SR-22 Freeway

Freeway Construction Workers

MACIAS GINI & COMPANY LLP

515 S. Figueroa Street, Ste. 325
Los Angeles, California 90071

213.612.0200 PHONE
213.286.6426 FAX

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, 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2005, 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.

As discussed in Note 18 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2005, 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 60 through 65, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical 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 17, 2005

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, 2005. We encourage readers to consider the information on financial performance presented here in conjunction with the transmittal letter on pages v-xxii and OCTA's financial statements that begin on page 14. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total net assets of OCTA were $1,191,951 and consisted of net assets invested in capital assets, net of related debt, of $509,597; restricted net assets of $663,591; and unrestricted net assets of $18,763.

- Unrestricted net assets is comprised of ($231,120) from governmental activities and $249,883 from business-type activities. The amount from governmental activities represents liabilities in excess of assets. This results primarily from the recording of debt issued for Measure M projects, the assets for which title vests with the California Department of Transportation (Caltrans). Accordingly, OCTA does not have sufficient current resources on hand to cover current and long-term liabilities; however, future Measure M sales taxes are pledged to cover Measure M debt service payments when made.

- Beginning net assets of business-type activities were restated $5,061 (see note 16). Net assets increased $253,361 during fiscal 2005. The increase in net assets from governmental activities of $266,599 was attributable to tax revenues in excess of net governmental program costs and the accumulation of State and local freeway construction-in-progress costs. The decrease in net assets from business-type activities of $13,238 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 $687,968 at June 30, 2005, representing an increase of $118,328, or 21%, over June 30, 2004. This increase in capital assets was primarily due to the construction on the SR-22 which grew $121,747 during fiscal year 2005.

- OCTA's governmental funds reported combined ending fund balances of $812,067, an increase of $65,834 compared to fiscal 2004. Approximately 76% of the governmental fund balances represent Local Transportation Authority amounts available for the Measure M program, including debt service.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of OCTA that are principally supported by taxes and intergovernmental revenues, or governmental activities, from other functions that are intended to recover all or a significant portion of their costs through user fees and charges, or business-type activities. The governmental activities of OCTA include general government, the Measure M program, motorist services, 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, Local Transportation and CURE special revenue funds as required supplementary information to demonstrate compliance with the annual appropriated budgets.

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

Proprietary funds consist of enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. OCTA uses enterprise funds to account for its transit, tollroad and taxicab administration operations. Internal service funds are an accounting device used to accumulate and allocate costs internally to the departments benefiting from OCTA's risk management activities, which include general liability, workers' compensation and employee health. 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 20-25 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 26-27 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-59 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 60-65 of this report.

The combining statements referred to earlier relating to nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. In addition, budgetary results for all other nonmajor governmental funds is located in this section. This other supplementary information can be found on pages 67-82 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, 2005, OCTA's assets exceeded liabilities by $1,191,951, a $253,361 increase from June 30, 2004. 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 43%, compared to 41% in 2004, of OCTA's net assets reflect its investment in capital assets (i.e., toll facility franchise; land; buildings; freeway construction in progress; machinery, equipment and furniture; transit vehicles; and transponders), less any related outstanding debt used to acquire these assets. OCTA uses these capital assets to provide transportation and transit services to the residents and business community of Orange County. The increase of $121,290 in net assets invested in capital assets, net of related debt, from governmental activities resulted from the construction in progress on the SR 22. The increase of $2,319 in net assets invested in capital assets, net of related debt, from business-type activities was primarily related to the completion of OCTD's new Santa Ana Bus Base.

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 56% and 63% of the total net assets at June 30, 2005 and 2004, respectively. Restricted net assets from governmental activities increased $70,899 as a result of $124 million of Traffic Congestion Relief Program funds being re-allocated to the Garden Grove SR-22 project with the passing of the state budget freeing local funds planned for the expenditure. Restricted net assets also increased due to the I-5 North and other project delays. The increase in restricted net assets from business-type activities of $2,829 is related to investment activity in bond reserve accounts.

Unrestricted net assets represent the portion of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. Unrestricted net assets from governmental activities changed from a $305,530 deficit at June 30, 2004 to a $231,120 deficit at June 30, 2005. This deficit results from the recording of debt issued for Measure M projects, the assets for which title vests with Caltrans. Accordingly, OCTA does not have sufficient current resources on hand to cover long-term liabilities; however, future Measure M sales taxes are pledged to cover Measure M debt service payments when made. The decrease of $23,447 in unrestricted net assets from business-type activities was attributable to increases in PL/PD insurance, worker's compensation and pension costs.

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

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	$ 867	$ 752	$ 314	$ 322	$ 1,181	$ 1,074
Restricted assets	72	78	26	23	98	101
Land held for resale	20	22	-	-	20	22
Capital assets	260	139	428	425	688	564
Total assets	1,219	991	768	770	1,987	1,761
Current liabilities	111	89	32	28	143	117
Long-term liabilities	441	502	211	204	652	706
Total liabilities	552	591	243	232	795	823
Net assets:						
Invested in capital assets, net of related debt	260	139	249	241	509	380
Restricted	638	567	26	23	664	590
Unrestricted (deficit)	(231)	(306)	250	274	19	(32)
Total net assets, as restated	$ 667	$ 400	$ 525	$ 538	$ 1,192	$ 938

OCTA's total revenues increased by 26%, while the total cost of all programs increased by 1%. Approximately 74% 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.

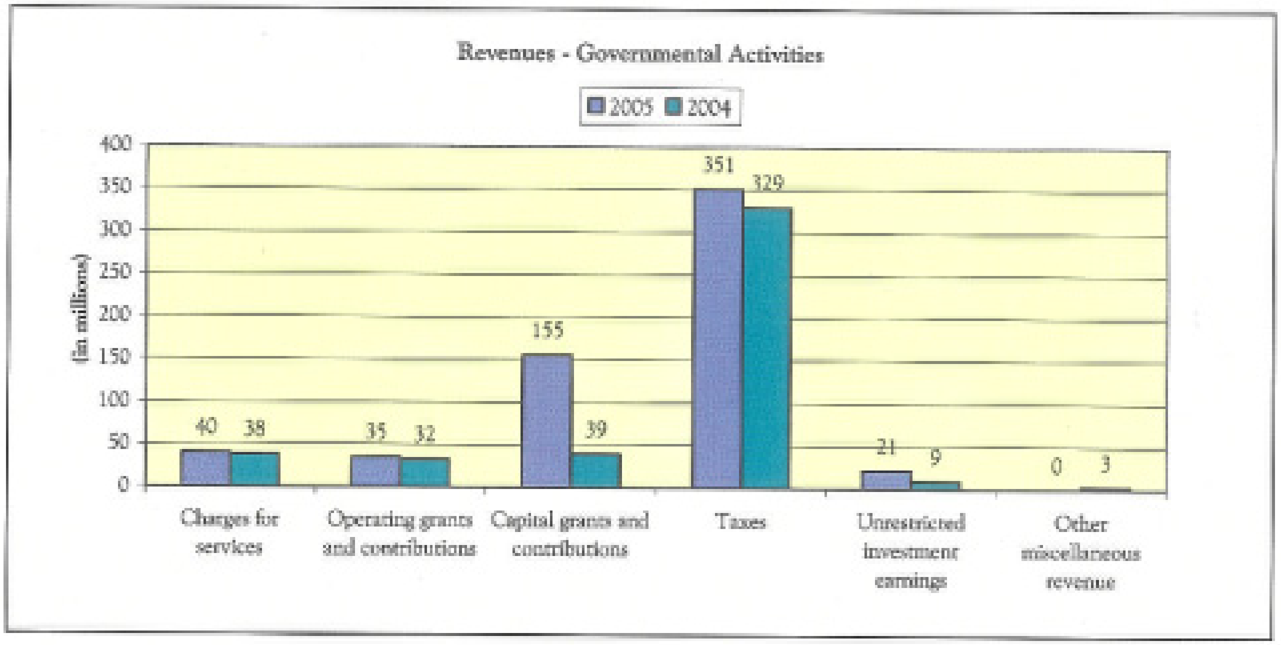
Table 2
Orange County Transportation Authority
Changes in Net Assets
(in millions)

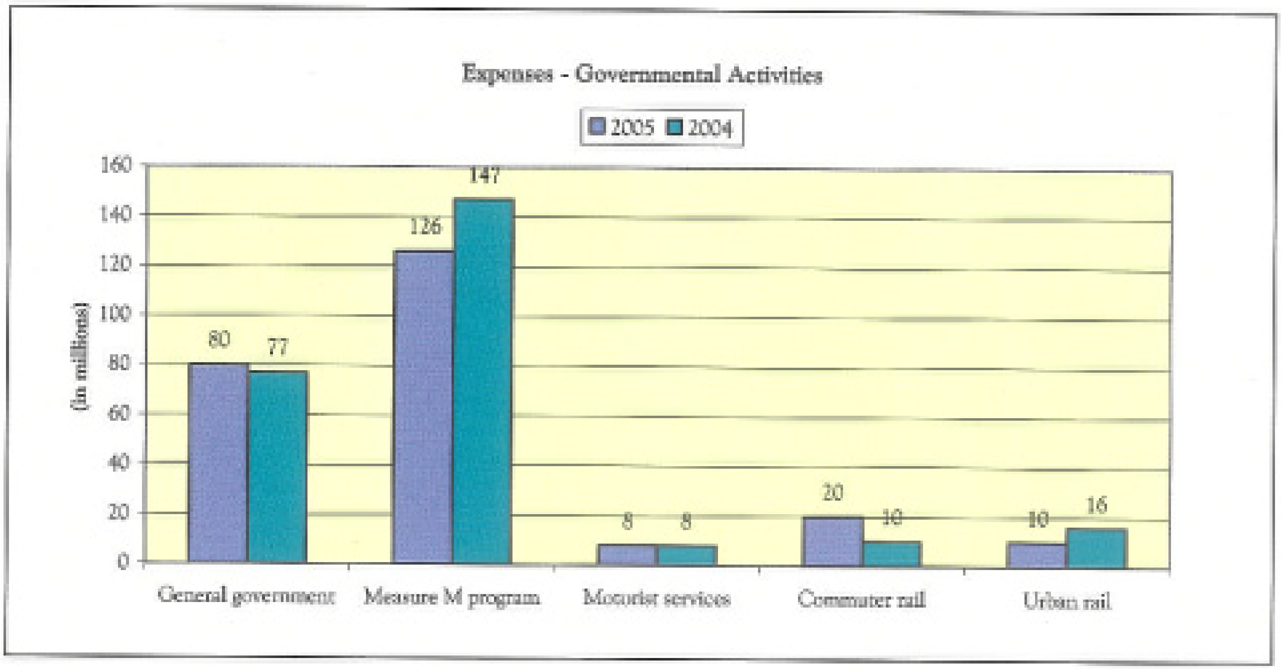
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	$ 40	$ 38	$ 97	$ 84	$ 137	$ 122
Operating grants and contributions	35	32	43	55	78	87
Capital grants and contributions	155	39	25	23	180	62
General revenues:						
Taxes	351	329	8	8	359	337
Unrestricted investment earnings	21	9	9	3	30	12
Other miscellaneous revenue	-	3	1	-	1	3
Total revenues	602	450	183	173	785	623
Expenses:						
General government	80	77	-	-	80	77
Measure M program	126	147	-	-	126	147
Motorist services	8	8	-	-	8	8
Commuter rail	20	10	-	-	20	10
Urban rail	10	16	-	-	10	16
Fixed route	-	-	220	205	220	205
Paratransit	-	-	33	29	33	29
Tollroad	-	-	34	34	34	34
Total expenses	244	258	287	268	531	526
Increase (decrease) in net assets before transfers	358	192	(104)	(95)	254	97
Transfers	(91)	(80)	91	80	-	-
Changes in net assets	267	112	(13)	(15)	254	97
Net assets—beginning of Year, as restated	400	288	538	553	938	841
Net assets—end of year	$ 667	$ 400	$ 525	$ 538	$ 1,192	$ 938

GOVERNMENTAL ACTIVITIES

Total revenues for OCTA's governmental activities increased $152,633 primarily due to increases in sales taxes, capital grant reimbursements for the SR-22 construction project and investment earnings as a result of higher interest rates. Total expenses decreased $13,444 primarily due to the cessation of the CenterLine project and an offsetting increase of capital contributions to SCRRA for maintenance facilities and rolling stock.

