive Annual Financial Report, which may be obtained from its executive office at 550 South Main Street, Orange, CA 92868.

5. Operator Agreement

In connection with the purchase of the toll facility interest, OCTA entered into an operating agreement with Cofiroute Global Mobility, subsequently Cofiroute USA, LLC (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. 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 June 27, 2011, the Board of Directors approved a subsequent amendment which authorized the addition of two five-year extension options beginning July 1, 2011 through June 30, 2016 for the first extension term and beginning July 1, 2016 through June 30, 2021 as the second extension term. Cofiroute is responsible for the day-to-day operations of the toll facility.

6. Amounts Paid to Governmental Entities

In accordance with Exhibit J of the Franchise Agreement, OCTA is to disclose amounts paid to governmental agencies. For the year ended June 30, 2011, OCTA paid $398,317 to the California Highway Patrol for police services and $80,763 to Caltrans for repairs and other road maintenance costs.

7. Correction of Error

During the prior 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. 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, the associated investment loss on derivative instruments of $(4,781,280) for fiscal year ended June 30, 2010 should have been included in the Schedule of Available Cash Flow – Base Return on Investment. The present value of this adjustment of $(489,229) is calculated as of the acceptance date of the toll facility in December 1995, discounted at the Base Return Rate.

The following is a summary of the effect of this adjustment on the cumulative present value of Available Cash Flow retained by OCTA as Base Return on Investment:

	Cumulative Present Value of Available Cash Flow
End of period, as previously reported	$ 47,874,907
Present Value of Adjustment	(489,229)
Beginning of period, as restated	$ 47,385,678