

# COMPREHENSIVE ANNUAL FINANCIAL REPORT



A HALF-CENT GOES A LONG WAY

FOR THE FISCAL YEAR ENDED JUNE 30, 2005



ORANGE COUNTY TRANSPORTATION AUTHORITY

ORANGE COUNTY, CALIFORNIA



ORANGE COUNTY TRANSPORTATION AUTHORITY

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

A HALF - CENT GOES A LONG WAY



FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SUBMITTED BY : FINANCE, ADMINISTRATION AND HUMAN RESOURCES DIVISION - JAMES S. KENAN - EXECUTIVE DIRECTOR

ORANGE COUNTY, CALIFORNIA

	PAGE
Table of Contents.....	i
 <b>INTRODUCTORY SECTION</b>	
Transmittal Letter.....	v
Organization Chart.....	xxiii
Board of Directors.....	xxiv
Management Staff.....	xxv
GFOA Certificate of Achievement for Excellence in Financial Reporting.....	xxvi
CSMFO Certificate of Award Outstanding Financial Reporting.....	xxvii
 <b>FINANCIAL SECTION</b>	
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (Required Supplementary Information).....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	14
Statement of Activities.....	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances.....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19
Proprietary Funds:	
Statement of Fund Net Assets.....	20
Reconciliation of the Statement of Fund Net Assets of Proprietary Funds to the Statement of Net Assets.....	21
Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit).....	22
Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit) of Proprietary Funds to the Statement of Activities.....	23
Statement of Cash Flows.....	24
Fiduciary Funds:	
Statement of Fiduciary Net Assets.....	26
Statement of Changes in Fiduciary Net Assets.....	27
Notes to the Financial Statements.....	29

	PAGE
Required Supplementary Information (Other than Management’s Discussion and Analysis):	
Budgetary Comparison Schedules (Budgetary Basis):	
General Fund.....	60
Local Transportation Authority Special Revenue Fund .....	61
Local Transportation Special Revenue Fund .....	62
Commuter Urban Rail Endowment Special Revenue Fund .....	63
Notes to Required Supplementary Information.....	65
Other Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet—Nonmajor Governmental Funds.....	68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor Governmental Funds.....	69
Budgetary Comparison Schedules - (Budgetary Basis):	
Local Transportation Authority Debt Service Fund .....	70
Rail Capital Project Fund.....	71
Orange County Unified Transportation Trust Special Revenue Fund.....	72
Service Authority for Freeway Emergencies Special Revenue Fund .....	73
Service Authority for Abandoned Vehicles Special Revenue Fund.....	74
State Transit Assistance Special Revenue Fund .....	75
Gas Tax Special Revenue Fund.....	76
General Capital Projects Fund.....	77
Orange County Transit District Capital Projects Fund.....	78
Combining Statement of Fund Net Assets (Deficit)—Internal Service Funds .....	80
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)—Internal Service Funds .....	81
Combining Statement of Cash Flows—Internal Service Funds.....	82
<b>STATISTICAL SECTION</b>	
Government-wide Expenses by Function.....	83
Government-wide Net (Expense) Revenue by Function .....	83
Government-wide Revenues .....	83
Schedule of Net Assets .....	84
Expenditures by Function—All Governmental Funds.....	85
Revenues by Source—All Governmental Funds.....	85
Governmental Fund Balances .....	86
Revenues and Transfers In by Source - Transit District.....	87
Operating Expenses by Function - Transit District.....	87
Transit District Summary of Operations.....	88

	PAGE
Transit District Graphs:	
Large Transit Coaches, Operating Cost per Revenue Vehicle Hour, Revenue Vehicle Hours and Ridership .....	89
Farebox Recovery Ratio.....	90
Transit District Fare Structure .....	90
County of Orange Demographic Statistics .....	91
Ratio of Annual Debt Service Expenditures for General Obligation	
Bonded Debt to Total Governmental Funds Expenditures .....	92
County of Orange Computation of Direct and Overlapping Bonded Debt.....	93
Measure M Sales Tax Revenue Bond Coverage.....	94
Miscellaneous Data.....	95

This page intentionally left blank.