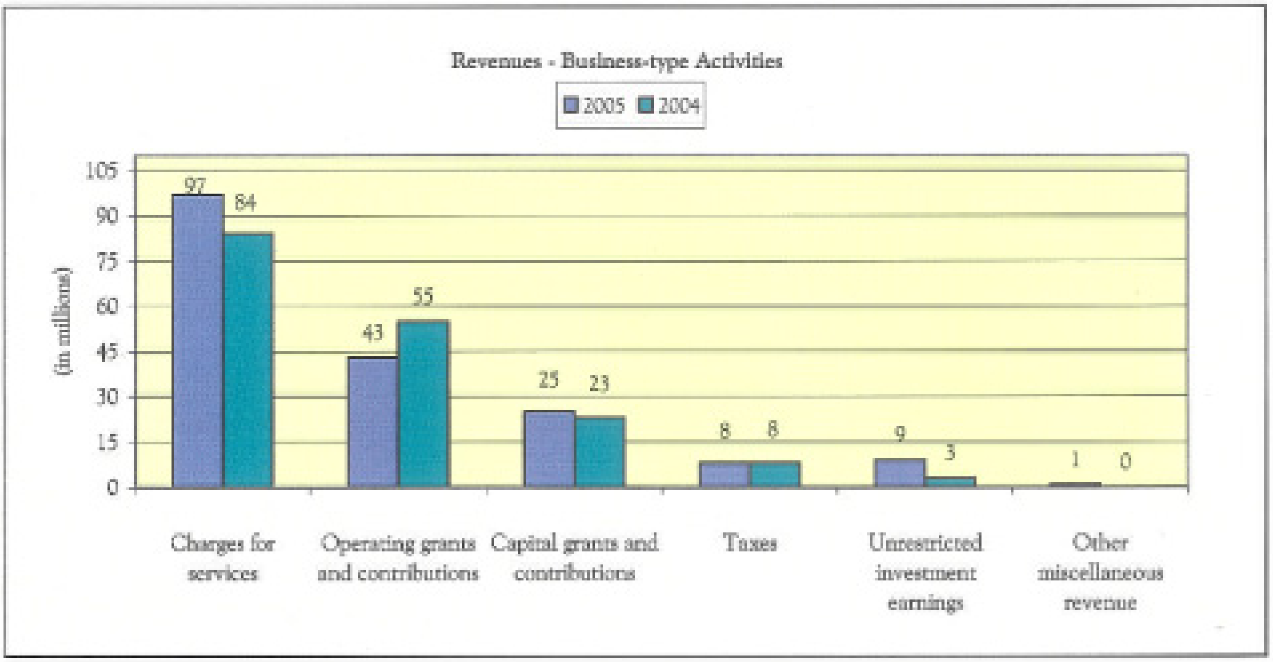
- Net assets for governmental activities increased $266,599, or 67%. This compares to a $111,996 increase in net assets in 2004.

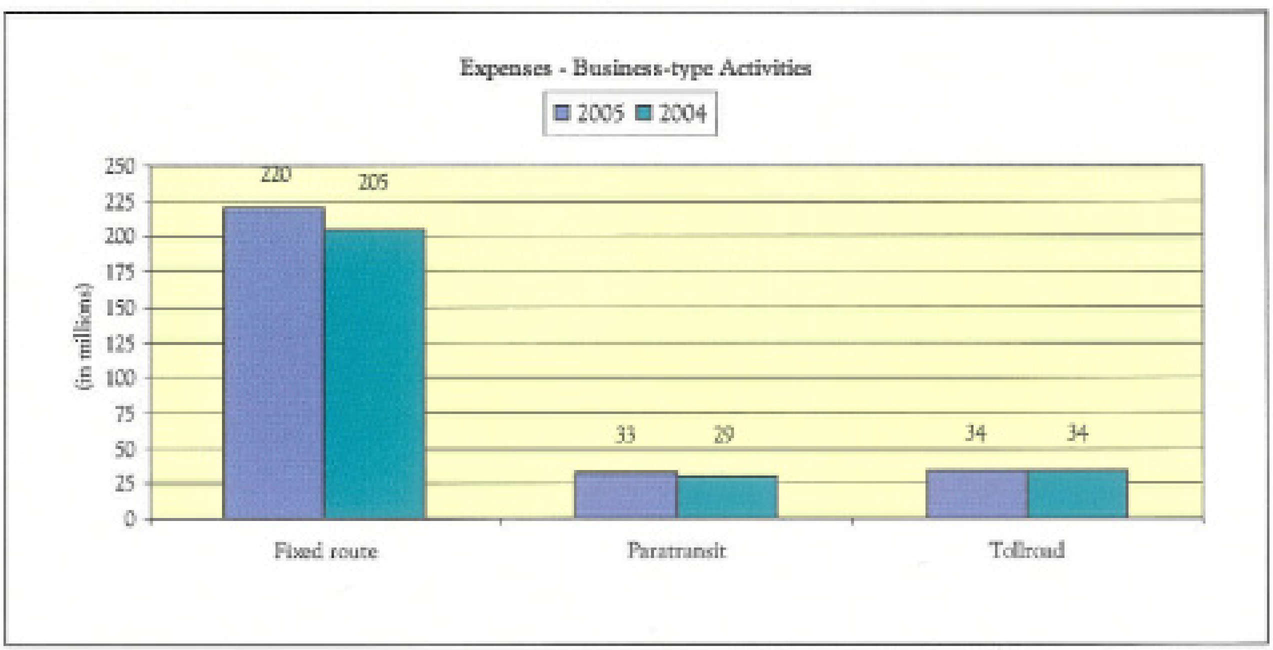




Business-type Activities

- Revenues of OCTA's business-type activities increased $9,077 primarily due to an increase in charges for services for bus operations due to the fare increase in January 2005 and a continued increase in ridership and toll fees for the 91 Express Lanes. Additionally, interest rates increased impacting investment earnings. This increase was offset by a decrease in operating grants and contributions due to management decision to earmark current year grants for future bus purchases. Total expenses increased $19,604 due to an increase in fuel prices, general liability, workers compensation and pension costs in addition to increased paratransit service.





Financial Analysis of OCTA's Funds

As of June 30, 2005, OCTA's governmental funds reported combined ending fund balances of $812,067, an increase of $65,834 compared to 2004. Approximately 19%, or $157,419, of this total amount constitutes unreserved fund balance; however, $136,863 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:

- $355,025 to liquidate contracts and purchase orders of the current and prior periods;
- $110,433 to pay debt service on Measure M sales tax revenue bonds issued in prior years to accelerate funding for Measure M projects;
- $180,571 for transportation programs primarily related to Measure M projects;
- $8,619 for motorist services.

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

- An increase of $79,593 in the LTA Special Revenue fund is primarily due to $124 million of Traffic Congestion Relief Program funds being re-allocated to the Garden Grove SR-22 project;
- A decrease of $9,361 in the CURE Special Revenue fund due to capital contributions to SCRRA for maintenance facilities and rolling stock; and
- A decrease of $5,143 in the LTA Debt Service fund due to scheduled annual principal and interest payments over the transfers in from the LTA fund.

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 $228,555 at June 30, 2005 compared to $240,984 at June 30, 2004. 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 $332 increase in expenditures primarily due to the increase in staffing as a result of increased effort on construction projects. Actual expenditures were less than the final budget by $2,995. This is primarily due to delays on the SR-57 extension and the SR-91 comprehensive major investment studies and postponement of the I-5 freeway project definition study.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2005, OCTA had $687,968, net of accumulated depreciation, invested in a broad range of capital assets including: the 91 Express Lanes toll facility franchise, transit vehicles, land, buildings, freeway construction projects and machinery, equipment and furniture (Table 3). The total increase in OCTA's capital assets for 2005 was 21.9%, which was comprised of a 87.2% increase for governmental activities and a .5% 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	
	2005	2004	2005	2004	2005	2004
Land	$ 134	$ 134	$ 45	$ 43	$ 179	$ 177
Buildings	2	2	67	27	69	29
Transit vehicles	-	-	104	113	104	113
Machinery, equipment and furniture	1	2	20	20	21	22
Toll facility franchise	-	-	187	194	187	194
Construction in progress	123	1	5	28	128	29
Totals	$ 260	$ 139	$ 428	$ 425	$ 688	$ 564

Major capital asset additions during 2005 included:

- $121,747 in freeway construction in progress for the SR-22 project;
- $17,291 in construction in progress related to the construction of a fourth transit base in Santa Ana;
- $7,245 for the purchase of 94 paratransit vehicles;
- $3,868 for bus rehabilitation projects;
- $4,369 for purchase of computer, communication, and other support equipment;
- $1,642 for bus base building improvements.

Major capital asset deletions during 2005 included:

- $1,717 disposal of revenue vehicles;
- $2,153 sale of excess land held for resale.

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

OCTA has outstanding construction contracts, the most significant of which are: $280,971 for the SR-22 project, $22,695 for the I-5 far north project, and $25,238 for the I-405/SR-55 transitway project.

Debt Administration

As of June 30, 2005, OCTA had $676,385 in bonds, commercial paper notes and certificates of participation outstanding compared to $749,580 at June 30, 2004, as presented in Table 4.

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

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Sales tax revenue bonds	$ 439	$ 500	$ -	$ -	$ 439	$ 500
Commercial paper notes	41	47	-	-	41	47
Certificates of participation	-	-	5	7	5	7
Revenue refunding bonds	-	-	191	195	191	195
Totals	$ 480	$ 547	$ 196	$ 202	$ 676	$ 749

OCTA retired $6,500 in commercial paper notes in August 2004.

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. The Toll Road Revenue Refunding Bonds (91 Express Lanes) have ratings of "A2" by Moody's, "A-" from Fitch, and "A-" by Standard and Poor's.

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

Economic and Other Factors

On June 13, 2005, the OCTA Board of Directors approved the Fiscal Year 2005-06 Budget. The budget is balanced at $681.8 million and is consistent with the OCTA's long-range Comprehensive Business Plan (CBP). The CBP is updated annually to address changes in the political and economic environment. While traditional indicators portend a relatively stable regional economy over the next five years, OCTA will face several economic challenges in the near future.

Competition for discretionary grant funds continues to escalate as public agencies vie for limited or reduced state and federal grant programs. In recent years, transportation funding has been diverted to meet other federal, state or county goals.

While transit ridership remains strong and sales tax revenues increase moderately, costs associated with federally mandated ACCESS service, health-care premiums, general liability claims, workers' compensation claims, diesel fuel and pensions have slowed the growth of the fixed route bus system. On July 1, 2005, OCTA implemented several cost containment strategies to mitigate the growing demand for ACCESS service. Aggressive internal efforts are underway to control the cost of health care and workers' compensation premiums with early indications showing positive results. However, pension costs and diesel fuel continue to rise outside of the OCTA's control which will have a significant negative impact on the ability to further expand fixed route bus service.

OCTA is making good on its promise to deliver significant freeway improvements to Orange County. OCTA is approximately halfway through the 800-day construction schedule to complete improvements on the Garden Grove SR-22 project. This past year, approximately $124 million of Traffic Congestion Relief Program funds were re-allocated to the Garden Grove SR-22 project with the passing of the state budget. Also, Measure M funds have been budgeted in FY 2005-06 to complete design and begin purchasing right-of-way for the I-5 Far North project.

