Streets & Roads

Freeway Construction Workers

MACIAS GINI & COMPANY LLP

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Orange County Transportation Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority (Authority) as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 56 through 60, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Macias, Gini & Company LLP

Certified Public Accountants

Los Angeles, California
October 15, 2004

Management's Discussion and Analysis (unaudited)

As management of the Orange County Transportation Authority (OCTA), we offer readers of OCTA's financial statements this narrative overview and analysis of OCTA's financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information on financial performance presented here in conjunction with the transmittal letter on pages iii-xvii and OCTA's financial statements that begin on page 14. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total net assets of OCTA were $943,651 and consisted of net assets invested in capital assets, net of related debt, of $385,988; restricted net assets of $589,863; and unrestricted net assets of ($32,200).

- Unrestricted net assets (deficit) is comprised of ($305,530) from governmental activities and $273,330 from business-type activities. The amount from governmental activities represents liabilities in excess of assets. This results primarily from the recording of debt issued for Measure M projects, the assets for which title vests with the California Department of Transportation (Caltrans). Accordingly, OCTA does not have sufficient current resources on hand to cover current and long-term liabilities; however, future Measure M sales taxes are pledged to cover Measure M debt service payments when made.

- Net assets increased $102,872 during fiscal 2004. The increase in net assets from governmental activities of $111,996 was attributable to tax revenues in excess of net governmental program costs; the decrease in net assets from business-type activities of $9,124 was related to higher operating costs generated by an increase in service combined with a decrease in investment earnings.

- Total capital assets, net of accumulated depreciation, were $569,640 at June 30, 2004, representing a decrease of $20,570, or 3%, over June 30, 2003. The decrease in capital assets was primarily resulted from the sale of land and building held for resale sold during the year.

- OCTA's governmental funds reported combined ending fund balances of $746,233, an increase of $50,467 compared to fiscal 2003. Approximately 73% of the governmental fund balances represent Local Transportation Authority amounts available for the Measure M program, including debt service.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of OCTA's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

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

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

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

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

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

The proprietary fund financial statements can be found on pages 20-24 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside OCTA. Fiduciary funds are not reflected in the government-wide financial statements, as the resources of those funds are not available to support OCTA's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds. The fiduciary fund financial statements can be found on pages 25-26 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-55 of this report.

Other information is in addition to the basic financial statements and accompanying notes. This report also presents certain required supplementary information concerning OCTA's budgetary results for the General fund and major special revenue funds with appropriated budgets. Required supplementary information can be found on pages 56-59 of this report.

The combining statements referred to earlier relating to nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. This other supplementary information can be found on pages 61-68 of this report.

Government-wide Financial Analysis

As noted previously, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2004, OCTA's assets exceeded liabilities by $943,651, a $102,872 increase from June 30, 2003. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of OCTA's governmental and business-type activities.

Approximately 41%, compared to 43% in 2003, of OCTA's net assets reflect its investment in capital assets (i.e., toll facility franchise; land; buildings; machinery, equipment and furniture; transit vehicles; and transponders), less any related outstanding debt used to acquire these assets. OCTA uses these capital assets to provide transportation and transit services to the residents and business community of Orange County. The decrease of $21,712 in net assets invested in capital assets, net of related debt, from governmental activities resulted from the sale of land and building held for resale representing excess rights-of-way acquired. The increase of $48,172 in net assets invested in capital assets, net of related debt, from business-type activities was primarily related to the refinance of the $135,000 taxable Senior Secured Bonds related to the purchase of the 91 Express Lanes (see Note 11 in the Notes to the Financial Statements).

The most significant portion of OCTA's net assets represents resources subjected to external restrictions on how they may be used. Restricted net assets represented 63% and 57% of the total net assets at June 30, 2004 and 2003, respectively. Restricted net assets from governmental activities increased $111,291 as a result of the sale of land and building held for resale, an increase in Sales taxes and an increase in monies set aside for debt service. The decrease in restricted net assets from business-type activities of $2,497 related to the decrease in bond reserves due to the refinance of the $135,000 taxable Senior Secured Bonds.

Unrestricted net assets represent the portion of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. Unrestricted net assets from governmental activities changed from a $327,947 deficit at June 30, 2003 to a $305,530 deficit at June 30, 2004. This deficit results primarily from the recording of debt issued for Measure M projects, the assets for which title vests with Caltrans. Accordingly, OCTA does not have sufficient current resources on hand to cover current and long-term liabilities; however, future Measure M sales taxes are pledged to cover Measure M debt service payments when made. The decrease of $54,799 in unrestricted net assets from business-type activities was attributable to the refinance of the taxable debt associated with the purchase of the 91 Express Lanes.

Table 1
Orange County Transportation Authority
Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	$ 752	$ 728	$ 322	$ 284	$ 1,074	$ 1,012
Restricted assets	78	77	23	25	101	102
Land held for resale	22	-	-	-	22	-
Capital assets	139	161	431	430	570	591
Total assets	991	966	776	739	1,767	1,705
Current liabilities	89	119	28	36	117	155
Long-term liabilities	502	559	204	150	706	709
Total liabilities	591	678	232	186	823	864
Net assets:						
Invested in capital assets, net of related debt	139	161	247	199	386	360
Restricted	567	455	23	25	590	480
Unrestricted (deficit)	(306)	(328)	274	329	(32)	1
Total net assets	$ 400	$ 288	$ 544	$ 553	$ 944	$ 841

OCTA's total revenues increased by 3%, while the total cost of all programs increased by 6%. Approximately 47% of the costs of OCTA's programs were paid by those who directly benefited from the programs or by other governments that subsidized certain programs with grants and contributions. Taxes and investment earnings ultimately financed a significant portion of the programs' net costs. The analysis below separately considers the operations of governmental and business-type activities.

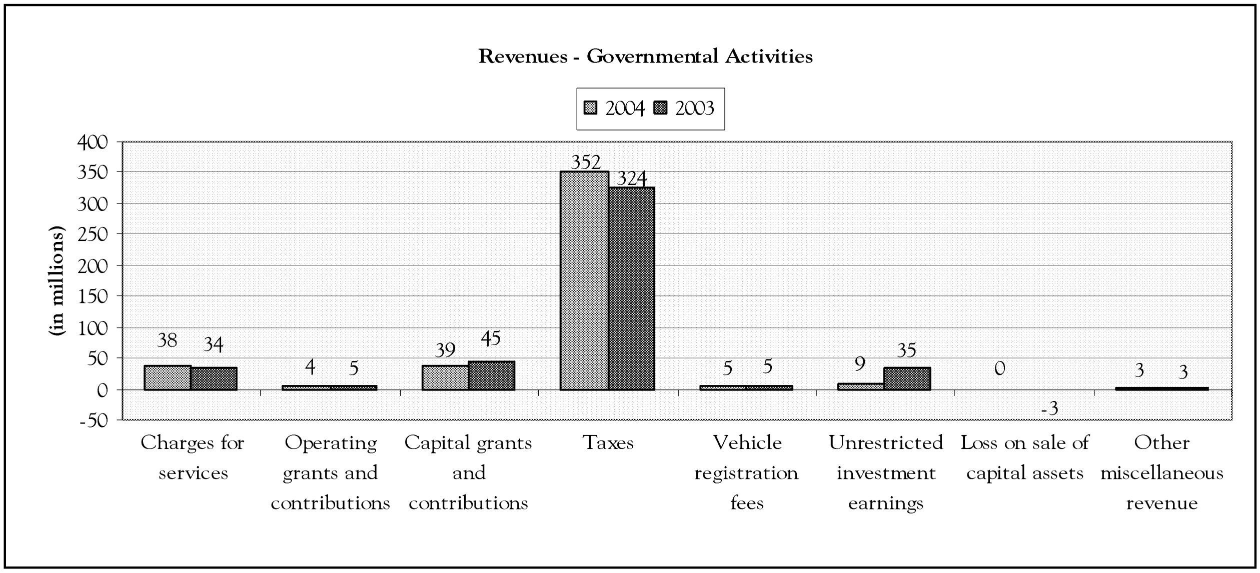
Table 2
Orange County Transportation Authority
Changes in Net Assets
(in millions)

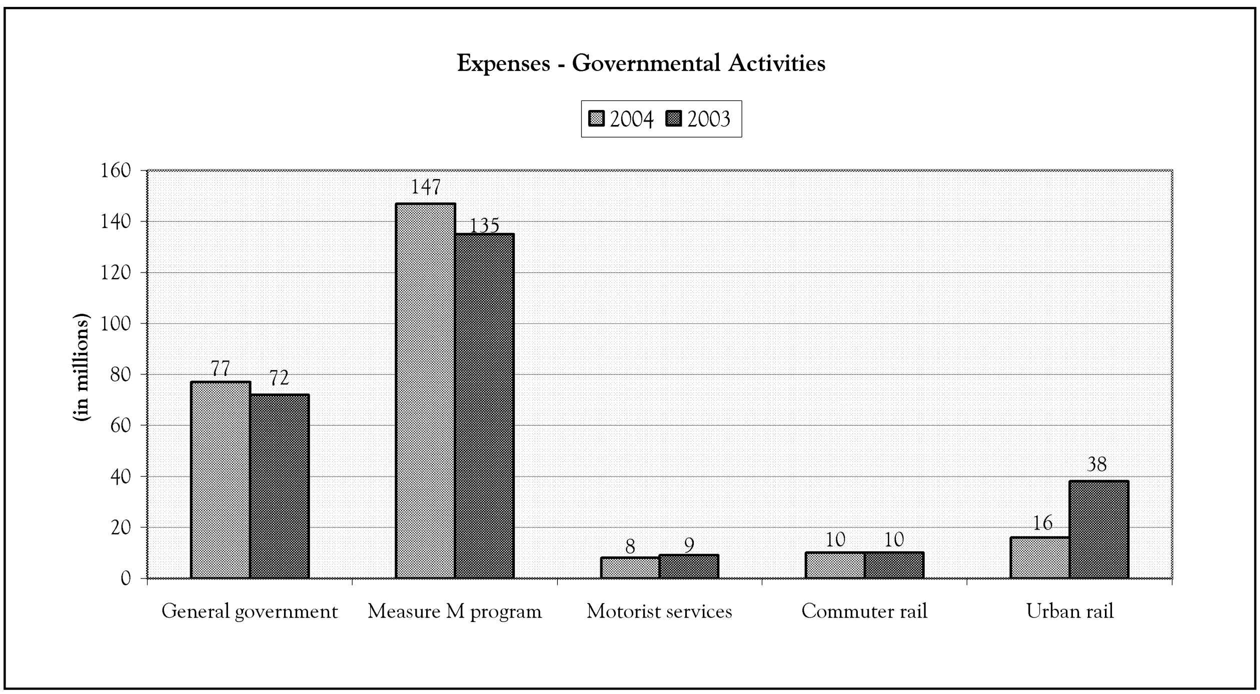
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	$ 38	$ 34	$ 84	$ 64	$ 122	$ 98
Operating grants and contributions	4	5	55	56	59	61
Capital grants and contributions	39	45	23	14	62	59
General revenues:						
Taxes	352	324	8	7	360	331
Vehicle registration fees	5	5	-	-	5	5
Unrestricted investment earnings	9	35	3	16	12	51
Loss on sale of capital assets	-	(3)	-	-	-	(3)
Other miscellaneous revenue	3	3	-	1	3	4
Total revenues	450	448	173	158	623	606
Expenses:						
General government	77	72	-	-	77	72
Measure M program	147	135	-	-	147	135
Motorist services	8	9	-	-	8	9
Commuter rail	10	10	-	-	10	10
Urban rail	16	38	-	-	16	38
Fixed route	-	-	199	185	199	185
Paratransit	-	-	29	23	29	23
Tollroad	-	-	34	17	34	17
Total expenses	258	264	262	225	520	489
Increase (decrease) in net assets before transfers	192	184	(89)	(67)	103	117
Transfers	(80)	(67)	80	67	-	-
Increase in net assets	112	117	(9)	-	103	117
Net assets—beginning of year	288	171	553	553	841	724
Net assets—end of year	$ 400	$ 288	$ 544	$ 553	$ 944	$ 841

Governmental Activities

Total revenues for OCTA's governmental activities increased $690 primarily due to an increase in sales taxes and donation of land from Caltrans offset by a decrease in investment earnings as a result of lower interest rates and an unrealized loss on investments and a decrease in capital grant reimbursements for the urban rail project. Total expenses decreased $6,596 primarily due to the decrease in the urban rail project costs and a increase in costs attributable to the Measure M program.