STREETS & ROADS



## BUS TRANSIT



November 9, 2005

The Board of Directors  
Orange County Transportation Authority  
550 South Main Street  
Orange, CA 92863

State law requires the Orange County Transportation Authority (OCTA) to publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States (GAAP) and audited in accordance with auditing standards generally accepted in the United States by independent certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of OCTA for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of OCTA. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, OCTA management has established a system of comprehensive internal controls designed both to protect OCTA's assets from loss, theft or misuse, and to compile sufficient reliable information for the preparation of OCTA's financial statements in conformity with GAAP. Because the cost of internal control should not outweigh its benefits, OCTA's comprehensive framework of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects. The enclosed data presents the financial position and results of operations of OCTA on a government-wide and fund basis. All disclosures necessary to enable the reader to gain an understanding of OCTA's financial activities have been included.

OCTA's financial statements have been audited by Macias Gini & Company LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of OCTA for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved 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; and evaluating the

overall financial statement presentation. Macias Gini & Company LLP concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that OCTA's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of OCTA was part of a broader, federally mandated Single Audit designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP), but also on the government's internal control and compliance with legal requirements, with a special emphasis on internal control and legal requirements involving the administration of federal awards in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These reports are available in OCTA's separately issued Single Audit report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. OCTA's MD&A can be found immediately following the report of the independent auditors.

This Comprehensive Annual Financial Report is presented in three sections:

- **Introductory:** Including the letter of transmittal, organization charts and information, and financial reporting awards.
- **Financial:** Including the independent auditor's report, the basic financial statements with accompanying notes, required supplementary information including the MD&A, and other supplementary information related to combining fund statements and schedules.
- **Statistical:** Including selected financial and nonfinancial data relating to OCTA on a multiple-year basis, as well as demographic information relating to the County of Orange, California (County), where OCTA provides transportation planning and services.

## **Profile of OCTA**

OCTA was established by state law and began serving the public on June 20, 1991. An 18-member Board of Directors (Board) governs OCTA and consists of five members of the Orange County Board of Supervisors, 10 city representatives selected by all of the cities within the County, two public members selected by the other 15 Board Members, and a representative appointed by the Governor of California serving in a non-voting capacity. A Chief Executive Officer manages OCTA and acts in accordance with the directions, goals and policies approved by the Board.

OCTA provides coordinated, efficient and accountable transportation planning and services within Orange County. Former agencies and funds which were consolidated to form OCTA include: the Orange County Transportation Commission, the Orange County Transit District (OCTD), the Consolidated Transportation Services Agency, the Orange County Local Transportation Authority (OCLTA), the Orange County Service Authority for Freeway Emergencies (SAFE), the Orange County Congestion Management Agency, the Orange County Service Authority for Abandoned Vehicles (SAAV), the State Transit Assistance Fund, the Local Transportation Fund, the Orange County Unified Transportation Trust (OCUTT), and the Transit Development Reserve. On January 3, 2003, OCTA began operating the 91 Express Lanes, a toll facility on a ten-mile segment of the Riverside Freeway (SR-91) between the Riverside/Orange County Line and the Costa Mesa Freeway (SR-55).

Establishment of the consolidated transportation authority has saved County taxpayers tens of millions of dollars through increased efficiency and elimination of duplicative efforts. At the same time, service and investment in transportation have increased, providing the County with a progressive, effective, and comprehensive transportation system. OCTA has seven primary service programs that support the transportation system in Orange County: bus operations, commuter rail, Measure M, bus rapid transit, 91 Express Lanes, planning and capital projects, and motorist and other services.