Contacting OCTA's Management

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

Statement of Net Assets

(thousands)

June 30, 2005		Governmental Activities		Business-type Activities		Total
Assets						
Cash and investments	$	643,458	$	322,729	$	966,187
Receivables:						
Interest		5,004		2,973		7,977
Operating grants		-		19,067		19,067
Capital grants		22,268		3,437		25,705
Other		370		6,630		7,000
Internal balances		55,473		(55,473)		-
Due from other governments		112,873		4,086		116,959
Condemnation deposits		23,469		-		23,469
Inventory		-		5,101		5,101
Restricted cash and investments:						
Cash equivalents		25,590		6,343		31,933
Investments		47,083		19,428		66,511
Other assets		3,741		5,666		9,407
Land held for resale		19,558		-		19,558
Capital assets, net:						
Nondepreciable		256,840		50,089		306,929
Depreciable and amortizable		3,494		377,545		381,039
Total Assets		1,219,221		767,621		1,986,842
Liabilities						
Accounts payable		44,114		17,023		61,137
Accrued payroll and related items		1,849		6,637		8,486
Accrued interest payable		9,124		3,213		12,337
Claims payable		674		-		674
Due to other governments		14,522		580		15,102
Unearned revenue		-		4,285		4,285
Other liabilities		52		405		457
Commercial paper notes		40,900		-		40,900
Noncurrent liabilities:						
Due within one year		65,580		21,528		87,108
Due in more than one year		375,372		189,033		564,405
Total Liabilities		552,187		242,704		794,891
Net Assets						
Invested in capital assets, net of related debt		260,334		249,263		509,597
Restricted for:						
Measure M program		510,068		-		510,068
Debt service		110,433		25,771		136,204
Motorist services		8,619		-		8,619
Other		8,700		-		8,700
Unrestricted (deficit)		(231,120)		249,883		18,763
Total Net Assets	$	667,034	$	524,917	$	1,191,951

See accompanying notes to the financial statements.

Statement of Activities

(thousands)

for the year ended June 30, 2005	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Total
Functions/Programs							
Primary government							
Governmental activities:							
General government	$ 79,777	$ 39,429	$ 26,167	$ 841	$ (13,340)	$ -	$ (13,340)
Measure M program	126,042	182	-	148,577	22,717	-	22,717
Motorist services	7,672	-	9,096	-	1,424	-	1,424
Commuter rail	20,505	553	-	-	(19,952)	-	(19,952)
Urban rail	10,115	-	-	5,147	(4,968)	-	(4,968)
Total governmental activities	244,111	40,164	35,263	154,565	(14,119)	-	(14,119)
Business-type activities:							
Fixed route	220,037	52,636	37,339	25,205	-	(104,857)	(104,857)
Paratransit	32,558	4,385	5,342	13	-	(22,818)	(22,818)
Tollroad	33,886	39,598	-	-	-	5,712	5,712
Taxicab administration	245	275	-	-	-	30	30
Total business-type activities	286,726	96,894	42,681	25,218	-	(121,933)	(121,933)
Total primary government	$ 530,837	$ 137,058	$ 77,944	$ 179,783	(14,119)	(121,933)	(136,052)
General revenues:							
Property taxes					-	8,473	8,473
Sales taxes					351,185	-	351,185
Unrestricted investment earnings					20,496	8,506	29,002
Other miscellaneous revenue					310	443	753
Transfers					(91,273)	91,273	-
Total general revenues and transfers					280,718	108,695	389,413
Change in net assets					266,599	(13,238)	253,361
Net assets - beginning, as restated					400,435	538,155	938,590
Net assets - ending					$ 667,034	$ 524,917	$ 1,191,951

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

(thousands)

June 30, 2005	General	LTA	Local Transportation	CURE	Rail Capital Project	LTA Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Assets								
Cash and investments	$ 10,490	$ 464,086	$ 19,767	$ 76,881	$ 1,080	$ 36,873	$ 31,630	$ 640,807
Receivables:								
Interest	36	3,037	7	647	61	887	310	4,985
Capital grants	-	21,415	-	-	600	-	253	22,268
Other	5	10	-	39	-	-	24	78
Due from other funds	435	-	-	66,763	-	-	479	67,677
Due from other governments	1,741	101,825	3,145	80	-	-	6,082	112,873
Condemnation deposits	-	23,469	-	-	-	-	-	23,469
Restricted cash and investments:								
Cash equivalents	-	-	-	-	-	25,590	-	25,590
Investments	-	-	-	-	-	47,083	-	47,083
Other assets	303	2,835	-	-	-	-	-	3,138
Total Assets	$ 13,010	$ 616,677	$ 22,919	$ 144,410	$ 1,741	$ 110,433	$ 38,778	$ 947,968
Liabilities and Fund Balances								
Liabilities								
Accounts payable	$ 3,174	$ 38,638	$ -	$ 189	$ 984	$ -	$ 1,042	$ 44,027
Accrued payroll and related items	1,849	-	-	-	-	-	-	1,849
Compensated absences	1,845	-	-	-	-	-	-	1,845
Due to other funds	-	3	6,411	-	-	-	4,108	10,522
Due to other governments	300	9,095	927	3,056	-	-	1,144	14,522
Deferred revenue	-	17,952	-	4,232	-	-	-	22,184
Other liabilities	31	21	-	-	-	-	-	52
Commercial paper notes	-	40,900	-	-	-	-	-	40,900
Total Liabilities	7,199	106,609	7,338	7,477	984	-	6,294	135,901
Fund Balances								
Reserved for:								
Encumbrances	5,052	346,325	-	70	640	-	2,938	355,025
Debt service	-	-	-	-	-	110,433	-	110,433
Transportation programs	-	163,743	15,581	-	-	-	1,247	180,571
Motorist services	-	-	-	-	-	-	8,619	8,619
Unreserved, reported in:								
General fund	759	-	-	-	-	-	-	759
Special revenue funds	-	-	-	136,863	-	-	13,556	150,419
Capital projects funds	-	-	-	-	117	-	6,124	6,241
Total Fund Balances	5,811	510,068	15,581	136,933	757	110,433	32,484	812,067
Total liabilities and fund balances	$ 13,010	$ 616,677	$ 22,919	$ 144,410	$ 1,741	$ 110,433	$ 38,778	$ 947,968

See accompanying notes to the financial statements.

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

(thousands)

June 30, 2005

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

TOTAL FUND BALANCES (PAGE 16)	$	812,067
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		260,334
Land held for resale is not a financial resource and therefore is not reported in the funds.		19,558
Earned but unavailable revenue is not available to liquidate current liabilities and therefore are deferred.		22,184
Other long-term assets related to costs of issuance are not available to pay for current-period expenditures and therefore are deferred.		353
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.		769
Interest payable on bonds outstanding are not due and payable in the current period and therefore are not reported in the funds.		(9,124)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(439,107)
NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 14)	$	667,034

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, 2005	General	LTA	Local Transportation	CURE	Rail Capital Project	LTA Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues								
Sales taxes	$ -	$ 249,409	$ 94,971	$ -	$ -	$ -	$ 6,805	$ 351,185
Gasoline taxes	-	-	-	-	-	-	23,000	23,000
Vehicle registration fees	-	-	-	-	-	-	4,816	4,816
Fines	161	-	-	11	-	-	-	172
Contributions from other agencies	2,294	110,036	-	-	-	-	5,242	117,572
Charges for services	39,242	-	-	-	-	-	-	39,242
Interest	125	10,730	1,275	1,758	21	4,443	910	19,262
Federal capital assistance grants	-	21,650	-	-	5,147	-	752	27,549
Miscellaneous	147	182	3	698	-	-	26	1,056
Total revenues	41,969	392,007	96,249	2,467	5,168	4,443	41,551	583,854
Expenditures								
Current:								
General government:								
Salaries and benefits	27,968	-	-	-	-	-	-	27,968
Supplies and services	20,546	27,221	1,255	13,824	9,646	218	5,901	78,611
Contributions to other local agencies	540	55,058	2,474	6,681	440	-	25,324	90,517
Capital outlay	523	138,234	-	-	30	-	3,018	141,805
Debt service:								
Principal payments on long-term debt	-	-	-	-	-	60,615	-	60,615
Interest on long-term debt and				-				
commercial paper	-	722	-	-	-	27,603	-	28,325
Total expenditures	49,577	221,235	3,729	20,505	10,116	88,436	34,243	427,841
Excess (deficiency) of revenues over (under) expenditures	(7,608)	170,772	92,520	(18,038)	(4,948)	(83,993)	7,308	156,013
Other financing sources (uses)								
Transfers in	6,425	19,558	-	8,677	4,664	96,884	2,471	138,679
Transfers out	-	(111,830)	(89,670)	-	-	(18,034)	(10,417)	(229,951)
Proceeds from sale of capital assets	-	1,093	-	-	-	-	-	1,093
Total other financing sources (uses)	6,425	(91,179)	(89,670)	8,677	4,664	78,850	(7,946)	(90,179)
Net change in fund balances	(1,183)	79,593	2,850	(9,361)	(284)	(5,143)	(638)	65,834
Fund balances-beginning	6,994	430,475	12,731	146,294	1,041	115,576	33,122	746,233
Fund balances-ending	$ 5,811	$ 510,068	$ 15,581	$ 136,933	$ 757	$ 110,433	$ 32,484	$ 812,067

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, 2005

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)	$	65,834
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation in the current period.		121,296
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		(1,100)
Donations of land held for resale are not reported as revenues in governmental funds. However, they are included in the Statement of Activities.		16,892
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,189
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.		61,798
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.		(8)
Internal service funds are used by management to charge the costs of risk management and employee health to individual funds. The net revenue of the employee health administrative internal service fund is reported with governmental activities in the statement of activities.		698
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 15)	$	266,599

See accompanying notes to the financial statements.

Statement of Fund Net Assets - Proprietary Funds

(thousands)

June 30, 2005	Enterprise Funds: OCTD	Enterprise Funds: 91 Express Lanes	Enterprise Funds: Bus Operations	Enterprise Funds: Nonmajor Enterprise Fund OCTAP	Enterprise Funds: Total Enterprise Funds	Internal Service Funds
Assets						
Current assets:						
Cash and investments	$ 167,406	$ 25,127	$ 86,105	$ 8	$ 278,646	$ 46,734
Receivables:						
Interest	1,236	496	838	-	2,570	422
Operating grants	19,067	-	-	-	19,067	-
Capital grants	3,437	-	-	-	3,437	-
Violations	-	3,255	-	-	3,255	-
Allowance for doubtful accounts	-	(539)	-	-	(539)	-
Farebox	1,373	-	-	-	1,373	-
Other	588	894	-	12	1,494	1,339
Due from other funds	9,892	-	-	-	9,892	-
Due from other governments	4,086	-	-	-	4,086	-
Inventory	5,101	-	-	-	5,101	-
Other assets	118	4,739	-	-	4,857	1,059
Noncurrent assets:						
Restricted cash and investments:						
Cash equivalents	2,082	4,261	-	-	6,343	-
Investments	793	18,635	-	-	19,428	-
Capital assets, net:						
Nondepreciable	49,863	226	-	-	50,089	-
Depreciable and amortizable	184,285	193,260	-	-	377,545	-
Total Assets	449,327	250,354	86,943	20	786,644	49,554
Liabilities						
Current liabilities:						
Accounts payable	13,971	2,711	27	4	16,713	397
Accrued payroll and related items	6,631	-	-	6	6,637	-
Accrued interest	101	3,112	-	-	3,213	-
Due to other funds	5,390	-	-	-	5,390	284
Claims payable	-	-	-	-	-	10,830
Due to other governments	391	189	-	-	580	-
Unearned revenue	74	4,211	-	-	4,285	-
Other liabilities	7	398	-	-	405	-
Long-term liabilities	8,181	3,190	-	1	11,372	-
Noncurrent liabilities:						
Due to other funds	-	61,373	-	-	61,373	-
Claims payable	-	-	-	-	-	15,946
Long-term liabilities	2,877	170,210	-	-	173,087	-
Total Liabilities	37,623	245,394	27	11	283,055	27,457
Net Assets						
Invested in capital assets, net of related debt	229,177	20,086	-	-	249,263	-
Restricted	2,875	22,896	-	-	25,771	-
Unrestricted	179,652	(38,022)	86,916	9	228,555	22,097
Total Net Assets	$ 411,704	$ 4,960	$ 86,916	$ 9	$ 503,589	$ 22,097

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, 2005

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

Total net assets (page 20)	$	503,589
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.		21,328
Net assets of business-type activities (page 14)	$	524,917

See accompanying notes to the financial statements.