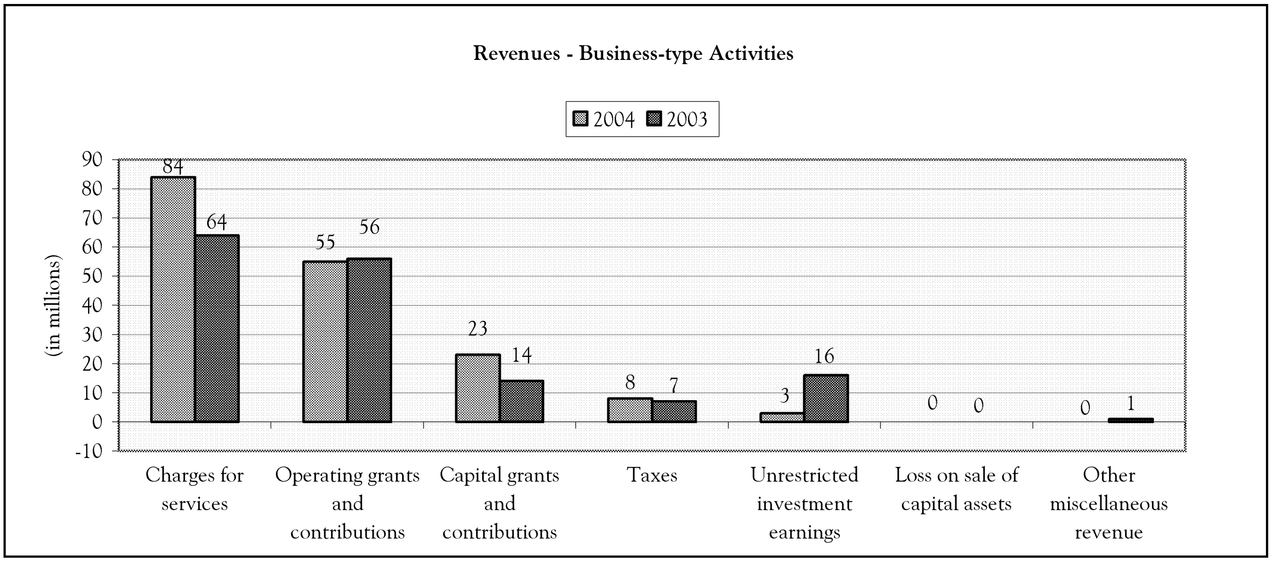
- Net assets for governmental activities increased $111,996, or 39%. This compares to a $117,819 increase in net assets in 2003.

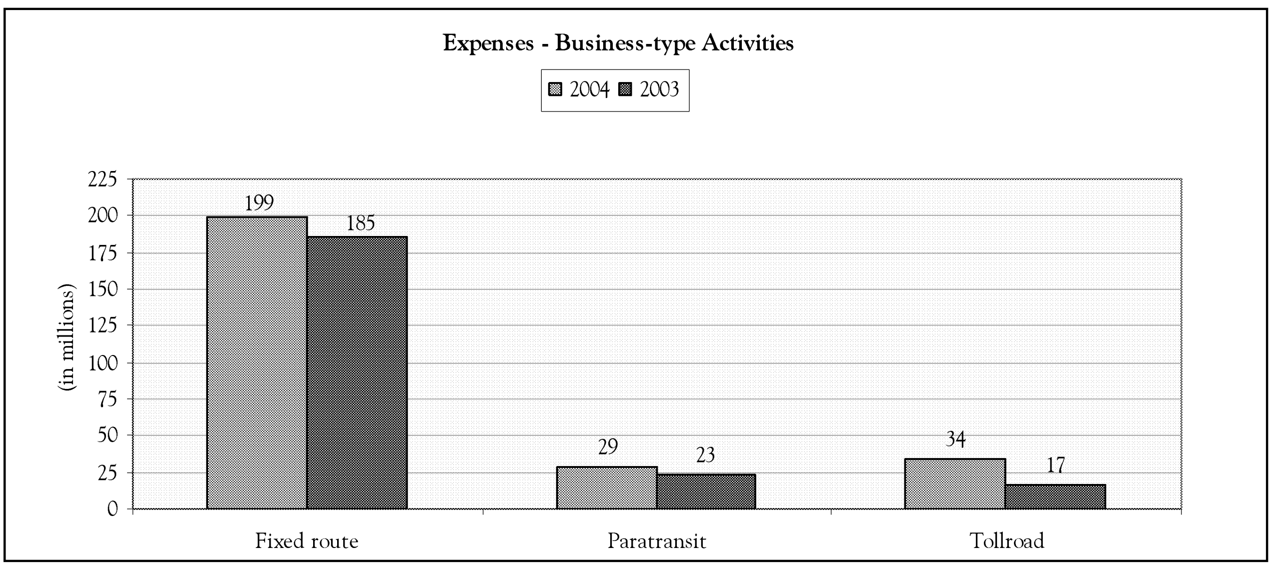




Business-type Activities

- Revenues of OCTA's business-type activities increased $14,951 primarily due a full year of operations on the 91 Express Lanes offset by an unrealized loss on investments. Total expenses increased $37,113 primarily due to a full year of operations on the 91 Express Lanes and an increase in fixed route and paratransit service.





Financial Analysis of OCTA's Funds

As of June 30, 2004, OCTA's governmental funds reported combined ending fund balances of $746,233, an increase of $50,467 compared to 2003. Approximately 22%, or $166,119, of this total amount constitutes unreserved fund balance; however, $146,294 of the unreserved fund balance is related to commuter rail. The remainder of fund balance is reserved to indicate that it is not available for new spending because of the following commitments:

- $87,999 to liquidate contracts and purchase orders of the current and prior periods;
- $115,576 to pay debt service on Measure M sales tax revenue bonds issued in prior years to accelerate funding for Measure M projects;
- $369,224 for transportation programs primarily related to Measure M projects;
- $7,138 for motorist services; and
- $177 to make payments to cities for local transit projects and planning required under the State of California Transportation Development Act (TDA).

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

- A decrease of $1,059 in the General fund;
- An increase of $37,765 in the LTA Special Revenue fund related to a decrease in Measure M project costs and increasing sales tax revenues;
- An increase of $3,766 in the LTF Special Revenue fund;
- An increase of $9,965 in the CURE Special Revenue fund;
- An increase of $47 in the Rail Capital Project fund;
- An increase of $1,058 in the LTA Debt Service fund; and
- A decrease of $1,075 in the nonmajor governmental funds.

OCTA's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the enterprise funds were $240,984 at June 30, 2004 compared to $305,961 at June 30, 2003. Other factors concerning the finances of these major proprietary funds have already been addressed in the discussion of OCTA's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in a $2,398 increase in expected revenues and were primarily due to anticipated contributions from other agencies relating to a Major Investment Study (MIS) of multi-modal alternatives for improving travel between Riverside and Orange Counties. An increase in expenditures of $5,274 for general government costs is the result of a cooperative agreement with the Riverside County Transportation Commission and an MIS on Interstate 405. Actual revenues were less than the final amended budget by $4,578 primarily due to contributions from other agencies not received due to the delayed projects mentioned below. Actual expenditures were less than the final amended budget by $3,536. This is primarily due to several projects budgeted in the current fiscal year that have been delayed and were re-budgeted in fiscal year 2005.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2004, OCTA had $569,640, net of accumulated depreciation, invested in a broad range of capital assets including: the 91 Express Lanes toll facility franchise, transit vehicles, land, buildings, and machinery, equipment and furniture (Table 3). The total decrease in OCTA's capital assets for 2004 was 3%, which was comprised of a 14% decrease for governmental activities and a .3% increase for business-type activities.

Table 3
Orange County Transportation Authority
Capital Assets, net of depreciation and amortization
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	$ 134	$ 142	$ 43	$ 43	$ 177	$ 185
Buildings	2	15	27	27	29	42
Transit vehicles	-	-	116	127	116	127
Machinery, equipment and furniture	2	3	22	22	24	25
Toll facility franchise	-	-	194	201	194	201
Construction in progress	1	1	28	10	29	11
Totals	$ 139	$ 161	$ 430	$ 430	$ 569	$ 591

Major capital asset additions during 2004 included:

- $16,377 in construction in progress related to the construction of a fourth transit base in Santa Ana;
- $2,113 in construction in progress related to various 91 Express Lanes projects;
- $2,294 for the purchase of 30 paratransit vehicles;
- $5,061 for bus rehabilitation projects;
- $2,970 for purchase of computer and communication equipment;
- $5,219 for bus base building improvements.

Major capital asset deletions during 2004 included:

- $12,449 disposal of revenue vehicles;
- $10,045 construction of Laguna Niguel/Mission Viejo Rail Station transferred to the City of Laguna Niguel;
- $12,865 sale of Pacific Inland Bank acquired as right-of-way.

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

OCTA has entered into many construction contracts including: $22,736 for the I-5 far north project, $31,775 for the I-405/SR-55 transitway project and $16,856 for the Santa Ana bus base.

Debt Administration

As of June 30, 2004, OCTA had $749,580 in bonds, commercial paper notes and certificates of participation outstanding compared to $755,170 at June 30, 2003, as presented in Table 4.

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

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Sales tax revenue bonds	$ 500	$ 557	$ -	$ -	$ 500	$ 557
Commercial paper notes	47	53	-	-	47	53
Certificates of participation	-	-	7	10	7	10
Taxable bonds	-	-	-	135	-	135
Revenue refunding bonds	-	-	195	-	195	-
Totals	$ 547	$ 610	$ 202	$ 145	$ 749	$ 755

OCTA retired $5,800 in commercial paper notes in August 2003.

OCTA maintains a "AA+" rating from Standard & Poor's, a "AA" rating from Fitch and a "Aa2" rating from Moody's for its Measure M 1st Senior Sales Tax Revenue Bonds; a "AA-" rating from Standard & Poor's, an "AA-" rating from Fitch and a "Aa3" rating from Moody's for its Measure M 2nd Senior Sales Tax Revenue Bonds; and an "A1" rating from Moody's for its certificates of participation. As part of OCTA's acquisition of the 91 Express Lanes, OCTA assumed $135,000 in Senior Secured Taxable Bonds. These bonds were refinanced in November 2003 with $195,256 tax-exempt bonds. The Toll Road Revenue Refunding Bonds (91 Express Lanes) have ratings of "Aa2" by Moody's, "A-" from Fitch, and "A-" by Standard and Poors.

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

Economic and Other Factors

OCTA is committed to providing coordinated, efficient and accountable transportation planning and services within Orange County. Accordingly in 2002, OCTA's Board of Directors approved 10 strategic initiatives to help guide freeway, street, bus and rail projects in Orange County over the next decade. The initiatives are designed to respond to public input, assure quicker project delivery, and provide transportation improvements for travel both in Orange County and our neighboring counties.

These 10 Initiatives have been incorporated in OCTA's Comprehensive Business Plan (CBP), which is updated annually in response to the ever-changing social, political and economic environment. The CBP is a business planning tool designed to assist OCTA in implementing its strategic goals and objectives and lays the foundation for future financial planning for the annual budget process.

OCTA adopted the 2005 Annual Budget on June 14, 2004. This balanced budget includes rights-of-way acquisition costs for the Garden Grove Freeway/State Route (SR) 22 project. This budget was amended in August 2004 by $395,000 to add the Garden Grove Freeway/SR 22 design build project improvements. The budget reflects the continued implementation of the 10 strategic initiatives and places an emphasis on customer service with the continuation of the "Putting Customers First" strategy. Although leading economic indicators point toward a relatively stable regional economy over the next five years, OCTA is negatively impacted by the California State budget crisis, which resulted in the delay of $124,000 of Traffic Congestion Relief Program funds for the Garden Grove Freeway/SR22 project. This suspension of funds as well as rising workers' compensation costs and increasing retirement rates, increase of 3.23% from fiscal year 2004, limit OCTA's ability to aggressively expand transportation projects in Orange County. These factors were considered in preparing OCTA's budget for the 2005 fiscal year.