OCTA accounts for its operations by using separate funds to manage and report all financial activities of its many programs. The general fund finances most of the administrative and planning functions of OCTA, and includes the Finance, Administration, and Human Resources; Planning, Development and Commuter Services; Construction & Engineering; Labor Relations & Civil Rights; External Affairs Divisions as well as the Chief Executive Officer's Executive Office, Clerk of the Board, and Internal Audit Department. Special revenue and capital projects funds are used to account for many of OCTA's revenue sources restricted by law or Board policy. A debt service fund is used to account for debt service activities related to OCLTA's sales tax revenue bonds. Enterprise funds are used to account for operations of the OCTD,

## 91 Express Lanes and Orange County Taxicab Administration Program (OCTAP).

Revenue sources consist primarily of sales tax apportionments, farebox collections, tolls and related fees, gasoline tax, interest income, federal capital and operating assistance grants, state grants, property taxes and vehicle registration fees. On November 6, 1990, the voters of Orange County passed Measure M, which provided for a local transactions and use tax of 1/2 percent for 20 years to pay for a wide variety of freeway, road and transit improvements in the County. A 1/4 percent sales tax, as outlined in state law, provides operating assistance for transit service, as well as a small percentage for planning and administrative support. Over the next six years, \$38 million from this source will be diverted annually to the County; however, over the next eight years, OCTA will be receiving \$23 million in gas tax revenue annually from the State of California in exchange for these diverted funds. The diverted money will be used by the County as part of its bankruptcy recovery effort. OCTA also receives 5.35 percent of total statewide receipts for sales and use taxes on gasoline and diesel fuel.

Every year, OCTA develops its staffing, operating and capital plans for the upcoming fiscal year. The product of this effort is the fiscal year budget. The budget outlines the expected funding sources and uses of funds that represent OCTA's year long commitment to transportation projects and services. The budget also presents the projected fund balance for all funds that encompass OCTA. The budget is recorded in OCTA's accounting system, where it is compared with actual performance. Staff ensures that the budget is adopted by the Board of Directors before the beginning of each fiscal year. During the fiscal year, all major budget revisions and updates are presented to the Board for consideration and adoption.

Once adopted, staff ensures that the Board is kept well informed of budget versus actual performance. Budget control is accomplished through the following means:

- On a monthly basis, staff reviews actual monthly and year-to-date performance against the budget and provides a forecast for the remainder of the fiscal year. As part of this review, all materially significant variances and revisions are explained.
- On a quarterly basis, as part of the Board's regular agenda, staff reports OCTA's financial results in the Quarterly Budget Status Report. This report compares actual quarterly and year-to-date performance to budget in the areas of revenue, staffing, operating and capital expenditures. The quarterly budget status report for the fourth quarter summarizes the full year's performance against the approved budget.

## **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which OCTA operates.

### ***Orange County Economy***

Orange County's diverse economy has enabled it to avoid the full impact of the downturn in the national and state economies over the last few years. Traditional indicators point to a relatively stable regional economy over the next five years. OCTA continuously monitors changes in the economy because of the potential impact on future sales tax receipts and other revenues vital to the organization.

During the last year, Orange County has experienced employment growth that averaged approximately 1.8 percent. Recent forecasts for calendar year 2005 estimate growth of 1.4 percent. Six major industries account for approximately 84 percent of all jobs in the County: 43.5 percent services, 10.8 percent retail trade, 9.8 percent state and local government, 8.7 percent financial activities, 5.8 percent wholesale trade, and 5 percent durable goods. The remaining 16 percent consists of non-durable goods, construction, high technology, transportation and public utilities, and mineral extraction. Estimated employment within Orange County is 1.47 million workers for the calendar year 2005.

Economic projections on a national level indicate continued low unemployment and inflation rates. At the local level, the Orange County economy is projected to remain relatively stable over the next five years.

Orange County's residents' personal income has grown from \$106 billion in 2000 to an estimated \$130.7 billion in calendar year 2005, with the value of building permits decreasing from \$3.97 billion to \$3.2 billion over the same period. However, traditional indicators point to a relatively stable regional economy over the next five years.

### ***Summary of OCTA Activities and Services***

**2005 Outstanding Public Transportation System Achievement Award**—The American Public Transportation Association (APTA) recently presented its 2005 Outstanding Public Transportation System Achievement Award to OCTA. The award honors an APTA public transportation system member demonstrating achievement in efficiency and effectiveness based on verifiable data concerning bus and paratransit performance for a consecutive three-year period and specific achievements in safety, operations, customer service,

financial management, marketing and community relations. OCTA was chosen over transportation systems in New York City, Chicago, San Francisco, and Portland to receive this prestigious award.