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

(thousands)

	Enterprise Funds					
June 30, 2005	OCTD	91 Express Lanes	Bus Operations	Nonmajor Enerprise Fund OCTAP	Total Enterprise Funds	Internal Service Funds
Operating revenues:						
User fees and charges	$ 46,879	$ 39,584	$ -	$ -	$ 86,463	$ -
Permit fees	-	-	-	275	275	-
Charges for services	-	-	-	-	-	26,453
Total operating revenues	46,879	39,584	-	275	86,738	26,453
Operating expenses:						
Wages, salaries and benefits	110,180	-	-	185	110,365	-
Maintenance, parts and fuel	21,316	-	-	-	21,316	-
Purchased services	32,848	5,337	112	-	38,297	-
Administrative services	27,160	1,675	-	40	28,875	740
Other	3,367	1,367	-	1	4,735	84
Insurance claims	-	305	-	-	305	36,858
Professional services	15,526	4,778	-	15	20,319	496
General and administrative	4,525	1,044	-	4	5,573	4
Depreciation and amortization	25,369	9,108	-	-	34,477	-
Total operating expenses	240,291	23,614	112	245	264,262	38,182
Operating income (loss)	(193,412)	15,970	(112)	30	(177,524)	(11,729)
Nonoperating revenues (expenses):						
Gas tax exchange	23,000	-	-	-	23,000	-
Federal operating assistance grants	19,351	-	-	-	19,351	-
Property taxes allocated by the County of Orange	8,473	-	-	-	8,473	-
Investment earnings	4,098	1,406	1,995	-	7,499	1,061
Interest expense	(258)	(10,273)	-	-	(10,531)	-
Other	10,543	149	-	-	10,692	350
Total nonoperating revenues (expenses)	65,207	(8,718)	1,995	-	58,484	1,411
Income (loss) before contributions and transfers	(128,205)	7,252	1,883	30	(119,040)	(10,318)
Capital contributions	25,548	-	-	-	25,548	-
Transfers in	110,719	-	-	-	110,719	-
Transfers out	(5,447)	-	(14,000)	-	(19,447)	-
Change in net assets	2,615	7,252	(12,117)	30	(2,220)	(10,318)
Total net assets (deficit) - beginning, as restated	409,089	(2,292)	99,033	(21)	505,809	32,415
Total net assets - ending	$ 411,704	$ 4,960	$ 86,916	$ 9	$ 503,589	$ 22,097

See accompanying notes to the financial statements.

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

(thousands)

for the year ended June 30, 2005

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)	$	(2,220)
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.		(11,018)
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE 15)	$	(13,238)

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

(thousands)

	Enterprise Funds					
for the year ended June 30, 2005	OCTD	91 Express Lanes	Bus Operations	Nonmajor Enterprise Fund OCTAP	Totals	Internal Service Funds
Cash flows from operating activities:						
Receipts from customers and users	$ 47,048	$ 38,677	$ -	$ 266	$ 85,991	$ -
Receipts from interfund services provided	-	-	-	-	-	25,559
Payments to suppliers	(77,440)	(10,957)	(108)	(18)	(88,523)	-
Payments to claimants	-	-	-	-	-	(26,187)
Payments to employees	(108,453)	-	-	(202)	(108,655)	-
Payments for interfund services used	(27,160)	(1,675)	-	(40)	(28,875)	(740)
Advertising revenue	9,400	-	-	-	9,400	-
Miscellaneous	1,049	149	-	-	1,198	-
Net cash provided by (used for) operating activities	(155,556)	26,194	(108)	6	(129,464)	(1,368)
Cash flows from noncapital financing activities:						
Gas tax exchange received	23,000	-	-	-	23,000	-
Federal operating assistance grants received	21,248	-	-	-	21,248	-
Property taxes received	8,473	-	-	-	8,473	-
Transfers in	110,876	-	-	-	110,876	284
Transfers out	(6,080)	-	(14,000)	-	(20,080)	-
Net cash provided by (used for) noncapital financing activities	157,517	-	(14,000)	-	143,517	284
Cash flows from capital and related financing activities:						
Federal capital grants for acquisition and construction of capital assets	25,573	-	-	-	25,573	-
Proceeds from sale of fixed assets	97	143	-	-	240	-
Payment of long-term debt	(2,445)	(3,635)	-	-	(6,080)	-
Interest paid	(301)	(8,281)	-	-	(8,582)	-
Acquisition and construction of capital assets	(34,784)	(1,618)	-	-	(36,402)	-
Net cash (used for) capital and related financing activities	(11,860)	(13,391)	-	-	(25,251)	-
Cash flows from investing activities:						
Purchase of investments	-	(12,635)	-	-	(12,635)	-
Investment earnings	4,082	1,330	2,042	-	7,454	1,040
Net cash provided by (used for) investing activities	4,082	(11,305)	2,042	-	(5,181)	1,040
Net increase (decrease) in cash and cash equivalents	(5,817)	1,498	(12,066)	6	(16,379)	(44)
Cash and cash equivalents at beginning of year	175,305	27,890	98,171	2	301,368	46,778
Cash and cash equivalents at end of year	$ 169,488	$ 29,388	$ 86,105	$ 8	$ 284,989	$ 46,734

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds, *continued*

(thousands)

for the year ended June 30, 2005	OCTD (Enterprise Funds)	91 Express Lanes (Enterprise Funds)	Bus Operations (Enterprise Funds)	Nonmajor Enterprise Fund OCTAP (Enterprise Funds)	Totals (Enterprise Funds)	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	$ (193,412)	$ 15,970	$ (112)	$ 30	$ (177,524)	$ (11,729)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation expense	25,369	1,777	-	-	27,146	-
Amortization of franchise agreement	-	7,331	-	-	7,331	-
Amortization of cost of issuance	57	142	-	-	199	-
Advertising revenue	9,400	-	-	-	9,400	-
Miscellaneous	1,049	149	-	-	1,198	-
Insurance recoveries	-	-	-	-	-	350
Change in assets and liabilities:						
Receivables	(871)	(1,969)	-	(9)	(2,849)	(894)
Due from other governments	1,040	-	-	-	1,040	-
Inventory	(213)	-	-	-	(213)	-
Other assets	-	39	-	-	39	371
Accounts payable	64	1,693	4	2	1,763	57
Accrued payroll and related items	1,029	-	-	(4)	1,025	-
Compensated absences	698	-	-	(13)	685	-
Claims payable	-	-	-	-	-	10,477
Due to other governments	234	189	-	-	423	-
Unearned revenue	-	990	-	-	990	-
Other liabilities	-	(117)	-	-	(117)	-
Total adjustments	37,856	10,224	4	(24)	48,060	10,361
Net cash provided by (used for) operating activities	$ (155,556)	$ 26,194	$ (108)	$ 6	$ (129,464)	$ (1,368)
Reconciliation of cash and cash equivalents to Statements of Net Assets						
Cash and investments	$ 167,406	$ 25,127	$ 86,105	$ 8	$ 278,646	$ 46,734
Restricted cash and cash equivalents	2,082	4,261	-	-	6,343	-
Total cash and cash equivalents	$ 169,488	$ 29,388	$ 86,105	$ 8	$ 284,989	$ 46,734
Schedule of Noncash activities:						
Purchase of capital on account	$ 320	$ -	$ -	$ -	$ 320	$ -

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets

(thousands)

June 30, 2005	Private-Purpose Trust Fund
Assets	
Cash and investments	$ 17
Total Assets	17
Net Assets	
Held in trust for future scholarships	17
Total Net Assets	$ 17

See accompanying notes to the financial statements.

Statement of Changes in Fiduciary Net Assets

(thousands)

for the year ended June 30, 2005	Private-Purpose Trust Fund
Additions	
Contributions	
Private donations	$ 22
Total additions	22
Deductions	
Scholarships	19
Total deductions	19
Change in net assets	3
Net assets - beginning	14
Net Assets - ending	$ 17

See accompanying notes to the financial statements.

This page intentionally left blank.

(THOUSANDS)

JUNE 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

On September 10, 2004, Governor Schwarzenegger signed into law Assembly Bill 710 (Chapter 469, Statutes of 2004) which increased the OCTA governing board from 11 voting members to 17 voting members effective January 1, 2005.

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

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

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

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

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

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

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

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

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

Basis of Presentation

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

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

(THOUSANDS)

JUNE 30, 2005

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, 2005, interest expense of $27,083, $258 and $10,273, was included as Measure M, fixed route, and tollroad program costs, respectively. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Sales taxes and other items, which are properly not included among program revenues, are reported instead as general revenues.

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

OCTA reports the following major governmental funds:

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

- ***LOCAL TRANSPORTATION AUTHORITY (LTA) FUND*** – This fund accounts for revenues received and expenditures made for the implementation of the Orange County Traffic Improvement and Growth Management Plan. Financing is provided by a one-half percent sales and use tax assessed for twenty years pursuant to Measure M, which became effective April 1, 1991. 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:

(THOUSANDS)

JUNE 30, 2005

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

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

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

Additionally, OCTA reports the following fund types:

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

  General Liability
  Workers' Compensation
  Employee Health

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

Those revenues susceptible to accrual are sales 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.

(THOUSANDS)

JUNE 30, 2005

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 28, 2005. 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, 2005, the investment portfolios were maintained at The Bank of New York Trust Company, N.A. as custodial bank. Separate investment manager accounts are maintained for the proceeds of bond issues, with the earnings for each bond issue accounted for separately. Cash from other OCTA revenue sources is commingled for investment purposes, with investment earnings allocated to the different accounts based on average daily dollar account balances.

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.

(THOUSANDS)

June 30, 2005

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 2004-05 fiscal year, $39,242 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 $26,453 to OCTA's operating funds.

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 previous page). This land is reported as Land held for resale in the governmental activities column in the government-wide financial statements. This land will be sold and proceeds will be reimbursed to the fund where the initial expenditure was recorded.

Compensated Absences

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

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

Long-Term Debt

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

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

(THOUSANDS)

JUNE 30, 2005

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

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.

(THOUSANDS)

JUNE 30, 2005

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.

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 $260,334 difference are as follows:

Capital assets	$274,298
Less accumulated depreciation	(13,964)
NET ADJUSTMENT TO INCREASE FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS – GOVERNMENTAL ACTIVITIES	**$260,334**

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 ($439,107) difference are as follows:

Bonds payable	$ (438,890)
Less deferred charge on refunding (to be amortized as interest expense)	2,018
Plus unamortized bond issuance premium (to be amortized to interest expense)	(2,106)
Compensated absences	(129)
NET ADJUSTMENT TO DECREASE FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS – GOVERNMENTAL ACTIVITIES	**$(439,107)**

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 $121,296 difference are as follows:

(THOUSANDS)

JUNE 30, 2005

Capital outlay	$122,427
Depreciation expense	(1,131)
NET ADJUSTMENT TO INCREASE NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	**$121,296**

Another element of that reconciliation states that "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets." The details of this ($1,100) difference are as follows:

Proceeds on sale of capital assets	$ (1,093)
Loss on sale of excess land	(1)
Donations of capital assets	(6)
NET ADJUSTMENT TO DECREASE NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	**$ (1,100)**

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 $61,798 difference are as follows:

Principal repayments - sales tax revenue bonds	$60,615
Change in accrued interest	1,227
Amortization of deferred charge on refunding	(336)
Amortization of premium	351
Amortization of issuance costs	(59)
NET ADJUSTMENT TO INCREASE NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	**$61,798**

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 ($8) difference are as follows:

Compensated absences	$ (8)
NET ADJUSTMENT TO DECREASE NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	**$ (8)**

(THOUSANDS)

JUNE 30, 2005

(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 eight years as of June 30, 2005.