Contacting OCTA's Management

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

Statement of Net Assets

(thousands)

June 30, 2004	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	$ 669,315	$ 330,457	999,772
Receivables:			
Interest	4,663	2,916	7,579
Operating grants	-	20,964	20,964
Capital grants	6,918	3,413	10,331
Other	152	3,146	3,298
Internal balances	55,370	(55,370)	-
Due from other governments	14,521	5,126	19,647
Condemnation deposits	263	-	263
Inventory	-	4,889	4,889
Restricted cash and investments:			
Cash equivalents	30,400	16,149	46,549
Investments	47,712	6,793	54,505
Other assets	1,164	6,283	7,447
Land held for resale	21,711	-	21,711
Capital assets, net:			
Nondepreciable	135,112	71,469	206,581
Depreciable and amortizable	3,932	359,127	363,059
Total Assets	991,233	775,362	1,766,595
Liabilities			
Accounts payable	9,970	14,787	24,757
Accrued payroll and related items	1,704	5,612	7,316
Accrued interest payable	10,351	3,268	13,619
Claims payable	796	468	1,264
Due to other governments	18,983	157	19,140
Deferred revenue	-	3,246	3,246
Other liabilities	49	522	571
Commercial paper notes	47,400	-	47,400
Noncurrent liabilities:			
Due within one year	62,398	13,329	75,727
Due in more than one year	439,147	190,757	629,904
Total Liabilities	590,798	232,146	822,944
Net Assets			
Invested in capital assets, net of related debt	139,044	246,944	385,988
Restricted for:			
Measure M program	430,475	-	430,475
Debt service	115,576	22,942	138,518
Motorist services	7,150	-	7,150
Other	13,720	-	13,720
Unrestricted (deficit)	(305,530)	273,330	(32,200)
Total Net Assets	$ 400,435	$ 543,216	$ 943,651

See accompanying notes to the financial statements.

Statement of Activities

(thousands)

for the year ended June 30, 2004	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) and Changes in Net Assets: Governmental Activities	Net (Expense) and Changes in Net Assets: Business-type Activities	Net (Expense) and Changes in Net Assets: Total
Functions/Programs							
Primary government							
Governmental activities:							
General government	$ 76,583	$ 37,189	$ 1,748	$ 982	$ (36,664)	$ -	$ (36,664)
Measure M program	147,135	223	437	29,694	(116,781)	-	(116,781)
Motorist services	7,619	-	2,140	-	(5,479)	-	(5,479)
Commuter rail	10,463	574	-	-	(9,889)	-	(9,889)
Urban rail	15,755	-	-	8,111	(7,644)	-	(7,644)
Total governmental activities	257,555	37,986	4,325	38,787	(176,457)	-	(176,457)
Business-type activities:							
Fixed route	199,375	47,940	52,064	22,910	-	(76,461)	(76,461)
Paratransit	28,935	3,545	3,030	-	-	(22,360)	(22,360)
Tollroad	33,508	32,391	-	-	-	(1,117)	(1,117)
Taxicab administration	243	225	-	-	-	(18)	(18)
Total business-type activities	262,061	84,101	55,094	22,910	-	(99,956)	(99,956)
Total primary government	$ 519,616	$ 122,087	$ 59,419	$ 61,697	(176,457)	(99,956)	(276,413)
General revenues:							
Property taxes					-	7,846	7,846
Sales taxes					328,853	-	328,853
Vehicle registration fees					4,840	-	4,840
Motor fuel taxes					23,000	-	23,000
Unrestricted investment earnings					8,513	2,900	11,413
Other miscellaneous revenue					3,046	287	3,333
Transfers					(79,799)	79,799	-
Total general revenues and transfers					288,453	90,832	379,285
Change in net assets					111,996	(9,124)	102,872
Net assets - beginning					288,439	552,340	840,779
Net assets - ending					$ 400,435	$ 543,216	$ 943,651

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

(thousands)

June 30, 2004	General	LTA	Local Transportation	CURE	Rail Capital Project	LTA Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Assets								
Cash and investments	$ 12,034	$ 481,665	$ 17,020	$ 83,421	$ 1,022	$ 36,795	$ 35,818	$ 667,775
Receivables:								
Interest	47	2,959	8	660	61	669	249	4,653
Capital grants	368	648	-	-	5,854	-	48	6,918
Other	1	51	-	51	-	-	16	119
Due from other funds	30	1,935	-	65,410	-	-	36	67,411
Due from other governments	275	9,955	3,075	154	-	-	1,062	14,521
Condemnation deposits	-	263	-	-	-	-	-	263
Restricted cash and investments:								
Cash equivalents	-	-	-	-	-	30,400	-	30,400
Investments	-	-	-	-	-	47,712	-	47,712
Other assets	283	218	-	-	-	-	-	501
Total Assets	$ 13,038	$ 497,694	$ 20,103	$ 149,696	$ 6,937	$ 115,576	$ 37,229	$ 840,273
Liabilities and Fund Balances								
Liabilities								
Accounts payable	$ 2,495	$ 2,127	$ -	$ 366	$ 3,961	$ -	$ 838	$ 9,787
Accrued payroll and related items	1,704	-	-	-	-	-	-	1,704
Compensated absences	1,816	-	-	-	-	-	-	1,816
Due to other funds	-	36	7,279	-	1,935	-	2,006	11,256
Due to other governments	1	17,635	93	-	-	-	1,254	18,983
Deferred revenue	-	-	-	3,036	-	-	9	3,045
Other liabilities	28	21	-	-	-	-	-	49
Commercial paper notes	-	47,400	-	-	-	-	-	47,400
Total Liabilities	6,044	67,219	7,372	3,402	5,896	-	4,107	94,040
Fund Balances								
Reserved for:								
Encumbrances	8,183	74,397	-	130	1,867	-	3,422	87,999
Debt service	-	-	-	-	-	115,576	-	115,576
Transportation programs	-	356,078	12,554	-	-	-	592	369,224
Motorist services	-	-	-	-	-	-	7,138	7,138
Payments to cities	-	-	177	-	-	-	-	177
Unreserved, reported in:								
General fund	(1,189)	-	-	-	-	-	-	(1,189)
Special revenue funds	-	-	-	146,164	-	-	14,774	160,938
Capital project funds	-	-	-	-	(826)	-	7,196	6,370
Total Fund Balances	6,994	430,475	12,731	146,294	1,041	115,576	33,122	746,233
Total liabilities and fund balances	$ 13,038	$ 497,694	$ 20,103	$ 149,696	$ 6,937	$ 115,576	$ 37,229	$ 840,273

See accompanying notes to the financial statements.

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

(thousands)

June 30, 2004

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

Total fund balances (page 16)	$	746,233
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		139,044
Land held for resale is not a financial resource and therefore is not reported in the funds.		21,711
Earned but unavailable revenue is not available to liquidate current liabilities and therefore are deferred.		3,045
Other long-term assets related to costs of issuance are not available to pay for current-period expenditures and therefore are deferred.		413
Internal service funds are used by management to charge the costs of risk management and employee health to individual funds. The assets and liabilities of the employee health administrative internal service fund are included in governmental activities in the statement of net assets.		69
Interest payable on bonds outstanding are not due and payable in the current period and therefore are not reported in the funds.		(10,351)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(499,729)
Net assets of governmental activities (page 14)	$	400,435

See accompanying notes to the financial statements.

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

(thousands)

for the year ended June 30, 2004	General	LTA	Local Transportation	CURE	Rail Capital Project	LTA Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues								
Sales taxes	$ -	$ 236,406	$ 86,405	$ -	$ -	$ -	$ 6,042	$ 328,853
Gasoline taxes	-	-	-	-	-	-	23,000	23,000
Vehicle registration fees	-	-	-	-	-	-	4,840	4,840
Fines	152	-	-	8	-	-	-	160
Contributions from other agencies	2,116	7,769	1	-	-	-	2,753	12,639
Charges for services	37,087	-	-	-	-	-	-	37,087
Interest	87	1,617	465	1,143	5	1,747	408	5,472
Federal capital assistance grants	-	474	-	-	8,111	-	-	8,585
Miscellaneous	53	227	1	3,543	-	-	9	3,833
Total revenues	39,495	246,493	86,872	4,694	8,116	1,747	37,052	424,469
Expenditures								
Current:								
General government:								
Salaries and benefits	25,921	-	-	-	-	-	-	25,921
Supplies and services	17,307	20,028	1,087	10,023	15,484	239	6,767	70,935
Contributions to other local agencies	95	65,184	1,905	439	270	-	25,447	93,340
Capital outlay	322	16,601	-	-	-	-	3,822	20,745
Debt service:								
Principal payments on long-term debt	-	-	-	-	-	57,660	-	57,660
Interest on long-term debt and				-				
commercial paper	-	619	-	-	-	30,344	-	30,963
Total expenditures	43,645	102,432	2,992	10,462	15,754	88,243	36,036	299,564
Excess (deficiency) of revenues over (under) expenditures	(4,150)	144,061	83,880	(5,768)	(7,638)	(86,496)	1,016	124,905
Other financing sources (uses)								
Transfers in	3,841	534	-	15,733	7,746	88,088	4,153	120,095
Transfers out	(750)	(112,191)	(80,114)	-	(61)	(534)	(6,244)	(199,894)
Proceeds from sale of capital assets	-	5,361	-	-	-	-	-	5,361
Total other financing sources (uses)	3,091	(106,296)	(80,114)	15,733	7,685	87,554	(2,091)	(74,438)
Net change in fund balances	(1,059)	37,765	3,766	9,965	47	1,058	(1,075)	50,467
Fund balances-beginning	8,053	392,710	8,965	136,329	994	114,518	34,197	695,766
Fund balances-ending	$ 6,994	$ 430,475	$ 12,731	$ 146,294	$ 1,041	$ 115,576	$ 33,122	$ 746,233

See accompanying notes to the financial statements.

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

(thousands)

for the year ended June 30, 2004

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

Net change in fund balances - total governmental funds (page 18)	$	50,467
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(612)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(21,277)
Donations of land held for resale are not reported as revenues in governmental funds. However, they are included in the Statement of Activities.		21,889
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		3,045
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		58,547
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(24)
Internal service funds are used by management to charge the costs of risk management and employee health to individual funds. The net expense of the employee health administrative internal service fund is reported with governmental activities in the statement of activities.		(39)
Change in net assets of governmental activities (page 15)	$	111,996

See accompanying notes to the financial statements.

Statement of Fund Net Assets - Proprietary Funds

(thousands)

June 30, 2004	OCTD	91 Express Lanes	Bus Operations	Nonmajor Enterprise Fund OCTAP	Total Enterprise Funds	Internal Service Funds
	Enterprise Funds					
Assets						
Current assets:						
Cash and investments	$ 173,149	$ 13,897	$ 98,171	$ 2	$ 285,219	$ 46,778
Interest	1,220	420	885	-	2,525	401
Operating grants	20,964	-	-	-	20,964	-
Capital grants	3,413	-	-	-	3,413	-
Other	1,090	1,641	-	3	2,734	445
Due from other funds	9,259	-	-	-	9,259	-
Due from other governments	5,126	-	-	-	5,126	-
Inventory	4,889	-	-	-	4,889	-
Other assets	183	4,920	-	-	5,103	1,430
Noncurrent assets:						
Restricted cash and investments:						
Cash equivalents	2,156	13,993	-	-	16,149	-
Investments	793	6,000	-	-	6,793	-
Capital assets, net:						
Nondepreciable	71,469	-	-	-	71,469	-
Depreciable and amortizable	158,008	201,119	-	-	359,127	-
Total Assets	451,719	241,990	99,056	5	792,770	49,054
Liabilities						
Current liabilities:						
Accounts payable	13,587	1,018	23	2	14,630	340
Accrued payroll and related items	5,602	-	-	10	5,612	-
Accrued interest	137	3,131	-	-	3,268	-
Due to other funds	5,233	-	-	4	5,237	-
Claims payable	-	-	-	-	-	4,316
Due to other governments	157	-	-	-	157	-
Deferred revenue	25	3,221	-	-	3,246	-
Other liabilities	7	515	-	-	522	-
Long-term liabilities	7,433	3,635	-	10	11,078	-
Noncurrent liabilities:						
Due to other funds	-	60,177	-	-	60,177	-
Claims payable	-	-	-	-	-	11,983
Long-term liabilities	5,388	172,585	-	-	177,973	-
Total Liabilities	37,569	244,282	23	26	281,900	16,639
Net Assets						
Invested in capital assets, net of related debt	222,045	24,899	-	-	246,944	-
Restricted	2,949	19,993	-	-	22,942	-
Unrestricted	189,156	(47,184)	99,033	(21)	240,984	32,415
Total Net Assets (Deficit)	$ 414,150	$ (2,292)	$ 99,033	$ (21)	$ 510,870	$ 32,415

See accompanying notes to the financial statements.