**Bus Transit**—The County’s population amounts to more than three million. This rapid growth places renewed importance on improving the County’s public transit system and the mobility it provides residents. By the end of fiscal year 2005, more than 67 million passengers boarded OCTA buses, the highest ridership in the history of the agency. APTA ranked OCTA as the public transportation system with the 12<sup>th</sup> highest ridership in the United States (U.S.) during the first half of fiscal year 2005. This growing ridership reflects the continuing success of OCTA’s “Putting Customers First” program. Since much of OCTA’s ridership is transit dependent, the continuous improvement of local bus service plays a vital role in the County’s economy.

During fiscal year 2005, OCTA expanded frequency and service with 35,000 additional service hours. Service was increased on existing routes and changes were made to a number of routes to serve more people and offer passengers more frequent service within the system’s core area. Starting in January 2005, OCTA instituted a fare increase, the first increase since 1991. While most transit system fare increases result in reduced ridership, OCTA only experienced a less than one percent decrease, which had nominal impact on overall ridership during the fiscal year.

OCTA aggressively marketed its local bus service to youths and senior citizens, two very important discretionary ridership audiences. To capture the growing youth segment, OCTA developed the Youth Summer Saver Bus Pass. With the theme, “Be There. Do That,” the program encourages youths age 18 and younger to use public transportation to get around during the summer months. The Youth Summer Saver Bus Pass also acted as a discount card good at over 80 popular County destinations.

In September 2004, OCTA inaugurated the “youthNmotion” program, a partnership effort with local schools and youth organizations to encourage youth bus ridership. Lively interactive presentations by OCTA outreach representatives at schools and youth clubs demonstrated how easy it is to ride the bus. More than 11,000 youths age 11 to 16 participated in the program.

OCTA began a new outreach program for senior citizens entitled, “Be There.” Through an easy-to-follow brochure and hands-on presentations with a fun trial bus ride at senior centers, OCTA outreach staff demonstrated how easy and economical it is for seniors to get wherever they want to go by bus.

OCTA continued offering its Employer Pass (E-Pass) program. E-Pass, created to foster relationships with the employer community, is an annual pass exclusively for employers to make available to their employees. Employees

have unlimited use of OCTA buses and employers are charged 60 cents per boarding while the E-Pass is in effect. E-Pass provides employees with a convenient annual swipe card to make boarding the bus easy. During fiscal year 2005, the E-Pass program generated a total of 464,223 boardings.

The University Pass (U-Pass) allows universities to provide growing student enrollments with convenient transportation and ease on-campus parking constraints. With the U-Pass, students, faculty, and staff swipe their validated campus IDs and get unlimited access to OCTA buses while the school is charged 75 cents per boarding up to a maximum of \$30 per month. California State University, Fullerton and the University of California, Irvine—two of the largest campuses in the County—have U-Pass programs in effect. The U-Pass program generated 454,484 boardings during fiscal year 2005.

OCTA initiated a new College Pass program exclusively for college students, faculty and staff. The program offers two special discounted passes: the Quarter Pass, good for 75 days and the Semester Pass, good for 120 days. With rising gasoline prices and a shortage of parking facilities at many campuses, College Pass affords economical and dependable transportation for students.

The transit infrastructure expanded with the opening in May 2005 of OCTA's fourth bus facility, the Santa Ana Maintenance and Operations Center. This state-of-the-art operations and maintenance facility can accommodate 274 large buses and provides convenient access to many of OCTA's most heavily used bus routes. It currently houses 236 large buses, 35 of which are articulated buses.

**91 Express Lanes**— During fiscal year 2005, drivers took 12,741,319 trips on the 91 Express Lanes toll road. This amounted to more than 1.5 million additional trips on the toll road over the previous year. Yet those same commuters also were able to get where they wanted to go faster and easier. How could there be fewer bottlenecks and traffic jams when more drivers than ever before used the toll lanes?