(4) CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2005:

Deposits:	
Petty cash	$ 7
Deposits	3,714
Total cash	**3,721**
Investments:	
With Orange County Treasurer	22,176
With LAIF	24,162
With Trustee	144,408
With Custodian	870,181
Total investments	**1,060,927**
Total cash and investments	**$1,064,648**

Total deposits and investments are reported in the following funds:

Unrestricted Cash and Investments:	
Governmental Funds	$ 640,807
Proprietary Funds:	
Enterprise	278,646
Internal Service	46,734
Fiduciary Funds	17
Restricted Investments:	
Governmental Funds	72,673
Proprietary Funds:	
Enterprise	25,771
Total Cash and Investments	**$1,064,648**

(THOUSANDS)

JUNE 30, 2005

Restricted investments at June 30, 2005, represent reserves for debt service.

As of June 30, 2005, OCTA had the following investments:

INVESTMENT	FAIR VALUE	PRINCIPAL	INTEREST RATE RANGE	MATURITY RANGE	WEIGHTED AVERAGE MATURITY (YEARS)
Orange County Investment Pool	$ 22,176	$ 19,268	1.19%-3.14%	50-64 days	50 days or .13
Local Agency Investment Fund	24,162	24,217	1.469%-2.967%	165-196 days	165 days or .45
U. S. Treasuries	419,127	423,324	1.64%-6.76%	11/15/05-2/15/10	1.98
U. S. Agency Notes	211,122	215,477	2.03%-5.67%	3/6/06-	1.64
Medium Term Notes	68,255	70,737	2.49%-7.60%	8/1/05-	1.99
Mortgage and Asset Backed Securities	121,926	123,253	1.64%-5.95%	7/1/06-	3.41
Money Market Mutual Funds	93,302	93,302	Variable	7/1/05	0.00
Investment Agreements	79,498	66,510	Discount, 3.877%-5.791%	8/15/05-12/15/30	8.84
Variable and Floating Rate Securities	14,764	14,768	4.33%-5.60%	4/20/06-	1.33
Negotiable Certificates of Deposit	3,870	3,870	2.48%	7/1/05	1 day
Repurchase Agreements	2,725	2,725	2.55%	7/1/05	1 day
TOTAL INVESTMENTS	$1,060,927	$1,057,451			

INTEREST RATE RISK

OCTA manages exposure to declines in fair value from increasing interest rates by having an investment policy that limits maturities to five years while also staggering maturities. OCTA maintains a low duration strategy, targeting an estimated average portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile, therefore less sensitive to interest rate changes.

As of June 30, 2005, asset-backed securities totaled $121,926. The underlying assets are consumer receivables that include credit cards, auto and home loans. The securities have a fixed interest rate and are rated AAA by at least two of the three nationally recognized rating services.

As of June 30, 2005, variable rate securities totaled $14,764. The notes are tied to the one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate securities is generally less susceptible to changes in value because the variable-rate coupon resets back to the market rate on a periodic basis, effectively eliminating interest rate risk at each periodic reset. The details of the floating rate securities are as follows:

Issuer	Collateral	Int. Rate Range	Index	Credit Rating
Eli Lilly	Notes	1.74% to 3.34%	3 month LIBOR + 5 basis points	AA/AA
			3 month LIBOR +	

(THOUSANDS)

JUNE 30, 2005

FHLMC	Notes	Variable to fixed after 11/05	12 basis points	AAA/Aaa
Goldman Sachs	Notes	1.81% to 3.32%	3 month LIBOR + 18 basis points	A+/Aa3
National City Bank	Notes	1.45% to 3.31%	1 month LIBOR flat	A+/Aa3
Wells Fargo	Notes	1.96% to 3.48%	3 month LIBOR + 9 basis points	AA-/Aa1

CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. OCTA's investment policy requires that a third party bank custody department hold all securities owned by OCTA. All trades are settled on a delivery versus payment basis through OCTA's safekeeping agent. At June 30, 2005, OCTA did not have any securities exposed to custodial credit risk and there was no securities lending.

CREDIT RISK

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

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2005. (NR means Not Rated):

INVESTMENTS	S & P	MOODY'S	FITCH	% OF
Orange County Investment Pool	NR	Aaa	AAA/VI+	2.09%
Local Agency Investment Fund	NR	NR	NR	2.28%
U. S. Treasuries	AAA	AAA	AAA	39.51%
U. S. Agency Notes	AAA	Aaa	AAA	19.90%
Medium Term Notes	AA	Aa2	AA	6.43%
Mortgage and Asset Backed Securities	AAA	Aaa	AAA	11.49%
Money Market and Mutual Funds	AAA	Aaa	NR	8.80%
Investment Agreements	AAA	Aaa	AAA	7.49%
Variable and Floating Rate Securities	AA	Aa2	AA	1.39%
Negotiable Certificates of Deposit	AA	Aa2	AA	.36%
Repurchase Agreements	AA	Aa2	AA	.26%
TOTAL				100%

CONCENTRATION OF CREDIT RISK

At June 30, 2005, OCTA did not exceed the IPS limitation that states that no more than:

(THOUSANDS)

JUNE 30, 2005

- 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government sponsored enterprises.

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

(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 2005, OCTA was awarded $19,045 in operating assistance and had a receivable of $19,067 outstanding as of June 30, 2005.

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 2005, OCTA was awarded $69,878 in capital grants and had a receivable of $25,705 outstanding as of June 30, 2005.

LOCAL TRANSPORTATION FUND

In 2005, 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 2005, OCTA and OCTD became entitled to $3,880 and $85,314 in LTF moneys respectively. This entitlement was recorded as a transfer from LTF to OCTD. The remaining revenues received by LTF were contributed to other agencies for use in transit projects and OCTA planning. An additional $38,000 in TDA revenue was diverted to the County under provisions of bankruptcy recovery legislation passed by the California State legislature in September 1995 (see Note 3), and, accordingly, is not recorded in the financial statements.

STATE TRANSIT ASSISTANCE PROGRAM

In 2005, STAF was allocated a portion of the state gasoline tax. The gasoline tax is allocated to each county based on demographic factors. In 2005, OCTD became entitled to $6,348 in STAF moneys. This entitlement was recorded as a transfer from STAF to OCTD.

(THOUSANDS)
JUNE 30, 2005

(6) Due from other governments

Amounts due from other governments as of June 30, 2005 are as follows:

	Governmental Funds					Enterprise Fund	
Receivables:	General	LTA	LTF	CURE	Nonmajor Funds	OCTD	Total
Sales taxes	$ -	$ 9,316	$ 3,145	$ -	$ 473	$ -	$ 12,934
Project reimbursements	1,722	92,509				-	94,231
Vehicle registration fees					809		809
Gas tax exchange					1,917	3,755	5,672
Other	19			80	2,883	331	3,313
Total	$ 1,741	$101,825	$ 3,145	$ 80	$ 6,082	$ 4,086	$116,959

(7) Interfund receivables/payables and transfers

Interfund Balances:

The composition of interfund balances at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount	Explanation
General Fund	Nonmajor Governmental Funds	$ 435	Transportation projects and Management fee
CURE Fund	OCTD Enterprise Fund	5,390	Operating assistance
CURE Fund	91 Express Lanes Fund	61,373	91 Express Lanes purchase
Nonmajor Governmental Funds	LTA Fund	3	405/55 project
Nonmajor Governmental Funds	Local Transportation Fund	476	ADA bus stop improvement
OCTD Enterprise Fund	Local Transportation Fund	5,935	OCTD and CTSA
OCTD Enterprise Fund	Nonmajor Governmental Funds	3,673	Senior/disabled subsidy and negative cash funding
OCTD Enterprise Fund	Internal Service Funds	284	Negative cash funding
Total		$ 77,569	

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 (1.46% at June 30, 2005). Interest accrues monthly, and the advance from other OCTA funds plus accrued interest will be repaid by the 91 Express Lanes Fund on an on-going basis with net revenues. There were no payments made against these advances during fiscal year 2005. At June 30, 2005, these advances were $61,373 and are reported as interfund balances.

(THOUSANDS)
JUNE 30, 2005

Interfund Transfers:

TRANSFERS OUT	TRANSFERS IN	AMOUNT	EXPLANATION
LTA Fund	Rail Capital Project Fund	$ 4,664	Centerline project
LTA Fund	LTA Debt Service Fund	96,884	Debt service
LTA Fund	Nonmajor Governmental Funds	1,938	Capital projects
LTA Fund	OCTD Enterprise Fund	5,057	Fare stabilization
LTA Fund	CURE Fund	3,287	Capital projects and Rail cars
Local Transportation Fund	General Fund	3,880	OCTA planning
Local Transportation Fund	OCTD Enterprise Fund	85,314	OCTD and CTSA
Local Transportation Fund	Nonmajor Governmental Funds	476	ADA bus stops
LTA Debt Service Fund	LTA Fund	18,034	Excess debt service available for operations
Nonmajor Governmental Funds	General Fund	2,545	Transportation projects and Management fee
Nonmajor Governmental Funds	OCTD Enterprise Fund	6,348	OCTD and Senior/Disabled subsidy
Nonmajor Governmental Funds	LTA Fund	1,524	SR57 HOV lane
OCTD Enterprise Fund	CURE Fund	5,390	Rail operations (Metrolink)
OCTD Enterprise Fund	Nonmajor Governmental Funds	57	Management fee
Bus Operations Fund	OCTD Enterprise Fund	14,000	OCTD operations
TOTAL		$249,398	

(8) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 134,247	$ -	$ -	$ 134,247
Construction in progress	72	-	19	53
Construction in progress held for Department of Transportation	793	121,747	-	122,540
Total capital assets, not being depreciated	135,112	121,747	19	256,840

(THOUSANDS)

JUNE 30, 2005

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital assets, being depreciated:				
Buildings	3,221	326	175	3,372
Machinery, equipment and furniture	13,544	542	-	14,086
Total capital assets, being depreciated	16,765	868	175	17,458
Less accumulated depreciation for:				
Buildings	(873)	(144)	-	(1,017)
Machinery, equipment and furniture	(11,960)	(987)	-	(12,947)
Total accumulated depreciation	(12,833)	(1,131)	-	(13,964)
Total capital assets, being depreciated, net	3,932	(263)	175	3,494
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	**$ 139,044**	**$ 121,484**	**$ 194**	**$ 260,334**
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 43,314	$ 1,571	$ -	$ 44,885
Construction in progress	28,155	22,786	45,737	5,204
Total capital assets, not being depreciated depreciated improvem	71,469	24,357	45,737	50,089
Capital assets, being depreciated and amortized:				
Buildings	58,990	41,642	-	100,632
Transit vehicles	218,347	11,332	1,717	227,962
Machinery, equipment and furniture	53,243	5,043	312	57,974
Toll facility franchise	205,264	-	-	205,264
Total capital assets, being depreciated and amortized	535,844	58,017	2,029	591,832
Less accumulated depreciation and amortization for:				
Buildings	(31,793)	(2,322)		(34,115)
Transit vehicles	(106,014)	(19,147)	(1,714)	(123,447)
Machinery, equipment and furniture	(32,975)	(5,677)	(254)	(38,398)
Toll facility franchise	(10,996)	(7,331)		(18,327)
Total accumulated depreciation and amortization	(181,778)	(34,477)	(1,968)	(214,287)
Total capital assets, being depreciated and amortized, net	354,066	23,540	61	377,545
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	**$ 425,535**	**$ 47,897**	**$ 45,798**	**$427,634**