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

(thousands)

June 30, 2004

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

Total net assets (page 20)	$	510,870
Internal service funds are used by management to charge the costs of risk management and employee health to individual funds. The assets and liabilities of the general liability, workers' compensation, and employee health coach operators and maintenance internal service funds are included in business-type activities in the statement of net assets.		32,346
Net assets of business-type activities (page 14)	$	543,216

See accompanying notes to the financial statements.

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

(thousands)

June 30, 2004	OCTD (Enterprise Funds)	91 Express Lanes (Enterprise Funds)	Bus Operations (Enterprise Funds)	Nonmajor Enerprise Fund OCTAP (Enterprise Funds)	Total Enterprise Funds (Enterprise Funds)	Internal Service Funds
Operating revenues:						
User fees and charges	$ 42,981	$ 32,375	$ -	$ -	$ 75,356	$ -
Permit fees	-	-	-	225	225	-
Charges for services	-	-	-	-	-	21,834
Total operating revenues	42,981	32,375	-	225	75,581	21,834
Operating expenses:						
Wages, salaries and benefits	100,644	-	-	178	100,822	-
Maintenance, parts and fuel	17,576	-	-	-	17,576	-
Purchased transportation services	30,329	5,147	-	-	35,476	-
Administrative services	27,415	1,527	-	53	28,995	612
Other	1,920	101	1	1	2,023	53
Insurance claims	-	420	-	-	420	25,393
Professional services	16,361	3,857	121	5	20,344	462
General and administrative	4,206	1,555	-	8	5,769	4
Depreciation and amortization	24,852	8,422	-	-	33,274	-
Total operating expenses	223,303	21,029	122	245	244,699	26,524
Operating income (loss)	(180,322)	11,346	(122)	(20)	(169,118)	(4,690)
Nonoperating revenues (expenses):						
Gas tax exchange	23,000	-	-	-	23,000	-
Federal operating assistance grants	32,094	-	-	-	32,094	-
Property taxes allocated by the County of Orange	7,846	-	-	-	7,846	-
Investment earnings	814	647	1,388	-	2,849	51
Interest expense	(402)	(12,479)	-	-	(12,881)	-
Other	8,650	61	-	-	8,711	266
Total nonoperating revenues (expenses)	72,002	(11,771)	1,388	-	61,619	317
Income (loss) before contributions and transfers	(108,320)	(425)	1,266	(20)	(107,499)	(4,373)
Capital contributions	22,910	-	-	-	22,910	-
Transfers in	99,136	-	-	13	99,149	-
Transfers out	(5,350)	-	(14,000)	-	(19,350)	-
Change in net assets	8,376	(425)	(12,734)	(7)	(4,790)	(4,373)
Total net assets - beginning	405,774	(1,867)	111,767	(14)	515,660	36,788
Total net assets (deficit) - ending	$ 414,150	$ (2,292)	$ 99,033	$ (21)	$ 510,870	$ 32,415

See accompanying notes to the financial statements.

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

(thousands)

for the year ended June 30, 2004

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

Net change in fund net assets - total enterprise funds (page 22)	$	(4,790)
Internal service funds are used by management to charge the costs of risk management and employee health to individual funds. The net revenue of the general liability, workers compensation, and employee health coach operators and maintenance internal service funds are included in business-type activities in the statement of net assets.		(4,334)
Change in net assets of business-type activities (page 15)	$	(9,124)

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

(thousands)

for the year ended June 30, 2004	Enterprise Funds OCTD	91 Express Lanes	Bus Operations	Nonmajor Enterprise Fund OCTAP	Totals	Internal Service Funds
Cash flows from operating activities:						
Receipts from customers and users	$ 40,898	$ 31,875	$ -	$ 231	$ 73,004	$ -
Receipts from interfund services provided	-	-	-	-	-	23,048
Payments to suppliers	(67,392)	(12,129)	(127)	(13)	(79,661)	-
Payments to claimants	-	-	-	-	-	(23,507)
Payments to employees	(99,823)	-	-	(178)	(100,001)	-
Payments for interfund services used	(27,415)	(1,527)	-	(53)	(28,995)	(612)
Advertising revenue	8,018	-	-	-	8,018	-
Miscellaneous	583	(236)	-	-	347	-
Net cash provided by (used for) operating activities	(145,131)	17,983	(127)	(13)	(127,288)	(1,071)
Cash flows from noncapital financing activities:						
Gas tax exchange received	23,000	-	-	-	23,000	-
Federal operating assistance grants received	46,372	-	-	-	46,372	-
Property taxes received	7,846	-	-	-	7,846	-
Transfers in	99,639	-	23,091	13	122,743	-
Transfers out	(10,499)	-	(14,000)	-	(24,499)	-
Net cash provided by (used for) noncapital financing activities	166,358	-	9,091	13	175,462	-
Cash flows from capital and related financing activities:						
Federal capital grants for acquisition and construction of capital assets	38,767	-	-	-	38,767	-
Proceeds from sale of fixed assets	67	-	-	-	67	-
Net proceeds from issuance of debt	-	40,677	-	-	40,677	
Cost of issuance on long-term debt	-	(3,855)	-	-	(3,855)	-
Payment of long-term debt	(2,395)	-	-	-	(2,395)	-
Payment on advances from other funds	-	(28,528)	-	-	(28,528)	-
Interest paid	(444)	(9,802)	-	-	(10,246)	-
Acquisition and construction of capital assets	(34,559)	(2,545)	-	-	(37,104)	-
Net cash provided by (used for) capital and related financing activities	1,436	(4,053)	-	-	(2,617)	-
Cash flows from investing activities:						
Proceeds from sales and maturities of investments	2,082	-	-	-	2,082	14,000
Purchase of investments	-	(6,000)	-	-	(6,000)	-
Investment earnings/(losses)	902	296	850	-	2,048	53
Net cash provided by investing activities	2,984	(5,704)	850	-	(1,870)	14,053
Net increase (decrease) in cash and cash equivalents	25,647	8,226	9,814	-	43,687	12,982
Cash and cash equivalents at beginning of year	149,658	19,664	88,357	2	257,681	33,796
Cash and cash equivalents at end of year	$ 175,305	$ 27,890	$ 98,171	$ 2	$ 301,368	$ 46,778
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	$ (180,322)	$ 11,346	$ (122)	$ (20)	$ (169,118)	$ (4,690)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation expense	24,795	990	-	-	25,785	-
Amortization of franchise agreement	-	7,337	-	-	7,337	-
Amortization of cost of issuance	57	95	-	-	152	-
Advertising revenue	8,018				8,018	
Miscellaneous	583	(237)			346	
Insurance recoveries	-	-	-	-	-	265
Change in assets and liabilities:						
Receivables	(433)	(1,094)	-	7	(1,520)	(425)
Due from other governments	(1,650)	-	-	-	(1,650)	-
Due from other funds	-	-	-	-	-	1,250
Inventory	(724)	-	-	-	(724)	-
Other assets	-	57	-	-	57	(393)
Accounts payable	3,822	(1,105)	(5)	1	2,713	89
Accrued payroll and related items	4,928	-	-	9	4,937	-
Compensated absences	385	-	-	(10)	375	-
Claims payable	-	-	-	-	-	2,833
Due to other funds	(4,492)	-	-	-	(4,492)	-
Due to other governments	(98)	-	-	-	(98)	-
Deferred revenue	-	619	-	-	619	-
Other liabilities	-	(25)	-	-	(25)	-
Total adjustments	35,191	6,637	(5)	7	41,830	3,619
Net cash provided by (used for) operating activities	$ (145,131)	$ 17,983	$ (127)	$ (13)	$ (127,288)	$ (1,071)
Reconciliation of cash and cash equivalents to Statements of Net Assets						
Cash and investments	$ 173,149	13,897	98,171	2	285,219	46,778
Restricted cash and cash equivalents	2,156	13,993	-	-	16,149	-
Total cash and cash equivalents	175,305	27,890	98,171	2	301,368	46,778
Schedule of Noncash activities:						
Cash paid directly to trustee:						
Redemption of taxable bonds	-	135,000	-	-	135,000	-
Payment of Yield Maintenance Premium	-	26,428	-	-	26,428	-
Payment of Bond Insurance	-	2,410	-	-	2,410	-
Payment of Underwriter's Discount	-	861	-	-	861	-
Purchase of capital on account	3,119	-	-	-	3,119	-

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets

(thousands)

June 30, 2004		Private-Purpose Trust Fund
Assets		
Cash and investments	$	14
Total Assets		14
Net Assets		
Held in trust for future scholarships		14
Total Net Assets	$	14

See accompanying notes to the financial statements.

Statement of Changes in Fiduciary Net Assets

(thousands)

for the year ended June 30, 2004	Private-Purpose Trust Fund
Additions	
Contributions	
Private donations	$ 68
Total additions	68
Deductions	
Scholarships	16
Other	61
Total deductions	77
Change in net assets	(9)
Net assets - beginning	23
Net Assets - ending	$ 14

See accompanying notes to the financial statements.

(THOUSANDS)

JUNE 30, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

On January 3, 2003, OCTA purchased from the California Private Transportation Company (CPTC) its interest in a franchise agreement for a toll facility on a 10 mile segment of the Riverside Freeway/State Route (SR) 91 between Interstate 15 and the Costa Mesa Freeway/SR 55. The purchase was enabled by State Assembly Bill 1010 (Correa), which was passed by the California legislature and signed by the governor in September 2002. The legislation provided the authority for OCTA to collect tolls and pay related financing costs no later than 2030 and eliminated noncompete provisions in the franchise agreement for needed improvements on SR 91. The franchise agreement with the State of California's Department of Transportation (Caltrans) had granted CPTC the right to develop and construct the toll facility and to operate it for 35 years under a lease arrangement. Caltrans retains legal title to the real property components of the toll facility.

The OCTA governing board (Board) consists of twelve members. Six members are appointed by the mayors of all Orange County cities, and four are members of the Orange County Board of Supervisors. One public member is appointed by a majority of the other ten voting members, and one non-voting member is appointed by the governor of California.

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

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

(THOUSANDS)

JUNE 30, 2004

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

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

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

BASIS OF PRESENTATION

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

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

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Interest expense related to the sales tax revenue bonds and commercial paper, the certificates of participation, and the taxable bonds and advances from OCTA funds is reported as a direct expense of the Measure M program, fixed route, and tollroad functions, respectively. The borrowings are considered essential to the creation or continuing existence of these programs. For the year ended June 30, 2004, interest expense of $29,764, $372 and $12,479, was included as Measure M, fixed route, and tollroad program costs, respectively. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Sales taxes and other items, which are properly not included among program revenues, are reported instead as general revenues.

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

OCTA reports the following major governmental funds:

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

(THOUSANDS)

June 30, 2004

- *Local Transportation Authority (LTA) Fund* – This fund accounts for revenues received and expenditures made for the implementation of the Orange County Traffic Improvement and Growth Management Plan. Financing is provided by a one-half percent sales and use tax assessed for twenty years pursuant to Measure M, which became effective April 1, 1991. The Measure M ordinance, as approved in an election by the voters of Orange County, requires that sales tax revenues only be expended on projects included in the ordinance. A decision to use the revenues for any other purpose must be put to the voters in another election.

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

- *Commuter Urban Rail Endowment (CURE) Fund* – This fund accounts for OCTA's share of the Metrolink commuter rail operations of CURE through Orange County. Funding for CURE was provided through actions of the Board.

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

- *LTA Debt Service Fund* – This fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the LTA.

OCTA reports the following major enterprise funds:

- *Orange County Transit District (OCTD) Fund* – This fund accounts for the transit operations of OCTA. The primary sources of funding for transit operations are the TDA one-quarter percent sales tax, farebox collections, gas tax exchange and federal grants.

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

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

Additionally, OCTA reports the following fund types:

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

  General Liability
  Workers' Compensation
  Employee Health

- *Private-Purpose Trust Fund* – This fund accounts for the resources legally held in trust for providing scholarships and supporting activities for other organizations' special programs.

(THOUSANDS)

June 30, 2004

Measurement focus and basis of accounting

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

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

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

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

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

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

Cash and Investments

OCTA maintains cash and investments in accordance with an investment policy adopted initially by the Board on May 8, 1995, and most recently amended February 24, 2004. The investment policy complies with, or is more restrictive than, applicable state statutes. The majority of OCTA's investments are managed by four private sector investment managers. At June 30, 2004, the investment portfolios were maintained at Bank of New York Western Trust as custodial bank. Separate investment manager accounts are maintained for the proceeds of bond issues, with the earnings for each bond issue accounted for separately. Cash from other OCTA revenue sources is commingled for investment purposes, with investment earnings allocated to the different accounts based on average daily dollar account balances.