OCTA achieved these positive results by implementing an innovative congestion management policy. The new policy encourages commuters to carpool to reduce the number of vehicles in the lanes, and also motivates them to commute when there is less traffic. OCTA's "Three Ride Free" program allows carpools of three or more to use the High Occupancy Vehicle three plus (HOV3+) lane on the 91 Express Lanes for free during most hours and at a 50 percent discount during high demand times. During fiscal year 2005, HOV3+ trips reached 2,528,053, a 15.2 percent increase over fiscal year 2004.

OCTA also eased the rush-hour crunch by offering lower tolls to entice motorists to drive during lighter traffic periods. For example, in summer 2004,

eastbound rush-hour traffic increased only 3 to 4 percent, while travel during non-peak hours swelled to 14 percent. As a result, traffic has spread out and speeded up even as the amount of overall traffic jumped more than 12 percent during the past year. For 91 Express Lanes customers, the speedy commute gave them a priceless gift of time. According to a 2004 Customer Satisfaction Survey, users reported saving about 36 minutes per trip in the afternoon by using the toll road. That is time they can spend working out at the gym, throwing the ball with the kids or enjoying a nice family dinner.

OCTA's policy of maximizing the number of vehicles that can travel in the 91 Express Lanes continues to demonstrate positive results. Traffic increased in all categories during fiscal year 2005. As mentioned above, full toll trips increased by 13.2 percent and carpools of three or more rose 15.2 percent over the previous year. As of June, 2005, 172,220 transponders were in circulation.

**Freeway Improvements**—Freeway improvements continue to be the cornerstone and most visible component of the Measure M Traffic Improvement and Growth Management Plan approved by County voters in 1990. Since the creation of OCTA, the Board made accelerating freeway construction a top priority to provide transportation relief to motorists as quickly as possible.

While the majority of Measure M freeway improvements are nearly complete, OCTA continues to plan other projects well into the future. This will require OCTA to aggressively seek federal, state and private sector funding of long-term projects. Nevertheless, a number of projects experienced significant progress in the last year including:

*San Diego Freeway (I-405):* The \$135.8 million project designed to improve traffic flow and safety at the I-405/SR-55 interchange near Costa Mesa, one of the 10 busiest freeway interchanges in the nation, is scheduled for completion by the end of September 2005. Access to shopping, business and entertainment clustered in the South Coast Metro area of Costa Mesa has been improved. The new "braided" configuration eliminated traffic weaving and improved traffic safety for vehicles exiting at Bristol Street from northbound I-405 in relation to motorists traveling southbound on SR-55 connecting to northbound I-405. The final improvement for this area, the addition of an on-ramp to northbound I-405 from Anton Boulevard, was completed and opened on July 5, 2005.

In addition, the following milestones were accomplished:

- The northbound I-405 to northbound SR-55 direction of the carpool bridge (Minimum Operating Segment (MOS) -1 Project) opened to traffic on December 30, 2004. The southbound SR-55 to Southbound I-405 direction of the bridge opened to traffic on January 28, 2005



- The carpool connector bridge between southbound SR-55 and northbound I-405 and the reverse movement (MOS-3 Project) is complete and was opened to traffic on May 5, 2005
- Improvements provided by the I-405/Corona Del Mar Freeway (SR-73) interchange project eliminated chokepoints and the redesigned on and off ramps improved access to the freeway. The SR-73 portion of this project was completed in late 2003. The I-405 portion was completed in July 2004. The entire project was declared complete in July 2004 with the exception of punchlist and change order work

*Santa Ana Freeway (I-5):* Although the majority of improvements to the I-5 have been completed using Measure M dollars combined with federal and local funding, there is a remaining need to widen the I-5 north of the SR-91 to the Orange/Los Angeles County line. OCTA has been working with California Department of Transportation (Caltrans) and the City of Buena Park to move this project forward. Right-of-way acquisition and utility relocations are in progress. The design phase is nearly complete. Through Measure M, OCTA is able to fund almost two-thirds of the projected \$251 million cost. The project will provide commuters on the I-5 with an additional carpool and travel lanes in each direction, as well as auxiliary lanes in each direction to make entering and exiting the freeway safer and easier. Completion is scheduled for late 2009.