(THOUSANDS)

JUNE 30, 2005

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

Governmental activities:	
General government	$ 1,056
Measure M program	67
Motorist services	8
TOTAL DEPRECIATION EXPENSE – GOVERNMENTAL ACTIVITIES	**$1,131**
Business-type activities:	
Fixed route and paratransit	$ 25,369
Tollroad	9,108
TOTAL DEPRECIATION AND AMORTIZATION EXPENSE – BUSINESS-TYPE ACTIVITIES	**$34,477**

(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 $10,000 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:

	2005	2004
GENERAL LIABILITY		
UNPAID CLAIMS AS OF JULY 1,	$ 2,796	$ 2,556
Incurred claims (including claims incurred but not reported as of June 30):		
Provision for current year events	3,500	756
Increase in provision for prior year events	7,423	277
Total incurred claims	10,923	1,033
PAYMENTS:		
Claims attributable to current year events	2,197	591
Claims attributable to prior year events	1,458	202
Total payments	(3,655)	(793)
Unpaid claims at June 30,	10,064	2,796

(THOUSANDS)

JUNE 30, 2005

	2005	2004
WORKERS' COMPENSATION		
UNPAID CLAIMS AS OF JULY 1,	12,239	9,896
Incurred claims (including claims incurred but not reported as of June 30):		
Provision for current year events	3,309	6,698
Increase in provision for prior year events	6,240	2,233
Total incurred claims	9,549	8,931
PAYMENTS:		
Claims attributable to current year events	831	700
Claims attributable to prior year events	4,919	5,888
Total payments	(5,750)	(6,588)
Unpaid claims at June 30,	16,038	12,239
EMPLOYEE HEALTH		
UNPAID CLAIMS AS OF JULY 1,	1,264	1,014
Incurred claims (including claims incurred but not reported as of June 30):		
Provision for current year events	2,045	5,351
Total incurred claims	2,045	5,351
PAYMENTS:		
Claims attributable to current year events	2,117	3,777
Claims attributable to prior year events	518	1,324
Total payments	(2,635)	(5,101)
Unpaid claims at June 30,	674	1,264
TOTAL UNPAID CLAIMS AT JUNE 30,	**26,776**	**16,299**
Less current portion of unpaid claims	10,830	4,316
TOTAL LONG-TERM PORTION OF UNPAID CLAIMS	**$ 15,946**	**$ 11,983**

At June 30, 2005, $16,682 in unpaid workers compensation claims and claim adjustment expenses are presented at their net present value of $16,038. These claims are discounted at 1.5%.

(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, 2005, nor were there any amounts outstanding under this Letter of Credit agreement at June 30, 2005.

As of June 30, 2005, LTA had outstanding Notes in the amount of $40,900. There were no additional Notes issued; $6,500 in Notes was retired in August 2004. On August 31, 2005, OCTA retired $6,400 in Notes, which reduced the outstanding principal balance to $34,500. The source of revenue to repay the Notes is the Measure M sales tax. Interest is payable on the respective maturity dates of the Notes, which are the earlier of 270 days from date of issuance or program termination. The maximum allowable interest rate on the Notes is 12.0%, with issuance rates at June 30, 2005 ranging from 1.07% to 2.75%.

(THOUSANDS)

CHANGES IN SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2005, was as follows:

	BEGINNING BALANCE	ISSUED	REDEEMED	ENDING BALANCE
Tax exempt commercial paper	$ 47,400	$ -	$ 6,500	$ 40,900

(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, 2005

A summary of the bonds outstanding is as follows:

	1992 1st Senior Bond	1992 2nd Senior Bond	1994 2nd Senior Bond	1997 2nd Senior	1998 2nd Senior Bond	2001 2nd Senior Bond
Issuance Date	08/27/92	09/18/92	02/24/94	08/15/97	03/15/98	10/15/01
Original issue amount	$ 350,000	$ 190,000	$ 200,000	$ 57,730	$ 213,985	$ 48,430
Original issue (discount)/ premium	(2,612)	(727)	(165)	3,800	11,687	3,510
Net bond proceeds	$ 347,388	$ 189,273	$ 199,835	$ 61,530	$ 225,672	$ 51,940
Issuance costs	$ 3,508	$ 2,323	$ 2,535	$ 780	$ 2,194	$ 590
Reserve requirements	$ -	$ 14,465	$ 11,535	$ 2,009	$ 22,567	$6,334
Interest Rate	2.8%-12.23%	2.9%-12.03%	2.8%-12.55%	3.8%-5.7%	3.9%-5.5%	4.0-5.0%
Effective blended rate	6.0%	5.96%	4.94%	5.06%	4.45%	3.70%
Annual principal payment	$21,030-27,200	$11,570-12,185	$13,200-16,900	$15-15,445	$17,905-23,300	$15,460-16,850
Maturity	2011	2011	2011	2011	2011	2011
Bonds outstanding	$144,645	$23,755	$41,690	$57,415	$122,955	$48,430
Less deferred loss on refunding	-	-	-	-	-	(2,018)
Plus unamortized premium	-	-	-	-	-	2,106
TOTAL	**$144,645**	**$23,755**	**$41,690**	**$57,415**	**$122,955**	**$48,518**

The sales tax revenue bonds contain certain financial covenants, and management believes OCTA is in compliance with such covenants as of June 30, 2005.

(THOUSANDS)

JUNE 30, 2005

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2005, are as follows:

YEAR ENDING JUNE 30	PRINCIPAL	INTEREST
2006	$ 63,720	$ 24,466
2007	67,325	20,994
2008	71,290	17,168
2009	75,355	13,202
2010	78,405	9,000
2011	82,795	4,627
TOTAL	$438,890	$89,457

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	$3,705	$1,260
Unamortized premium	$ -	$7

The COP's contain certain financial covenants, and management believes OCTA is in compliance with such covenants as of June 30, 2005.

Annual debt service requirements of the COPs to maturity as of June 30, 2005 are as follows:

YEAR ENDING JUNE 30	1993 COPS		1999 REFUNDING COPS	
	Principal	Interest	Principal	Interest
2006	1,235	162	1,260	25
2007	1,235	97	-	-
2008	1,235	33	-	-
TOTAL	$3,705	$292	$1,260	$25

(THOUSANDS)

JUNE 30, 2005

TAXABLE SENIOR SECURED BONDS

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

TOLL ROAD REVENUE REFUNDING BONDS

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

INTEREST RATE SWAPS

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

TERMS

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

FAIR VALUE

As of June 30, 2005 the negative fair value for the $75,000 swap with Lehman Brothers was estimated by Lehman Brothers to be $9,644. As of June 30, 2005 the negative fair value for the $25,000 swap with Bear Stearns was estimated by Bear Stearns to be $2,210. Therefore, if the swaps were terminated on June 30, 2005, the OCTA would have made a termination payment of $9,644 and $2,210 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, 2005 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, 2005, 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, 2005 is reflected in the calculation of the fair value of the interest rate swaps between the OCTA and the swap providers. The fair values were estimated by the counterparties using proprietary methodologies. 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, 2005

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, 2005, OCTA experienced $57 in cumulative positive basis differential.

Termination Risk

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

Swap Payments and Associated Debt

As of June 30, 2005, debt service requirements of OCTA's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows:

	$75,000 Series 2003-B-1 (1)			$25,000 Series-B-2 (1)			
Year ending June 30	Principal	Interest	Interest Rate Swap Net	Principal	Interest	Interest Rate Swap Net	Total
2006	$ -	$ 1,740	$ 1,337	$ -	$ 550	$ 446	$ 4,073
2007	-	1,740	1,337	-	550	446	4,073
2008	-	1,740	1,337	-	550	446	4,073
2009	-	1,740	1,337	-	550	446	4,073
2010	-	1,740	1,337	-	550	446	4,073
2011-2015	-	8,700	6,684	-	2,750	2,228	20,362
2016-2020	-	8,700	6,684	-	2,750	2,228	20,362
2021-2025	25,005	7,631	5,862	5,960	2,412	1,954	48,824
2026-2030	40,715	3,522	2,706	12,990	1,113	902	61,948
2031	9,280	116	84	6,050	37	28	15,595
	$ 75,000	$ 37,369	$ 28,705	$ 25,000	$ 11,812	$ 9,570	$ 187,456

As rates vary, variable-rate bond interest payments and net swap payments will vary.

(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.

(THOUSANDS)

JUNE 30, 2005

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	$191,630
Unamortized premium	$6,419
Deferred amount on refunding	($24,649)

* 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, 2005.

Annual debt service requirements on the tax-exempt bonds as of June 30, 2005, are as follows:

YEAR ENDING JUNE 30	PRINCIPAL	INTEREST	TOTAL
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	4,515	7,743	12,258
2011-2015	26,305	34,968	61,273
2016-2020	34,055	27,222	61,277
2021-2025	43,405	18,155	61,560
2026-2030	54,290	8,222	62,512
2031	12,370	265	12,635
TOTAL	$191,630	$128,904	$320,534

The interest rate used to determine the future annual debt service requirements for the variable rate bonds was 4.06227% at June 30, 2005.

(THOUSANDS)

JUNE 30, 2005

CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2005, was as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Governmental activities:					
Sales tax revenue bonds	$ 499,505	$ -	$ 60,615	$ 438,890	$ 63,720
Unamortized deferred loss on refunding	(2,354)	-	(336)	(2,018)	(336)
Unamortized premium	2,457	-	351	2,106	351
Compensated absences	1,937	2,740	2,703	1,974	1,845
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES	**$501,545**	**$ 2,740**	**$63,333**	**$440,952**	**$65,580**
Business-type activities:					
Certificates of participation	$ 7,410	$ -	$ 2,445	$ 4,965	$ 2,495
Tax-exempt bonds	195,265	-	3,635	191,630	4,005
Unamortized premium	6,693	-	267	6,426	259
Unamortized Deferred Amount on Refunding	(25,716)	-	(1,067)	(24,649)	(1,068)
Claims payable	15,035	20,472	9,405	26,102	10,156
Compensated absences	5,399	10,726	10,038	6,087	5,681
TOTAL BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES	**$204,086**	**$31,198**	**$24,723**	**$210,561**	**$21,528**

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. Arbitrage calculations are to be made every five years subsequent to the bond issue date. There were no arbitrage calculations due for fiscal year 2005.

(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

(THOUSANDS)

JUNE 30, 2005

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 3.91% to 10.99% to the plan. OCTA's actuarially determined contribution requirement was 11.45% 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, 2003 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 7.75% per annum compounded annually and an inflation factor of 3.0%; and (b) projected annual salary increases that vary by duration of service and include a factor of 3.0% for inflation, .25% for across the board salary increases and various amounts for merit according to longevity. 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) – Annual required contributions for fiscal year 2005 were based on the OCERS actuarial valuation as of December 31, 2003, 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 4.0%.

OCTA's contributions to OCERS for the years ended June 30, 2005, 2004, and 2003 were $9,924, $6,673 and $3,557, respectively, and were equal to the required contribution calculated by the OCERS actuary for each year.

Three-year trend information for PERS is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	$ 0	N/A	$ 0
6/30/04	0	N/A	0
6/30/03	0	N/A	0

(THOUSANDS)
JUNE 30, 2005

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
6/30/03	$4,446	$5,315	$869	119.5%	$296	293.6%
6/30/02	3,945	5,286	1,342	134.0%	547	245.3%
6/30/01	3,731	5,660	1,929	151.0%	825	233.8%

(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, 2005 are as follows:

	Total Purchase Commitments	Reserve for Encumbrances	Outstanding Purchase Commitments
Governmental Funds:			
General	$ 5,052	$ 5,052	$ -
LTA	346,325	346,325	-
CURE	70	70	-
Rail Capital Projects	640	640	-
Nonmajor governmental	2,938	2,938	-
Total Governmental Funds	355,025	355,025	-
Proprietary Funds:			
OCTD	20,288	-	20,288
91 Express Lanes	1,674	-	1,674
Internal Service	219	-	219
Total Proprietary Funds	22,181	-	22,181
Total	**$ 377,206**	**$ 355,025**	**$ 22,181**

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

(14) Other Commitments and Contingencies

Litigation

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

(THOUSANDS)

JUNE 30, 2005

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. On February 23, 2005, OCTA issued a Request for Proposal for the operation and management of the 91 Express Lanes. The contract is anticipated to be awarded October 2005.