(THOUSANDS)

June 30, 2004

OCTA's investment policy authorizes it to invest in obligations of the U. S. Treasury, U. S. agencies, commercial paper rated A-1 by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc., bankers' acceptances, certificates of deposit, variable and floating rate securities, mortgage and asset backed securities, corporate notes, repurchase agreements, and guaranteed investment contracts. Derivative products of any otherwise eligible investment are permitted but only with prior Board of Directors' authorization. Investments in reverse repurchase agreements are prohibited. Other allowable investment categories include money market funds, mutual funds, and the state-managed Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code (Code) Section 16429 under the oversight of the Treasurer of the State of California. Investment is also allowed in the Orange County Investment Pool (OCIP), but is limited to those funds legally required to be deposited in the County Treasury. Oversight of the OCIP is conducted by the County Treasury Oversight Committee. All investments are subject to a maximum maturity of five years, unless specific direction to exceed the limit is given by the Board as permitted by the Code.

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

Bank balances are secured by the pledging of a pool of eligible securities to collateralize OCTA deposits with the bank in accordance with the California Government Code.

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

Interfund Transactions

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

As a centralized transportation planning and administration agency, OCTA allocates costs related to administrative services from certain funds to benefiting funds. For the 2003-04 fiscal year, $37,087 of administrative services were charged to other OCTA funds from the general fund. These charges for services are reported as general government expenditures in governmental fund types and as administrative services expenses in the proprietary fund types.

Internal service funds are utilized by OCTA to account for risk management activities in the areas of general liability, workers' compensation and employee health. Charges for risk management services provided are reported as general government expenditures in the governmental funds receiving the services and as wages, salaries and benefits or other operating expenses in the proprietary funds. The risk management internal service funds charged $21,834 to OCTA's operating funds.

(THOUSANDS)

June 30, 2004

Inventory

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

Restricted Investments

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

Capital Assets

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

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

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

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

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

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

Land Held for Resale

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

(THOUSANDS)

June 30, 2004

Compensated Absences

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

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

Long-Term Debt

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

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

Risk Management

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

Property Taxes

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

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

(THOUSANDS)

June 30, 2004

Contributions to other agencies

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

Net Assets

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

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

- *Restricted Net Assets* – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.

- *Unrestricted Net Assets* – This represents those net assets that are available for general use.

Fund Equity

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

Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States 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 basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

(2) Reconciliation of Government-wide and Fund Financial Statements

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets

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

(THOUSANDS)

JUNE 30, 2004

One element of that reconciliation explains that "Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds." The details of this $139,044 difference are as follows:

Capital assets	$ 151,877
Less accumulated depreciation	(12,833)
NET ADJUSTMENT TO INCREASE FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS – GOVERNMENTAL ACTIVITIES	**$139,044**

Another element of that reconciliation explains that "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this ($499,729) difference are as follows:

Bonds payable	$ (499,505)
Less deferred charge on refunding (to be amortized as interest expense)	2,354
Plus unamortized bond issuance premium (to be amortized to interest expense)	(2,457)
Compensated absences	(121)
NET ADJUSTMENT TO DECREASE FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS – GOVERNMENTAL ACTIVITIES	**$(499,729)**

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

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

One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense." The details of this ($612) difference are as follows:

Capital outlay	$ 1,377
Depreciation expense	(1,989)
NET ADJUSTMENT TO DECREASE NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	**$ (612)**

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets." The details of this ($21,277) difference are as follows:

Sale of capital assets	$ (11,232)
Donations of capital assets	(10,045)
NET ADJUSTMENT TO DECREASE NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	**$ (21,277)**

(THOUSANDS)

June 30, 2004

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $58,547 difference are as follows:

Principal repayments - sales tax revenue bonds	$ 57,660
Change in accrued interest	1,025
Amortization of deferred charge on refunding	(597)
Amortization of premium	564
Amortization of issuance costs	(105)
Net adjustment to increase net change in fund balances – total governmental funds to arrive at change in net assets – governmental activities	**$ 58,547**

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this ($24) difference are as follows:

Compensated absences	$ (24)
Net adjustment to decrease net change in fund balances – total governmental funds to arrive at change in net assets – governmental activities	**$ (24)**

(3) Diversion of TDA funding

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

OCTA entered into agreements with nine Orange County cities and the Southern California Regional Rail Authority (SCRRA) effective July 1, 1997 to exchange the gasoline tax funds for flexible funding from each agency that OCTA could use to provide bus transit services. OCTA has successfully exchanged funds for seven years as of June 30, 2004.

(THOUSANDS)

JUNE 30, 2004

(4) CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2004:

UNRESTRICTED CASH AND INVESTMENTS:	
Governmental Funds	$ 667,775
Proprietary Funds:	
Enterprise	285,219
Internal Service	46,778
Fiduciary Funds	14
RESTRICTED INVESTMENTS:	
Governmental Funds	78,112
Proprietary Funds:	
Enterprise	22,942
TOTAL CASH AND INVESTMENTS	**$ 1,100,840**

Cash in commercial bank accounts reflected on OCTA's general ledger of ($354) with a corresponding bank balance of $5,745 held in deposits, which are collateralized with securities held by the pledging financial institution's trust department in OCTA's name (Category 1), except for $100 which is insured by the Federal Deposit Insurance Corporation (Category 1).

Investments are categorized into three categories of custodial credit risk. Category 1 includes securities that are insured or registered, or held by OCTA or its agent in OCTA's name. Category 2, of which there are none, includes securities which are uninsured or unregistered with the securities held by the counterparty's trust department or agent in OCTA's name. Category 3, of which there are none, includes securities which are uninsured or unregistered, with the securities held by the counterparty or its trust department or agent, but not in OCTA's name.

OCTA's investments at June 30, 2004 consist of:

DESCRIPTION	RISK CATEGORY 1	CARRYING AMOUNT	FAIR VALUE
U. S. Treasury Notes	$ 383,512	$ 383,512	$ 383,512
U. S. Agency Notes	289,403	289,403	289,402
Commercial Paper	4,975	4,975	4,975
Mortgage and Asset Backed Securities	103,017	103,017	103,017
Medium Term Corporate Notes	87,992	87,992	87,992
TOTAL	**$ 868,899**	**868,899**	**868,898**
INVESTMENTS NOT SUBJECT TO CATEGORIZATION:			
Mutual Funds		153,941	153,941
State and Local Investment Pools		42,769	42,769
Guaranteed Investment Contracts		35,585	35,585
TOTAL INVESTMENTS		**$1,101,194**	**$1,101,193**

(THOUSANDS)

June 30, 2004

OCTA invests in asset-backed securities that entitle the investor to a share of the cash flows from a pool of assets such as principal and interest repayments. Accordingly, these investments are affected by changes in interest rates.

The investment in state and local investment pools includes $23,854 in LAIF. At June 30, 2004, the investment portfolio of LAIF totaled $57,637,501. Included in LAIF's investment portfolio asset-backed securities totaling $923,459. LAIF's and OCTA's exposure to credit, market, or legal risk is not available.

Restricted investments at June 30, 2004 represent reserves for debt service and are reported in the following funds:

Debt Service Reserves:	
Governmental Funds:	
LTA Debt Service Fund	$78,112
Proprietary Funds:	
OCTD Enterprise Fund	2,949
91 Express Lanes Enterprise Fund	19,993
Total	**$101,054**

(5) Grants and state assistance

Operating Assistance Grants

Under provisions of the Federal Transit Administration (FTA) and the TDA, funds are available to OCTD for Americans with Disabilities Act (ADA) paratransit operating assistance, demonstration projects, transportation planning, and acquisition and construction of facilities, transit vehicles and related support equipment. For 2004, OCTA became entitled to $20,964 in operating assistance and had a receivable of $20,964 outstanding as of June 30, 2004.

Capital Grants

Under the provisions of a 1979 amendment to the TDA and the provisions of FTA, appropriations are available for the development and operation of a public transportation system. For 2004, OCTA became entitled to $31,167 in capital grants and had a receivable of $10,331 outstanding as of June 30, 2004.

Local Transportation Fund

In 2004, LTF received revenues from a one-quarter percent state sales and use tax through provisions of the TDA, as amended. Under TDA, moneys are to be made available to OCTD for acquisitions of property, plant and equipment and for operating expenses. In 2004, OCTA and OCTD became entitled to $3,659 and $76,455 in LTF moneys respectively. This entitlement was recorded as a transfer from LTF to OCTD. The remaining revenues received by LTF were contributed to other agencies for use in transit projects and OCTA planning. An additional $38,000 in TDA revenue was diverted to the County under provisions of bankruptcy recovery legislation passed by the California State legislature in September 1995 (see Note 3), and, accordingly, is not recorded in the financial statements.

(THOUSANDS)

JUNE 30, 2004

STATE TRANSIT ASSISTANCE PROGRAM

In 2004, STAF was allocated a portion of the state gasoline tax. The gasoline tax is allocated to each county based on demographic factors. In 2004, OCTD became entitled to $6,123 in STAF moneys. This entitlement was recorded as a transfer from STAF to OCTD.

(6) DUE FROM OTHER GOVERNMENTS

Amounts due from other governments as of June 30, 2004 are as follows:

	Governmental Funds					Enterprise Fund	
Receivables:	**General**	**LTA**	**LTF**	**CURE**	**Nonmajor Funds**	**OCTD**	**Total**
Sales taxes	$ -	$ 9,263	$ 3,075	$ -	$ -	$ -	$ 12,338
Project reimbursements	260	692	-	-	-	108	1,060
Vehicle registration fees	-	-	-	-	1,015	-	1,015
Gas tax exchange	-	-	-	-	-	4,026	4,026
Other	15	-	-	154	47	992	1,208
Total	**$ 275**	**$ 9,955**	**$ 3,075**	**$ 154**	**$ 1,062**	**$ 5,126**	**$ 19,647**

(7) INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

Interfund Balances:

The composition of interfund balances at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount	Explanation
General Fund	Nonmajor Governmental Funds	$ 30	Management fee
LTA Fund	Rail Capital Project Fund	1,935	Centerline project
CURE Fund	OCTD Enterprise Fund	5,233	Operating assistance
CURE Fund	91 Express Lanes Fund	60,177	91 Express Lanes purchase
Nonmajor Governmental Funds	LTA Fund	36	405/55 project
OCTD Enterprise Fund	Local Transportation Fund	6,926	OCTD and CTSA
OCTD Enterprise Fund	Local Transportation Fund	353	ADA bus stop improvement
OCTD Enterprise Fund	Nonmajor Governmental Funds	1,976	Senior/disabled subsidy
OCTD Enterprise Fund	Nonmajor Enterprise Fund	4	Negative cash funding
Total		**$76,670**	

(THOUSANDS)

JUNE 30, 2004

In connection with the purchase of the toll facility franchise, to fund the debt service payment required on February 15, 2003, and to establish operations, the 91 Express Lanes Fund borrowed $83,641 from other OCTA funds at an interest rate, adjusted each January, representing OCTA's rate of return on short-term investments (2.48% at June 30, 2004). Interest accrues monthly, and the advances from other OCTA funds plus accrued interest will be repaid by the 91 Express Lanes Fund on an annual basis with net revenues or as a result of a refinancing. On November 19, 2003, the 91 Express Lanes Fund repaid $23,528 in connection with the refinancing (see Note 11) On May 31, 2004, the 91 Express Lanes repaid $5,000 of the advance with net revenues. At June 30, 2004, these advances were $60,177 and are reported as interfund balances.