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, 2005 amounted to $4,876.

Future minimum payments for these leases are as follows:

2006	$ 6,581
2007	6,432
2008	5,609
2009	864
2010	310
TOTAL	$ 19,796

(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 $16,166 during 2005 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.

(THOUSANDS)

JUNE 30, 2005

(16) PRIOR YEAR ADJUSTMENT

OCTA became aware of discrepancies in the calculation of depreciation expense impacting prior years. An adjustment was made to OCTD's beginning total net assets of $5,061. Additionally, the same adjustment was made to the beginning net assets for the government wide statements. The following is a summary for the effect of this adjustment:

	Business-type Activities Net Assets	OCTD Enterprise Fund Total net assets
Beginning balance, as previously reported	$ 543,216	$ 414,150
Adjustment	(5,061)	(5,061)
Beginning balance, as restated	**$ 538,155**	**$ 409,089**

(17) DEFICIT NET ASSET

The Workers' Compensation Internal Service Fund had a deficit net asset of $1,772 as of June 30, 2005, due to a significant increase in workers compensation costs. OCTA has developed new policies and more stringent guidelines to alleviate these increased costs.

(18) EFFECT OF NEW PRONOUNCEMENTS

GASB Statement No. 40

In March 2003, GASB issued Statement No. 40, Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3. This statement is designed to inform financial statement users about deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this statement requires disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risk identified in this statement should also be disclosed. OCTA has implemented the new reporting requirements for the fiscal year 2005 financial statements.

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. 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 has not determined its effects on OCTA's financial statements. This statement is effective for OCTA's fiscal year ending June 30, 2008.

GASB Statement No. 46

In December 2004, GASB issued Statement No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB 34. This statement imposes limitations on the use of restricted net assets. GASB Statement No. 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as its citizens, public interest groups, or the judiciary, can compel a government to honor. This statement requires governments to disclose the portions of total net assets that are restricted by enabling legislation. Disclosing the amount of net assets restricted by enabling legislation will allow users of the financial statements to distinguish qualifying restrictions on resource use imposed through a government's own action from other types of net asset restrictions. This statement is effective for OCTA's fiscal year ending June 30, 2006.

GASB Statement No. 47

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

(19) Subsequent Events

On August 31, 2005, the OCTA signed a purchase price promissory note with the Anaheim Redevelopment Agency for purchased rights-of-way in the amount of $14,057. Payments shall be made quarterly, interest will be adjusted annually equal to the yield of OCTA's short term portfolio. On October 14, 2005, the OCLTA Board of Directors approved a recommendation to cease all efforts towards the CenterLine Light Rail Project and redirect resources to other rapid transit projects. At the same time, the Board approved a five-year program proposal as a substitute for CenterLine that would provide equivalent emission reductions by 2010. The proposed package of projects envisions the existing Metrolink commuter rail corridor as the core of Orange County's transit system connecting it to other regions and extending it to all parts of the County. The initial deployment of this transit vision could be carried out implementing several Bus Rapid Transit options within the County.

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

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Fines	$ 158	$ 158	$ 161	$ 3
Contributions from other agencies	2,503	2,503	2,294	(209)
Charges for services	38,687	38,687	39,242	555
Interest	367	367	125	(242)
Federal capital assistance grants	400	400	-	(400)
Miscellaneous	107	107	147	40
Total revenues	42,222	42,222	41,969	(253)
Expenditures				
Current:				
General government:				
Salaries and benefits	27,622	28,036	27,968	68
Supplies and services	21,616	21,534	18,112	3,422
Contributions to other local agencies	26	26	540	(514)
Capital outlay	370	370	351	19
Total expenditures	49,634	49,966	46,971	2,995
Excess (deficiency) of revenues over (under) expenditures	(7,412)	(7,744)	(5,002)	2,742
Other financing sources (uses)				
Transfers in	7,413	7,413	6,425	(988)
Total other financing sources (uses)	7,413	7,413	6,425	(988)
Net change in fund balance	$ 1	$ (331)	$ 1,423	$ 1,754

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, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Sales tax revenue	$ 245,548	$ 245,548	$ 249,409	$ 3,861
Contributions from other agencies	-	28,400	110,036	81,636
Interest	15,263	15,263	10,730	(4,533)
Federal capital assistance grants	-	101,200	21,650	(79,550)
Miscellaneous	315	315	182	(133)
Total revenues	261,126	390,726	392,007	1,281
Expenditures				
Current:				
General government:				
Supplies and services	30,499	31,193	27,203	3,990
Contributions to other local agencies	86,502	85,750	54,458	31,292
Capital outlay	45,749	440,790	410,795	29,995
Debt service:				
Interest on long-term debt and commercial paper	636	636	722	(86)
Total expenditures	163,386	558,369	493,178	65,191
Excess (deficiency) of revenues over (under) expenditures	97,740	(167,643)	(101,171)	66,472
Other financing sources (uses)				
Transfers in	-	-	19,558	19,558
Transfers out	(102,166)	(102,166)	(111,830)	(9,664)
Total other financing sources (uses)	(102,166)	(102,166)	(92,272)	9,894
Net change in fund balance	$ (4,426)	$ (269,809)	$ (193,443)	$ 76,366

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, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Sales tax revenue	$ 89,002	$ 89,002	$ 94,971	$ 5,969
Interest	348	348	1,275	927
Miscellaneous	-	-	3	3
Total revenues	89,350	89,350	96,249	6,899
Expenditures				
Current:				
General government:				
Supplies and services	1,003	1,003	1,255	(252)
Contributions to other local agencies	1,164	1,164	2,474	(1,310)
Total expenditures	2,167	2,167	3,729	(1,562)
Excess of revenues over expenditures	87,183	87,183	92,520	5,337
Other financing uses				
Transfers out	(89,460)	(89,460)	(89,670)	(210)
Total other financing uses	(89,460)	(89,460)	(89,670)	(210)
Net change in fund balance	$ (2,277)	$ (2,277)	$ 2,850	$ 5,127

See accompanying notes to the required supplementary information.

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

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Fines	$ 21	21	$ 11	$ (10)
Interest	4,768	4,768	1,758	(3,010)
Miscellaneous	551	551	698	147
Total revenues	5,340	5,340	2,467	(2,873)
Expenditures				
Current:				
General government:				
Supplies and services	10,446	10,446	13,766	(3,320)
Contributions to other local agencies	8,396	16,751	6,681	10,070
Total expenditures	18,842	27,197	20,447	6,750
Excess (deficiency) of revenues over (under) expenditures	(13,502)	(21,857)	(17,980)	3,877
Other financing sources (uses)				
Transfers in	11,823	11,823	8,677	(3,146)
Transfers out	(500)	(500)	-	500
Total other financing sources (uses)	11,323	11,323	8,677	(2,646)
Net change in fund balance	$ (2,179)	$ (10,534)	$ (9,303)	$ 1,231

See accompanying notes to the required supplementary information.

This page intentionally left blank.

(THOUSANDS)

JUNE 30, 2005

(1) BUDGETARY DATA

OCTA establishes accounting control through formal adoption of an annual operating budget for all governmental funds. The operating budget is prepared in conformity with accounting principles generally accepted in the United States (GAAP) except for multi-year contracts, for which the entire amount of the contract is budgeted and encumbered in the year of execution. The adopted budget can be amended by the Board to increase both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Division heads are authorized to approve appropriation transfers within major objects. Major objects are defined as Salaries and Benefits, Supplies and Services, which includes Contributions to Other Local Agencies, Debt Service and Transfers, 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 2005 is available from the OCTA Finance, Administration and Human Resources Division. With the exception of accounts which have been encumbered, appropriations lapse at year end.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations for the following major governmental fund as of June 30, 2005:

FUND	ACCOUNT	APPROPRIATIONS	EXPENDITURES	EXPLANATIONS
Local Transportation Fund	Supplies and Services	$ 1,003	$ 1,255	Sales Tax increased by 7%. The associated fees increased proportionally.
Local Transportation Fund	Contributions to other local Agencies	$ 1,164	$ 2,474	Senior Mobility Program budgeted in OCTD Enterprise Fund.

(2) BUDGETARY BASIS RECONCILIATION

For the budgeted general and major 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 FUND	SPECIAL REVENUE FUND LTA	SPECIAL REVENUE FUND CURE
Total expenditures (budgetary basis)	$ 46,971	$ 493,178	$ 20,447
Less fiscal year 2005 encumbrances outstanding at June 30	(2,362)	(282,174)	(6)
Plus expenditures against prior year encumbrances	4,968	10,231	64
TOTAL EXPENDITURES (GAAP)	**$ 49,577**	**$ 221,235**	**$ 20,505**

This page intentionally left blank

(THOUSANDS)

JUNE 30, 2005

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)

	Special Revenue						Capital Projects			
June 30, 2005	OCUTT	SAFE	SAAV	STAF	Gas Tax	Total	General	OCTD	Total	Total Nonmajor Governmental Funds
ASSETS										
Cash and investments	$ 13,208	$ 6,549	$ 764	$ 2,409	$ 78	$ 23,008	$ 8,588	$ 34	$ 8,622	$ 31,630
Receivables:										
Interest	191	62	10	47	-	310	-	-	-	310
Capital grants	-	-	-	-	-	-	253	-	253	253
Other	-	24	-	-	-	24	-	-	-	24
Due from other funds	-	-	-	-	-	-	476	3	479	479
Due from other governments	873	2,219	600	473	1,917	6,082	-	-	-	6,082
TOTAL ASSETS	$ 14,272	$ 8,854	$ 1,374	$ 2,929	$ 1,995	$ 29,424	$ 9,317	$ 37	$ 9,354	$ 38,778
LIABILITIES AND FUND BALANCES										
LIABILITIES:										
Accounts payable	$ 90	$ 427	$ -	$ -	$ 4	$ 521	$ 503	$ 18	$ 521	$ 1,042
Due to other funds	405	-	30	2,226	1,447	4,108	-	-	-	4,108
Due to other governments	-	24	1,116	-	-	1,140	-	4	4	1,144
TOTAL LIABILITIES	495	451	1,146	2,226	1,451	5,769	503	22	525	6,294
FUND BALANCES:										
Reserved for:										
Encumbrances	221	8	4	-	-	233	1,143	1,562	2,705	2,938
Transportation programs	-	-	-	703	544	1,247	-	-	-	1,247
Motorist services	-	8,395	224	-	-	8,619	-	-	-	8,619
Unreserved (deficit), reported in:										
Special revenue funds	13,556	-	-	-	-	13,556	-	-	-	13,556
Capital project funds	-	-	-	-	-	-	7,671	(1,547)	6,124	6,124
TOTAL FUND BALANCES	13,777	8,403	228	703	544	23,655	8,814	15	8,829	32,484
TOTAL LIABILITIES AND FUND BALANCES	$ 14,272	$ 8,854	$ 1,374	$ 2,929	$ 1,995	$ 29,424	$ 9,317	$ 37	$ 9,354	$ 38,778