Interfund Transfers:

TRANSFERS OUT	TRANSFERS IN	AMOUNT	EXPLANATION
General Fund	OCTD Enterprise Fund	$ 750	Payroll system
LTA Fund	Rail Capital Project Fund	7,746	Centerline project
LTA Fund	LTA Debt Service Fund	88,088	Debt service
LTA Fund	Nonmajor Governmental Funds	4,049	Capital projects
LTA Fund	OCTD Enterprise Fund	1,808	Fare stabilization and ACCESS
LTA Fund	CURE Fund	10,500	Capital projects and Rail cars
Local Transportation Fund	General Fund	3,659	OCTA planning
Local Transportation Fund	OCTD Enterprise Fund	76,455	OCTD, CTSA and ADA bus stops
Rail Capital Project Fund	General Fund	61	West Orange County Transit Study
LTA Debt Service Fund	LTA Fund	534	Excess debt service available for operations
Nonmajor Governmental Funds	General Fund	121	Management fee
Nonmajor Governmental Funds	OCTD Enterprise Fund	6,123	OCTD and Senior/Disabled subsidy
OCTD Enterprise Fund	CURE Fund	5,233	Rail operations (Metrolink)
OCTD Enterprise Fund	Nonmajor Governmental Funds	104	Management fee
OCTD Enterprise Fund	Nonmajor Enterprise Fund	13	Management fee
Bus Operations Fund	OCTD Enterprise Fund	14,000	OCTD operations
TOTAL		$219,244	

(8) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 142,118	$ -	$ 7,871	$ 134,247
Construction in progress	46	26	-	72
Construction in progress held for Department of Transportation	354	439	-	793
Total capital assets, not being depreciated	142,518	465	7,871	135,112

(THOUSANDS)

June 30, 2004

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings	17,664	595	15,038	3,221
Machinery, equipment and furniture	13,335	321	112	13,544
Total capital assets, being depreciated	30,999	916	15,150	16,765
Less accumulated depreciation for:				
Buildings	(2,483)	(201)	(1,811)	(873)
Machinery, equipment and furniture	(10,278)	(1,788)	(106)	(11,960)
Total accumulated depreciation	(12,761)	(1,989)	(1,917)	(12,833)
Total capital assets, being depreciated, net	18,238	(1,073)	13,233	3,932
Governmental activities capital assets, net	**$ 160,756**	**$ (608)**	**$ 21,104**	**$ 139,044**
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 43,313	$ 1	$ -	$ 43,314
Construction in progress	9,692	25,116	6,653	28,155
Total capital assets, not being depreciated	53,005	25,117	6,653	71,469
Capital assets, being depreciated and amortized:				
Buildings	56,912	2,078	-	58,990
Transit vehicles	225,826	7,121	14,600	218,347
Machinery, equipment and furniture	47,605	6,317	679	53,243
Toll facility franchise	204,967	345	48	205,264
Total capital assets, being depreciated and amortized	535,310	15,861	15,327	535,844
Less accumulated depreciation and amortization for:				
Buildings	(29,912)	(1,881)	-	(31,793)
Transit vehicles	(99,062)	(17,723)	(14,600)	(102,185)
Machinery, equipment and furniture	(26,228)	(6,180)	(665)	(31,743)
Toll facility franchise	(3,659)	(7,337)	-	(10,996)
Total accumulated depreciation and amortization	(158,861)	(33,121)	(15,265)	(176,717)
Total capital assets, being depreciated and amortized, net	376,449	(17,260)	62	359,127
Business-type activities capital assets, net	**$ 429,454**	**$ 7,857**	**$ 6,715**	**$ 430,596**

(THOUSANDS)

June 30, 2004

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

Governmental activities:	
General government	$ 1,863
Measure M program	124
Motorist services	2
Total depreciation expense – governmental activities	**$1,989**
Business-type activities:	
Fixed route and paratransit	$24,795
Tollroad	8,326
Total depreciation and Amortization expense – business-type activities	**$33,121**

(9) Risk management - claims liability

OCTA continues to be self-insured for employee medical and dental (health) and for workers' compensation claims up to a maximum amount per claim of $125 for health and $1,000 for workers' compensation. General liability claims in excess of a $5,000 self-insured retention are insured for up to an additional $5,000 per occurrence. Settled claims have not exceeded insurance coverage in any prior fiscal years. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. General liability and Workers Compensation claims are actuarially determined. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Management is of the opinion that the recorded liabilities for OCTA's self-insured claims are adequate.

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

	2004	2003
General Liability		
Unpaid claims as of July 1,	$ 2,556	$ 3,213
Incurred claims (including claims incurred but not reported as of June 30):		
Provision for current year events	756	678
Increase (decrease) in provision for prior year events	277	(792)
Total incurred claims	1,033	(114)
Payments:		
Claims attributable to current year events	591	229
Claims attributable to prior year events	202	314
Total payments	(793)	(543)
Unpaid claims at June 30,	2,796	2,556

(THOUSANDS)

JUNE 30, 2004

	2004	2003
WORKERS' COMPENSATION		
UNPAID CLAIMS AS OF JULY 1,	9,896	7,743
Incurred claims (including claims incurred but not reported as of June 30):		
Provision for current year events	6,698	5,772
Increase in provision for prior year events	2,233	1,924
Total incurred claims	8,931	7,696
PAYMENTS:		
Claims attributable to current year events	700	1,094
Claims attributable to prior year events	5,888	4,449
Total payments	(6,588)	(5,543)
Unpaid claims at June 30,	12,239	9,896
EMPLOYEE HEALTH		
UNPAID CLAIMS AS OF JULY 1,	1,014	836
Incurred claims (including claims incurred but not reported as of June 30):		
Provision for current year events	5,351	4,235
Total incurred claims	5,351	4,235
PAYMENTS:		
Claims attributable to current year events	3,777	3,005
Claims attributable to prior year events	1,324	1,052
Total payments	(5,101)	(4,057)
Unpaid claims at June 30,	1,264	1,014
TOTAL UNPAID CLAIMS AT JUNE 30,	16,299	13,466
Less current portion of unpaid claims	4,316	3,559
TOTAL LONG-TERM PORTION OF UNPAID CLAIMS	**$ 11,983**	**$ 9,907**

At June 30, 2004, $14,021 in unpaid workers compensation claims and claim adjustment expenses are presented at their net present value of $12,239. These claims are discounted at 5.57%.

(10) SHORT-TERM DEBT

On March 13, 1995, LTA was authorized to issue up to $115,000 in Tax-Exempt Commercial Paper Notes (Notes). As a requirement for the issuance of the Notes, OCTA entered into an irrevocable direct-pay Letter of Credit and Reimbursement Agreement with a financial institution as liquidity support for the Notes. On August 30, 1999, OCTA transferred the Letter of Credit to Dexia Bank. The authorized amount was reduced to $74,200 with the available amount totaling $80,787. OCTA did not draw on this Letter of Credit authorization during the year ended June 30, 2004, nor were there any amounts outstanding under this Letter of Credit agreement at June 30, 2004.

As of June 30, 2004, LTA had outstanding Notes in the amount of $47,400. There were no additional Notes issued; $5,800 in Notes was retired in August 2003. On August 30, 2004, OCTA retired $6,500 in Notes, which reduced the outstanding principal balance to $40,900. The source of revenue to repay the Notes is the Measure M sales tax. Interest

(THOUSANDS)

June 30, 2004

is payable on the respective maturity dates of the Notes, which are the earlier of 270 days from date of issuance or program termination. The maximum allowable interest rate on the Notes is 12.0%, with issuance rates at June 30, 2004 ranging from 0.83% to 1.10%.

(11) Long-Term Debt

Sales Tax Revenue Bonds

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

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

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

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

(THOUSANDS)

JUNE 30, 2004

A summary of the bonds outstanding is as follows:

	1992 1ST Senior Bond	1992 2ND Senior Bond	1994 2ND Senior Bond	1997 2ND Senior	1998 1ST Senior Bond	1998 2ND Senior Bond	2001 2ND Senior Bond
Issuance Date	08/27/92	09/18/92	02/24/94	08/15/97	03/15/98	03/15/98	10/15/01
Original issue amount	$ 350,000	$ 190,000	$ 200,000	$ 57,730	$ 20,270	$ 213,985	$ 48,430
Original issue (discount)/ premium	(2,612)	(727)	(165)	3,800	971	11,687	3,510
Net bond proceeds	$ 347,388	$ 189,273	$ 199,835	$ 61,530	$ 21,241	$ 225,672	$ 51,940
Issuance costs	$ 3,508	$ 2,323	$ 2,535	$ 780	$ 176	$ 2,194	$ 590
Reserve requirements	$ -	$ 14,465	$ 11,535	$ 2,009	$ 6,334	$ 22,567	$ -
Interest Rate	2.8%-12.23%	2.9%-12.03%	2.8%-12.55%	3.8%-5.7%	3.65%-5.25%	3.9%-5.5%	4.0-5.0%
Effective blended rate	6.0%	5.96%	4.94%	5.06%	4.45%	4.45%	3.70%
Annual principal payment	$21,030-27,200	$10,940-12,185	$12,675-14,585	$15-15,445	$19,950	$17,035-23,300	$15,460-16,850
Maturity	2011	2011	2011	2011	2005	2011	2011
Bonds outstanding	$144,645	$34,695	$54,365	$57,430	$19,950	$139,990	$48,430
Less deferred loss on refunding	-	-	-	-	-	-	(2,354)
Plus unamortized premium	-	-	-	-	-	-	2,457
TOTAL	**$144,645**	**$34,695**	**$54,365**	**$57,430**	**$19,950**	**$139,990**	**$48,533**

The sales tax revenue bonds contain certain financial covenants, and management believes OCTA is in compliance with such covenants as of June 30, 2004.

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2004, are as follows:

Year Ending June 30	Principal	Interest
2005	$ 60,615	$ 27,603
2006	63,720	24,466
2007	67,325	20,994
2008	71,290	17,168
2009	75,355	13,202
2010-2011	161,200	13,627
Total	**$ 499,505**	**$ 117,060**

(THOUSANDS)

JUNE 30, 2004

Certificates of Participation

In prior years, OCTD issued two Certificates of Participation (COPs) to provide for the acquisition of buses. For the 1999 refunding COPs, sources of revenue to repay the debt include farebox revenues and contract service revenues collected in connection with bus operations and FTA Section 5307 grants. For the 1993 COPs, sources of revenue include FTA Section 5307 grants, LTF and STAF allocations, and property taxes.

On January 27, 1999, OCTD issued $7,925 in serial COPs and term COPs with an average interest rate of 4.00 percent to advance refund $7,935 of outstanding 1990 COPs with an average interest rate of 6.74 percent. In December 2000, the refunded bonds, which have been eliminated in the financial statements, were paid.

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

Issuance date	6/01/93	01/27/99
Original issue amount	$ 21,100	$ 7,925
Cash reserve requirements	$ 2,082	$ 793
Interest rate	3.75% to 5.25%	4.0%
Maturity	July 2007	December 2005
Principal payment date	July 1	December 1
Current balance	$4,940	$2,470
Unamortized premium	$ -	$22

The COP's contain certain financial covenants, and management believes OCTA is in compliance with such covenants as of June 30, 2004.

Annual debt service requirements of the COPs to maturity as of June 30, 2004 are as follows:

Year ending June 30	1993 COPs		1999 Refunding COPs	
	Principal	Interest	Principal	Interest
2005	$ 1,235	$ 227	$ 1,210	$ 75
2006	1,235	162	1,260	25
2007	1,235	97	-	-
2008	1,235	33	-	-
Total	**$4,940**	**$519**	**$2,470**	**$100**

Taxable Senior Secured Bonds

On January 3, 2003, as part of the purchase agreement, the 91 Express Lanes Fund assumed $135,000 of taxable 7.63% Senior Secured Bonds. The taxable bonds mature on August 15, 2028. Semi-annual interest payments are due on the taxable bonds on February 15 and August 15 of each year, and semi-annual principal payments are due beginning February 15, 2004. On November 12, 2003, the taxable bonds were refunded as noted below. As required by the indenture, OCTA paid $26,428 Yield Maintenance Premium which is deferred and amortized over the life of the bonds.

(THOUSANDS)

JUNE 30, 2004

Toll Road Revenue Refunding Bonds

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

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $26,428. OCTA refunded the taxable Senior Secured Bonds to reduce its total debt service payments over the next 27 years by almost $10,673 and to obtain an economic gain (difference between the present values of the debt service payment of the old and new debt) of $12,369.

Interest Rate Swaps

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

Terms

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

Fair Value

As of June 30, 2004 the fair value for the $75,000 swap with Lehman Brothers was estimated by Lehman Brothers to be $3,103. As of June 30, 2004 the fair value for the $25,000 swap with Bear Stearns was estimated by Bear Stearns to be $454. Therefore, if the swaps were terminated on June 30, 2004, the OCTA would have made a termination payment of $3,103 and $454 to Lehman Brothers and Bear Stearns, respectively. The termination payments that would have been owed by the OCTA if the swaps were terminated on June 30, 2004 is a direct result of the decline in interest rates. The rate used to calculate the fixed swap payment owed by the OCTA to the swap providers is 4.06227%. As of June 30, 2004, this fixed rate was higher than the current rate for a swap of identical terms and conditions. The value of this above market rate as of June 30, 2004 is reflected in the calculation of the fair value of the interest rate swaps between the OCTA and the swap providers. Although the interest rates on the variable rate bonds have also declined since the execution of swaps, the variable swap payments paid to the OCTA by the swap providers have declined as well

(THOUSANDS)

June 30, 2004

Credit Risk

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

Basis Risk

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

Under the parity swap agreements, OCTA pays the counterparties a fixed payment of 4.06227% and the counterparties pay OCTA a floating rate equal to 67% of LIBOR if LIBOR is equal to or greater than 4.0% or the BMA Municipal Swap Index if LIBOR is less than 4.0%. As of June 30, 2004, OCTA experienced $24 in cumulative positive basis differential.

Termination Risk

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

Swap Payments and Associated Debt

	$75,000 Series 2003-B-1 (1)			$25,000 Series-B-2 (1)			
Year ending June 30	Principal	Interest	Interest Rate Swaps Net	Principal	Interest	Interest Rate Swaps Net	Total
2005	$ -	$ 776	$ 2,254	$ -	$ 266	$ 744	$ 4,040
2006	-	780	2,267	-	268	748	4,063
2007	-	780	2,267	-	268	748	4,063
2008	-	780	2,267	-	268	748	4,063
2009	-	780	2,267	-	268	748	4,063
2010-2014	-	3,900	11,334	-	1,338	3,740	20,312
2015-2019	-	3,900	11,334	-	1,338	3,740	20,312
2020-2024	17,900	3,644	10,589	5,960	1,250	3,495	42,837
2025-2029	38,935	1,993	5,792	12,990	683	1,911	62,305
2030-2031	18,165	194	563	6,050	66	185	25,223
	$ 75,000	$ 17,527	$ 50,934	$ 25,000	$ 6,013	$ 16,807	$ 191,281

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

The OCTA retired the amount due to the Bus Operations Fund in the amount of $23,528.

(THOUSANDS)

JUNE 30, 2004

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

Issuance date	11/12/03
Original issue amount	$195,265
Cash reserve requirements	$18,635
Interest rate	2.0% to 5.375% *
Maturity	December 2030
Principal payment date	August 15
Current balance	$195,265
Unamortized premium	$6,671
Deferred amount on refunding	($25,716)

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

The toll road refunding bonds contain certain financial covenants, and management believes OCTA is in compliance with such covenants as of June 30, 2004.

Annual debt service requirements on the tax-exempt bonds as of June 30, 2004, are as follows:

YEAR ENDING JUNE 30	PRINCIPAL	INTEREST	TOTAL
2005	$ 3,635	$ 8,313	$ 11,948
2006	4,005	8,249	12,254
2007	4,115	8,142	12,257
2008	4,225	8,028	12,253
2009	4,345	7,910	12,255
2010-2014	25,005	36,273	61,278
2015-2019	32,355	28,921	61,276
2020-2024	41,440	19,994	61,434
2025-2029	51,925	10,379	62,304
2030-2031	24,215	1,008	25,223
	$ 195,265	**$ 137,217**	**$ 332,482**

The interest rate used to determine the future annual debt service requirements for the variable rate bonds was 4.06227% at June 30, 2004.

(THOUSANDS)

June 30, 2004

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
Sales tax revenue bonds	$ 557,165	$ -	$ 57,660	$ 499,505	$ 60,615
Unamortized deferred loss on refunding	(2,951)	-	(597)	(2,354)	(597)
Unamortized premium	3,021	-	564	2,457	564
Compensated absences	1,667	1,836	1,566	1,937	1,816
Total governmental activities long-term liabilities	**$ 558,902**	**$1,836**	**$59,193**	**$501,545**	**$62,398**
Business-type activities:					
Certificates of participation	$ 9,805	$ -	$ 2,395	$ 7,410	$ 2,445
Taxable bonds	135,000	-	135,000	-	-
Tax-exempt bonds	-	195,265	-	195,265	3,635
Unamortized premium	38	6,839	184	6,693	268
Unamortized Deferred Amount on Refunding	-	(26,428)	(712)	(25,716)	(1,068)
Claims payable	12,452	9,964	7,381	15,035	3,052
Compensated absences	5,015	5,018	4,634	5,399	4,997
Total business-type activities Long-term liabilities	**$162,310**	**$190,658**	**$148,882**	**$204,086**	**$13,329**

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

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, OCTA performed calculations of excess investment earnings on various bonds issues. $207 was determined due and was paid in full on April 6, 2004 for the Local Transportation Authority and $29 was paid in full on February 18, 2004 for the Orange County Transit District.

(THOUSANDS)

June 30, 2004

(12) Pension plans

Plan Description - OCTA contributes to two retirement plans, the Public Employees' Retirement System (PERS) of the State of California and the Orange County Employees Retirement System (OCERS).

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

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

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

Funding Policy (OCERS) - Plan members contribute between 3.84% to 10.65% to the plan. OCTA's actuarially determined contribution requirement was 8.23% of total covered payroll.

Annual Pension Cost (PERS) - The OCTA's annual pension cost for PERS was equal to the required and actual contributions, which was computed as part of the June 30, 2001 actuarial valuation, the latest available from PERS, using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.25% per annum compounded annually and an inflation factor of 3.5%; and (b) projected annual salary increases that vary by duration of service and include a factor of 3.5% for inflation, .25% for across the board salary increases and various amounts for merit according to longevity. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). The PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 20 year period.

Annual Pension Cost (OCERS) - The most recent actuarial valuation for OCERS was as of December 31, 2002, in which the investment return assumption was 7.5%, the salary increase rate assumption was 4.5%, and the Consumer Price Index increase rate assumption was 3.5%.

OCTA's contributions to OCERS for the years ended June 30, 2004, 2003, and 2002 were $6,673, $3,557, and $881, respectively, and were equal to the required contribution calculated by the OCERS actuary for each year.

(THOUSANDS)

June 30, 2004

Three-year trend information for PERS is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	$ 0	N/A	$ 0
6/30/03	0	N/A	0
6/30/02	0	N/A	0

Three-year required supplementary information for PERS is as follows:

Valuation Date	Actuarially Accrued Liability	Actuarial Value Of Assets	Excess Assets over Liability	Funded Ratio	Annual Covered Payroll	Excess Assets as a % of Payroll
6/30/02	$3,945	$5,286	$1,342	134.0%	$547	245.1%
6/30/01	3,731	5,660	1,929	151.0%	825	233.8%
6/30/00	3,576	5,470	1,894	153.0%	925	204.7%

(13) Purchase commitments

OCTA has various long-term outstanding contracts that extend over several years and rely on future years' revenues. Total commitments at June 30, 2004 are as follows:

	Total Purchase Commitments	Reserve for Encumbrances	Outstanding Purchase Commitments
Governmental Funds:			
General	$ 8,183	$ 8,183	$ -
LTA	74,397	74,397	-
CURE	130	130	-
Rail Capital Projects	1,867	1,867	-
Nonmajor governmental	3,422	3,422	-
Total Governmental Funds	87,999	87,999	-
Proprietary Funds:			
OCTD	49,105	-	49,105
91 Express Lanes	150	-	150
Internal Service	17	-	17
Total Proprietary Funds	49,272	-	49,272
Total	**$ 137,271**	**$ 87,999**	**$ 49,272**

The majority of the contracts relate to the expansion of Orange County's freeway and road systems and purchases of transit vehicles and construction of a fourth transit base in Santa Ana.

(THOUSANDS)

June 30, 2004

(14) Other Commitments and Contingencies

Litigation

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

Federal Grants

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

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 plus inflation for three initial years with two one-year extension options, subject to Board of Directors approval. Cofiroute is responsible for the day-to-day operations of the toll facility.

Lease Commitments

OCTA is committed under various leases for building, office space, tires for revenue vehicles, and office equipment. These leases are considered for accounting purposes to be operating leases. The terms of the lease for OCTA's administrative headquarters in Orange are for fifteen years beginning in September 1993, with two five-year renewal options. Lease expenditures for the year ended June 30, 2004 amounted to $ 4,203.

Future minimum payments for these leases are as follows:

2005	$ 5,469
2006	3,783
2007	3,764
2008	3,265
2009	141
Total	**$ 16,422**

(15) Joint Venture

OCTA is one of five members of the SCRRA, a joint powers authority created in 1992. The SCRRA's board consists of one member from the Ventura County Transit Commission (VCTC); two each from OCTA, the San Bernardino Associated Governments (SANBAG) and the Riverside County Transportation Commission (RCTC); and four members from the Los Angeles County Metropolitan Transportation Authority (LACMTA). SCRRA is responsible for maintaining and operating a regional commuter rail system (Metrolink) in five southern California counties. As a member of the agency, OCTA makes annual capital and operating contributions for its prorata share of rail lines serving Orange County. OCTA expended $8,735 during 2004 for its share of Metrolink capital and operating costs. Separate financial statements are prepared by and available from the SCRRA, which is located at 700 N. Flower Street, 26th floor, Los Angeles, CA 90017.

(16) EFFECT OF NEW PRONOUNCEMENTS

GASB STATEMENT NO. 40

In March 2003, GASB issued Statement No. 40, Deposit and Investment Risk Disclosures. This statement is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. OCTA has not determined its effects on OCTA's financial statements. This statement is effective for OCTA's fiscal year ending June 30, 2005.

GASB STATEMENT NO. 42

In November 2003, GASB issued Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for OCTA's fiscal year ending June 30, 2006.

GASB STATEMENT NO. 43

In April 2004, GASB issued Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. OCTA does not have postemployment benefits therefore this statement is not applicable to OCTA.

GASB STATEMENT NO. 44

In May 2004, GASB issued Statement No. 44, Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for OCTA's fiscal year ending June 30, 2006.

GASB STATEMENT NO. 45

In June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. OCTA does not have postemployment benefits therefore this statement is not applicable to OCTA.

(THOUSANDS)

June 30, 2004

(17) Subsequent Event

On September 10 2004, Governor Schwarzenegger signed into law Assembly bill 710 (Chapter 469, Statutes of 2004) which increases the OCTA governing board from 11 voting members to 17 voting members effective January 1, 2005. On the effective date, the Board of Directors will be comprised of the five members of the Orange County Board of Supervisors, ten city representatives (one per supervisorial district selected by population-weighted voting, and one per supervisorial district selected on a one-city, one-vote method), two public members (neither of whom can be an elected official or have been an elected official during the previous four years), and one non-voting ex-officio member appointed by the governor (Caltrans District Director).

Required Supplementary Information

Budgetary Comparison Schedule - General Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2004	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Fines	$ 157	$ 157	$ 152	$ (5)
Contributions from other agencies	4,402	6,202	2,116	(4,086)
Charges for services	35,008	35,008	37,087	2,079
Interest	360	360	87	(273)
Federal capital assistance grants	1,639	2,237	-	(2,237)
Miscellaneous	109	109	53	(56)
Total revenues	41,675	44,073	39,495	(4,578)
Expenditures				
Current:				
General government:				
Salaries and benefits	24,807	25,149	25,894	(745)
Supplies and services	18,521	22,645	20,592	2,053
Contributions to other local agencies	1,639	2,237	96	2,141
Capital outlay	422	632	545	87
Total expenditures	45,389	50,663	47,127	3,536
Excess (deficiency) of revenues over (under) expenditures	(3,714)	(6,590)	(7,632)	(1,042)
Other financing sources (uses)				
Transfers in	3,714	3,714	3,841	127
Transfers out	-	-	(750)	(750)
Total other financing sources (uses)	3,714	3,714	3,091	(623)
Net change in fund balances	$ -	$ (2,876)	$ (4,541)	$ (1,665)

See accompanying notes to the required supplementary information.

Required Supplementary Information

Budgetary Comparison Schedule - Local Transportation Authority Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2004	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Sales taxes	$ 223,901	$ 223,901	$ 236,406	$ 12,505
Contributions from other agencies	529	529	7,769	7,240
Interest	15,456	15,456	1,617	(13,839)
Federal capital assistance grants	145	145	474	329
Miscellaneous	373	373	227	(146)
Total revenues	240,404	240,404	246,493	6,089
Expenditures				
Current:				
General government:				
Supplies and services	26,391	26,186	16,264	9,922
Contributions to other local agencies	79,423	79,423	65,184	14,239
Capital outlay	194,962	195,272	4,702	190,570
Debt service:				
Interest on long-term debt and commercial paper	798	798	619	179
Total expenditures	301,574	301,679	86,769	214,910
Excess (deficiency) of revenues over (under) expenditures	(61,170)	(61,275)	159,724	220,999
Other financing sources (uses)				
Transfers in	-	-	534	534
Transfers out	(108,500)	(108,500)	(112,191)	(3,691)
Proceeds from sale of capital assets	-	-	5,361	5,361
Total other financing sources (uses)	(108,500)	(108,500)	(106,296)	2,204
Net change in fund balances	$ (169,670)	$ (169,775)	$ 53,428	$ 223,203

See accompanying notes to the required supplementary information.