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

(thousands)

for the year ended June 30, 2005	Special Revenue						Capital Projects		
	OCUTT	SAFE	SAAV	STAF	Gas Tax	Total	General	OCTD	Total
Revenues:									
Sales taxes	$ -	$ -	$ -	$ 6,805	$ -	$ 6,805	$ -	$ -	$ -
Gasoline taxes	-	-	-	-	23,000	23,000	-	-	-
Vehicle registration fees	-	2,309	2,507	-	-	4,816	-	-	-
Contributions from other agencies	873	4,280	-	-	-	5,153	89	-	89
Interest	556	141	9	204	-	910	-	-	-
Federal capital assistance grants	-	-	-	-	-	-	752	-	752
Miscellaneous	-	26	-	-	-	26	-	-	-
Total revenues	1,429	6,756	2,516	7,009	23,000	40,710	841	-	841
Expenditures:									
Current:									
General government:									
Supplies and services	171	5,329	13	1	5	5,519	204	178	382
Contributions to other local agencies	-	-	2,324	-	23,000	25,324	-	-	-
Capital outlay	-	-	-	-	-	-	1,201	1,817	3,018
Total expenditures	171	5,329	2,337	1	23,005	30,843	1,405	1,995	3,400
Excess (deficiency) of revenues over (under) expenditures	1,258	1,427	179	7,008	(5)	9,867	(564)	(1,995)	(2,559)
Other financing sources (uses):									
Transfers in	-	-	-	-	-	-	476	1,995	2,471
Transfers out	(2,420)	-	(125)	(6,348)	-	(8,893)	(1,524)	-	(1,524)
Total other financing sources (uses)	(2,420)	-	(125)	(6,348)	-	(8,893)	(1,048)	1,995	947
Net change in fund balances	(1,162)	1,427	54	660	(5)	974	(1,612)	-	(1,612)
Fund balances-beginning	14,939	6,976	174	43	549	22,681	10,426	15	10,441
Fund balances-ending	$ 13,777	$ 8,403	$ 228	$ 703	$ 544	$ 23,655	$ 8,814	$ 15	$ 8,829

Budgetary Comparison Schedule
Local Transportation Authority Debt Service Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Interest	$ 3,797	$ 3,797	$ 4,443	$ 646
Total revenues	3,797	3,797	4,443	646
Expenditures				
Current:				
General government:				
Supplies and services	239	239	218	21
Debt service:				
Principal payments on long-term debt	60,615	60,615	60,615	-
Interest on long-term debt and commercial paper	27,603	27,603	27,603	-
Total expenditures	88,457	88,457	88,436	21
Excess (deficiency) of revenues over (under) expenditures	(84,660)	(84,660)	(83,993)	667
Other financing sources (uses)				
Transfers in	88,218	88,218	96,884	8,666
Transfers out	-	-	(18,034)	(18,034)
Total other financing sources (uses)	88,218	88,218	78,850	(9,368)
Net change in fund balance	$ 3,558	$ 3,558	$ (5,143)	$ (8,701)

Budgetary Comparison Schedule
Rail Capital Project Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Interest	$ 252	$ 252	$ 21	$ (231)
Federal capital assistance grants	11,200	11,200	5,147	(6,053)
Total revenues	11,452	11,452	5,168	(6,284)
Expenditures				
Current:				
General government:				
Supplies and services	16,104	18,651	8,418	10,233
Contributions to other local agencies	952	952	440	512
Capital outlay	-	-	30	(30)
Total expenditures	17,056	19,603	8,888	10,715
Excess (deficiency) of revenues over (under) expenditures	(5,604)	(8,151)	(3,720)	4,431
Other financing sources (uses)				
Transfers in	5,583	5,583	4,664	(919)
Total other financing sources (uses)	5,583	5,583	4,664	(919)
Net change in fund balance	$ (21)	$ (2,568)	$ 944	$ 3,512

Budgetary Comparison Schedule

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

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Contributions from other agencies	$ -	$ -	$ 873	$ 873
Interest	779	779	556	(223)
Total revenues	779	779	1,429	650
Expenditures				
Current:				
General government:				
Supplies and services	30	620	228	392
Total expenditures	30	620	228	392
Excess of revenues over expenditures	749	159	1,201	1,042
Other financing sources (uses)				
Transfers out	(2,910)	(2,910)	(2,420)	490
Total other financing sources (uses)	(2,910)	(2,910)	(2,420)	490
Net change in fund balance	$ (2,161)	$ (2,751)	$ (1,219)	$ 1,532

Budgetary Comparison Schedule

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

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Vehicle registration fees	$ 2,358	$ 2,358	$ 2,309	$ (49)
Contributions from other agencies	2,915	2,915	4,280	1,365
Interest	241	241	141	(100)
Miscellaneous	71	71	26	(45)
Total revenues	5,585	5,585	6,756	1,171
Expenditures				
Current:				
General government:				
Supplies and services	6,717	6,717	5,329	1,388
Total expenditures	6,717	6,717	5,329	1,388
Excess (deficiency) of revenues over (under) expenditures	(1,132)	(1,132)	1,427	2,559
Net change in fund balance	$ (1,132)	$ (1,132)	$ 1,427	$ 2,559

Budgetary Comparison Schedule

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

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Vehicle registration fees	$ 2,358	$ 2,358	$ 2,507	$ 149
Interest	23	23	9	(14)
Total revenues	2,381	2,381	2,516	135
Expenditures				
Current:				
General government:				
Supplies and services	55	55	13	42
Contributions to other local agencies	2,240	2,240	2,324	(84)
Total expenditures	2,295	2,295	2,337	(42)
Excess of revenues over expenditures	86	86	179	93
Other financing uses				
Transfers out	(123)	(123)	(125)	(2)
Total other financing uses	(123)	(123)	(125)	(2)
Net change in fund balance	$ (37)	$ (37)	$ 54	$ 91

Budgetary Comparison Schedule
State Transit Assistance Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Sales tax revenue	$ 5,271	$ 5,271	$ 6,805	$ 1,534
Interest	33	33	204	171
Total revenues	5,304	5,304	7,009	1,705
Expenditures				
Current:				
General government:				
Supplies and services	1	1	1	-
Total expenditures	1	1	1	-
Excess of revenues over expenditures	5,303	5,303	7,008	1,705
Other financing uses				
Transfers out	(5,271)	(5,271)	(6,348)	(1,077)
Total other financing uses	(5,271)	(5,271)	(6,348)	(1,077)
Net change in fund balance	$ 32	$ 32	$ 660	$ 628

Budgetary Comparison Schedule
Gas Tax Special Revenue Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Gasoline tax revenue	$ 23,000	$ 23,000	$ 23,000	$ -
Interest	-	-	-	-
Total revenues	23,000	23,000	23,000	-
Expenditures				
Current:				
General government:				
Supplies and services	1	1	5	(4)
Contributions to other local agencies	23,000	23,000	23,000	-
Total expenditures	23,001	23,001	23,005	(4)
Deficiency of revenues under expenditures	(1)	(1)	(5)	(4)
Net change in fund balance	$ (1)	$ (1)	$ (5)	$ (4)

Budgetary Comparison Schedule
General Capital Projects Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Contributions from other agencies	$ 1,990	$ 1,990	$ 89	$ (1,901)
Federal capital assistance grants	-	-	752	752
Total revenues	1,990	1,990	841	(1,149)
Expenditures				
Current:				
General government:				
Supplies and services	2,211	2,420	170	2,250
Capital outlay	-	3,202	2,334	868
Total expenditures	2,211	5,622	2,504	3,118
Excess (deficiency) of revenues over (under) expenditures	(221)	(3,632)	(1,663)	1,969
Other financing sources (uses)				
Transfers in	-	-	476	476
Transfers out	-	-	(1,524)	(1,524)
Total other financing sources (uses)	-	-	(1,048)	(1,048)
Net change in fund balance	$ (221)	$ (3,632)	$ (2,711)	$ 921

Budgetary Comparison Schedule
Orange County Transit District Capital Projects Fund (Budgetary Basis)

(thousands)

for the year ended June 30, 2005	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Interest	$ 7	$ 7	$ -	$ (7)
Total revenues	7	7	-	(7)
Expenditures				
Current:				
General government:				
Supplies and services	26	86	178	(92)
Capital outlay	125	165	176	(11)
Total expenditures	151	251	354	(103)
Excess (deficiency) of revenues over (under) expenditures	(144)	(244)	(354)	(110)
Other financing sources (uses)				
Transfers in	125	125	1,995	1,870
Total other financing sources (uses)	125	125	1,995	1,870
Net change in fund balance	$ (19)	$ (119)	$ 1,641	$ 1,760

(THOUSANDS)

JUNE 30, 2005

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 (Deficit) - Internal Service Funds

(thousands)

June 30, 2005	General Liability	Workers' Compensation	Employee Health	Total Internal Service Funds
Assets				
Current assets:				
Cash and investments	$ 26,963	$ 13,330	$ 6,441	$ 46,734
Receivables:				
Interest	256	122	44	422
Other	-	522	817	1,339
Other assets	183	581	295	1,059
Total Assets	27,402	14,555	7,597	49,554
Liabilities				
Accounts payable	20	289	88	397
Due to other funds	-	-	284	284
Claims payable	7,375	2,781	674	10,830
Noncurrent liabilities:				
Claims payable	2,689	13,257	-	15,946
Total Liabilities	10,084	16,327	1,046	27,457
Net Assets (Deficit)				
Unrestricted	17,318	(1,772)	6,551	22,097
Total Net Assets (Deficit)	$ 17,318	$ (1,772)	$ 6,551	$ 22,097

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

Internal Service Funds

(thousands)

for the year ended June 30, 2005	General Liability	Workers' Compensation	Employee Health	Total Internal Service Funds
Operating revenues:				
Charges for services	$ 1,033	$ 9,420	$ 16,000	$ 26,453
Total operating revenues	1,033	9,420	16,000	26,453
Operating expenses:				
Administrative services	171	241	328	740
Other	1	83	-	84
Insurance claims	11,589	11,049	14,220	36,858
Professional services	77	262	157	496
General and administrative	-	4	-	4
Total operating expenses	11,838	11,639	14,705	38,182
Operating income (loss)	(10,805)	(2,219)	1,295	(11,729)
Nonoperating revenues (expenses):				
Investment earnings	637	284	140	1,061
Other	35	219	96	350
Total nonoperating revenues (expenses)	672	503	236	1,411
Change in net assets	(10,133)	(1,716)	1,531	(10,318)
Total net assets (deficit) - beginning	27,451	(56)	5,020	32,415
Total net assets (deficit) - ending	$ 17,318	$ (1,772)	$ 6,551	$ 22,097

Combining Statement of Cash Flows - Internal Service Funds

(thousands)

for the year ended June 30, 2005	General Liability	Workers' Compensation	Employee Health	Total Internal Service Funds
Cash flows from operating activities:				
Receipts from interfund services provided	$ 1,033	$ 9,289	$ 15,237	$ 25,559
Payments to claimants	(4,286)	(6,941)	(14,960)	(26,187)
Payments for interfund services used	(171)	(241)	(328)	(740)
Net cash provided by (used for) operating activities	(3,424)	2,107	(51)	(1,368)
Cash flows from noncapital financing activities:				
Transfers in	-	-	284	284
Net cash provided by noncapital financing activities	-	-	284	284
Cash flows from investing activities:				
Investment earnings	637	267	136	1,040
Net cash provided by (used for) investing activities	637	267	136	1,040
Net increase (decrease) in cash and cash equivalents	(2,787)	2,374	369	(44)
Cash and cash equivalents at beginning of year	29,750	10,956	6,072	46,778
Cash and cash equivalents at end of year	$ 26,963	$ 13,330	$ 6,441	$ 46,734
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ (10,805)	$ (2,219)	$ 1,295	$ (11,729)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Insurance recoveries	35	219	96	350
Change in assets and liabilities:				
Receivables	-	(131)	(763)	(894)
Other assets	65	151	155	371
Accounts payable	13	288	(244)	57
Claims payable	7,268	3,799	(590)	10,477
Total adjustments	7,381	4,326	(1,346)	10,361
Net cash provided by (used for) operating activities	$ (3,424)	$ 2,107	$ (51)	$ (1,368)