Required Supplementary Information

Budgetary Comparison Schedule - Local Transportation Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2004	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Sales taxes	$ 81,830	$ 81,830	$ 86,405	$ 4,575
Contributions from other agencies	-	-	1	1
Interest	261	261	465	204
Miscellaneous	-	-	1	1
Total revenues	82,091	82,091	86,872	4,781
Expenditures				
Current:				
General government:				
Supplies and services	1,082	1,082	1,087	(5)
Contributions to other local agencies	1,110	1,110	1,905	(795)
Total expenditures	2,192	2,192	2,992	(800)
Excess (deficiency) of revenues over (under) expenditures	79,899	79,899	83,880	3,981
Other financing sources (uses)				
Transfers out	(79,651)	(79,651)	(80,114)	(463)
Total other financing sources (uses)	(79,651)	(79,651)	(80,114)	(463)
Net change in fund balances	$ 248	$ 248	$ 3,766	$ 3,518

See accompanying notes to the required supplementary information.

Required Supplementary Information

Budgetary Comparison Schedule - Commuter Urban Rail Endowment Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2004	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Fines	$ 21	$ 21	$ 8	$ (13)
Contributions from other agencies	-	65	-	(65)
Interest	5,814	5,814	1,143	(4,671)
Miscellaneous	482	482	3,543	3,061
Total revenues	6,317	6,382	4,694	(1,688)
Expenditures				
Current:				
General government:				
Supplies and services	10,002	10,132	10,154	(22)
Contributions to other local agencies	11,956	11,956	439	11,517
Total expenditures	21,958	22,088	10,593	11,495
Excess (deficiency) of revenues over (under) expenditures	(15,641)	(15,706)	(5,899)	9,807
Other financing sources (uses)				
Transfers in	15,655	15,655	15,733	78
Total other financing sources (uses)	15,655	15,655	15,733	78
Net change in fund balances	$ 14	$ (51)	$ 9,834	$ 9,885

See accompanying notes to the required supplementary information.

(THOUSANDS)

JUNE 30, 2004

(1) BUDGETARY DATA

OCTA establishes accounting control through formal adoption of an annual operating budget for the general, certain special revenue and the debt service governmental funds. The operating budget is prepared in conformity with accounting principles generally accepted in the United States (GAAP) except for multi-year contracts, for which the entire amount of the contract is budgeted and encumbered in the year of execution. The adopted budget can be amended by the Board to increase both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Division heads are authorized to approve appropriation transfers within major objects. Major objects are defined as Salaries and Benefits, Supplies and Services and Capital Outlay. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, for budgeted funds, is at the major object level for the budgeted governmental funds. A Fourth Quarter Budget Status Report, June 2004 is available from the OCTA Finance and Administration Division. With the exception of accounts which have been encumbered, appropriations lapse at year end.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations for the following major governmental fund as of June 30, 2004:

FUND	ACCOUNT	APPROPRIATIONS	EXPENDITURES	EXPLANATIONS
General	Salaries and benefits	$ 25,149	$ 25,894	Higher OCERS and health care costs
Special Revenue:				
Local Transportation	Supplies and services	$ 2,192	$ 2,992	Senior Mobility Program budgeted in OCTD Enterprise Fund

(2) BUDGETARY BASIS RECONCILIATION

For the budgeted major general and special revenue funds, the following schedule reconciles the budgetary expenditure amounts on the Budgetary Comparison Schedule to the GAAP expenditure amounts on the Statement of Revenues, Expenditures and Changes in Fund Balances:

	GENERAL	SPECIAL REVENUE FUND LTA	SPECIAL REVENUE FUND CURE
Total expenditures (budgetary basis)	$ 47,127	$ 86,769	$ 10,593
Less fiscal year 2004 encumbrances outstanding at June 30	(5,838)	(730)	(131)
Plus expenditures against prior year encumbrances	2,356	16,393	-
TOTAL EXPENDITURES (GAAP)	**$ 43,645**	**$ 102,432**	**$ 10,462**

(THOUSANDS)

JUNE 30, 2004

Nonmajor governmental funds

Special revenue funds

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

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

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

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

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

Capital Projects Funds

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

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

Combining Balance Sheet - Nonmajor Governmental Funds

(thousands)

June 30, 2004	Special Revenue: OCUTT	SAFE	SAAV	STAF	Gas Tax	Total	Capital Projects: General	OCTD	Total	Total Nonmajor Governmental Funds
Assets										
Cash and investments	$ 14,801	$ 6,940	$ 775	$ 2,018	$ 552	$ 25,086	$ 10,454	$ 278	$ 10,732	$ 35,818
Receivables:										
Interest	189	51	11	1	(3)	249	-	-	-	249
Capital grants	-	48	-	-	-	48	-	-	-	48
Other	-	16	-	-	-	16	-	-	-	16
Due from other funds	-	-	-	-	-	-	-	36	36	36
Due from other governments	-	462	600	-	-	1,062	-	-	-	1,062
Total Assets	$ 14,990	$ 7,517	$ 1,386	$ 2,019	$ 549	$ 26,461	$ 10,454	$ 314	$ 10,768	$ 37,229
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	$ 51	$ 541	$ 17	$ -	$ -	$ 609	$ 19	$ 210	$ 229	$ 838
Due to other funds	-	-	30	1,976	-	2,006	-	-	-	2,006
Due to other governments	-	-	1,165	-	-	1,165	-	89	89	1,254
Deferred revenue	-	-	-	-	-	-	9	-	9	9
Total Liabilities	51	541	1,212	1,976	-	3,780	28	299	327	4,107
Fund Balances:										
Reserved for:										
Encumbrances	165	8	4	-	-	177	43	3,202	3,245	3,422
Transportation programs	-	-	-	43	549	592	-	-	-	592
Motorist services	-	6,968	170	-	-	7,138	-	-	-	7,138
Unreserved (deficit), reported in:										
Special revenue funds	14,774	-	-	-	-	14,774	-	-	-	14,774
Capital project funds	-	-	-	-	-	-	10,383	(3,187)	7,196	7,196
Total fund balances	14,939	6,976	174	43	549	22,681	10,426	15	10,441	33,122
Total liabilities and fund balances	$ 14,990	$ 7,517	$ 1,386	$ 2,019	$ 549	$ 26,461	$ 10,454	$ 314	$ 10,768	$ 37,229

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

(thousands)

	Special Revenue						Capital Projects			
for the year ended June 30, 2004	OCUTT	SAFE	SAAV	STAF	Gas Tax	Total	General	OCTD	Total	Total Nonmajor Governmental Funds
Revenues:										
Sales taxes	$ -	$ -	$ -	$ 6,042	$ -	$ 6,042	$ -	$ -	$ -	$ 6,042
Gasoline taxes	-	-	-	-	23,000	23,000	-	-	-	23,000
Vehicle registration fees	-	2,426	2,414	-	-	4,840	-	-	-	4,840
Contributions from other agencies	-	2,140	-	-	-	2,140	613	-	613	2,753
Interest	276	41	(6)	77	8	396	12	-	12	408
Miscellaneous	-	9	-	-	-	9	-	-	-	9
Total revenues	276	4,616	2,408	6,119	23,008	36,427	625	-	625	37,052
Expenditures:										
Current:										
General government:										
Supplies and services	899	5,124	45	1	2	6,071	296	400	696	6,767
Contributions to other local agencies	-	-	2,447	-	23,000	25,447	-	-	-	25,447
Capital outlay	-	19	-	-	-	19	50	3,753	3,803	3,822
Total expenditures	899	5,143	2,492	1	23,002	31,537	346	4,153	4,499	36,036
Excess (deficiency) of revenues over (under) expenditures	(623)	(527)	(84)	6,118	6	4,890	279	(4,153)	(3,874)	1,016
Other financing sources (uses):										
Transfers in	-	-	-	-	-	-	-	4,153	4,153	4,153
Transfers out	-	-	(121)	(6,123)	-	(6,244)	-	-	-	(6,244)
Total other financing sources (uses)	-	-	(121)	(6,123)	-	(6,244)	-	4,153	4,153	(2,091)
Net change in fund balances	(623)	(527)	(205)	(5)	6	(1,354)	279	-	279	(1,075)
Fund balances-beginning	15,562	7,503	379	48	543	24,035	10,147	15	10,162	34,197
Fund balances-ending	$ 14,939	$ 6,976	$ 174	$ 43	$ 549	$ 22,681	$ 10,426	$ 15	$ 10,441	$ 33,122

(THOUSANDS)

JUNE 30, 2004

Internal Service Funds

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

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

Employee health - This fund is used to account for OCTA's three primary areas of employee health coverage – administrative employees, coach operators, and maintenance employees.

Combining Statement of Fund Net Assets - All Internal Service Funds

(thousands)

June 30, 2004	General Liability	Workers' Compensation	Employee Health	Total Internal Service Funds
Assets				
Current assets:				
Cash and investments	$ 29,750	$ 10,956	$ 6,072	$ 46,778
Receivables:				
Interest	256	105	40	401
Other	-	391	54	445
Other assets	248	732	450	1,430
Total Assets	30,254	12,184	6,616	49,054
Liabilities				
Accounts payable	7	1	332	340
Claims payable	2,796	12,239	1,264	16,299
Total Liabilities	2,803	12,240	1,596	16,639
Net Assets				
Unrestricted	27,451	(56)	5,020	32,415
Total Net Assets (Deficit)	$ 27,451	$ (56)	$ 5,020	$ 32,415

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

(thousands)

for the year ended June 30, 2004	General Liability	Workers' Compensation	Employee Health	Total Internal Service Funds
Operating revenues:				
Charges for services	$ 541	$ 7,073	$ 14,220	$ 21,834
Total operating revenues	541	7,073	14,220	21,834
Operating expenses:				
Administrative services	70	202	340	612
Other	(1)	54	-	53
Insurance claims	1,572	9,142	14,679	25,393
Professional services	66	251	145	462
General and administrative	-	4	-	4
Total operating expenses	1,707	9,653	15,164	26,524
Operating loss	(1,166)	(2,580)	(944)	(4,690)
Nonoperating revenues (expenses):				
Investment earnings	(6)	42	15	51
Other	-	101	165	266
Total nonoperating revenues (expenses)	(6)	143	180	317
Change in net assets	(1,172)	(2,437)	(764)	(4,373)
Total net assets - beginning	28,623	2,381	5,784	36,788
Total net assets - ending	$ 27,451	$ (56)	$ 5,020	$ 32,415

Combining Statement of Cash Flows - All Internal Service Funds

(thousands)

for the year ended June 30, 2004	General Liability	Workers' Compensation	Employee Health	Total Internal Service Funds
Cash flows from operating activities:				
Receipts from interfund services provided	$ 541	$ 7,339	$ 15,168	$ 23,048
Payments to claimants	(1,490)	(7,771)	(14,246)	(23,507)
Payments for interfund services used	(70)	(202)	(340)	(612)
Net cash provided by (used for) operating activities	(1,019)	(634)	582	(1,071)
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	14,000			14,000
Investment earnings/(losses)	(30)	62	21	53
Net cash provided by (used for) investing activities	13,970	62	21	14,053
Net increase (decrease) in cash and cash equivalents	12,951	(572)	603	12,982
Cash and cash equivalents at beginning of year	16,799	11,528	5,469	33,796
Cash and cash equivalents at end of year	$ 29,750	$ 10,956	$ 6,072	$ 46,778
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating loss	$ (1,166)	$ (2,580)	$ (944)	$ (4,690)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Insurance recoveries	-	101	164	265
Change in assets and liabilities:				
Receivables	-	(388)	(37)	(425)
Due from other funds	-	266	984	1,250
Other assets	(65)	(373)	45	(393)
Accounts payable	(28)	(3)	120	89
Claims payable	240	2,343	250	2,833
Total adjustments	147	1,946	1,526	3,619
Net cash provided by (used for) operating activities	$ (1,019)	$ (634)	$ 582	$ (1,071)