*Garden Grove Freeway (SR-22):* The \$495 million SR-22 improvement project is underway. The project covers approximately 12 miles through the cities of Westminster, Garden Grove, Santa Ana and Orange, and will add carpool lanes, auxiliary lanes and several interchange improvements along the freeway. An elevated connector designed to eliminate weaving will also be added, separating the southbound Orange Freeway (SR-57) connector and The City Drive ramps on the westbound SR-22. OCTA is using the design-build method to improve the SR-22, with a single contract firm for final engineering and construction. By using the design-build process—a first for OCTA and a first in the State of California on an active freeway—the project can be completed more efficiently and save years in the process. The project, scheduled to take 800 days, is currently approaching the halfway mark.

**Freeway Chokepoints**—A major area of emphasis for OCTA is identifying and improving freeway chokepoint areas throughout Orange County. Chokepoints are freeway bottleneck locations where roadway operations are hampered by unusually heavy weaving and merging. Remedies for chokepoints include the addition of auxiliary lanes between interchanges, interchange or ramp modifications, re-striping and improved signage, as well the extension of auxiliary lanes through interchanges when warranted by high traffic volumes. The Freeway Chokepoint Program has over 40 projects under development

along the I-5, SR-55, SR-57, SR-91, and I-405. The total construction cost estimates to fix all of the bottlenecks exceed \$800 million and will require a blend of federal, state and local funding.

OCTA and Caltrans, in conjunction with local jurisdictions, are working cooperatively to develop a slate of “shelf-ready” projects that can be brought forward as funding becomes available. Significant progress has been achieved with several projects constructed or advancing to the next stages of development. OCTA has had to overcome issues related to non-compete restrictions and the state budget crisis. Most recently, however, elimination of the toll road non-compete agreement on the SR-91 allowed the completion of four Project Study Reports for chokepoint improvements to the SR-91 corridor along the following locations:

- SR-91 westbound from SR-55 to Tustin Avenue
- SR-91 westbound from SR-57 to I-5
- SR-91 eastbound from SR-241 to Corona Expressway (SR-71)
- SR-91 eastbound/westbound from Eastern Toll Road (SR-241) to Imperial Highway

The improvements under study on the eastbound SR-91 between SR-241 and SR-71 will complement two westbound projects that were completed in spring 2004. This project is now in the Project Report/Environmental Document phase. In addition to the SR-91 improvements, OCTA is developing conceptual improvements to the I-5/SR-55 interchange in central Orange County. The study area, which spans the I-5 from 4th Street to Newport Avenue and the SR-55 from 4th Street to Edinger Avenue, presents numerous challenges since it encompasses several chokepoint problem areas. The goal is to analyze weave patterns and develop focused near-term solutions to eliminate bottlenecks, while enhancing the safety and operation of this critical freeway juncture. The Draft Project Study Report for this project has been submitted to Caltrans for review, with final approval expected by fall 2005. Beyond these efforts, OCTA and Caltrans are continuing to develop freeway chokepoint improvement projects at the following locations:

- I-5 southbound at Culver Drive
- I-5 southbound at Oso Parkway
- I-5 southbound at Avenida Pico
- I-5 southbound at Camino Capistrano
- SR-57 northbound from Orangethorpe Avenue to Lambert Road
- SR-57 northbound from Katella Avenue to Lincoln Avenue
- I-405 from Magnolia Avenue to Beach Boulevard

The development work underway focuses on preliminary engineering and environmental analysis to refine these projects for design and construction. The project on I-405 to add auxiliary lanes between Magnolia Avenue and Beach Boulevard has advanced to the final design phase.

**Major Investment Studies**—In addition to the projects listed above, OCTA is conducting several Major Investment Studies (MIS) to improve travel on Orange County freeways.

*Central County Corridor Study:* After eight months of study and comments from more than a thousand community members, the OCTA Board voted 12-4 to further study options for improving mobility in central Orange County. The next phase of the Central County Corridor Major Investment Study involves a detailed analysis of engineering issues and costs associated with five conceptual alternatives including arterial street improvements, extension of the SR-57 from the SR-22 to the I-405 along the Santa Ana River riverbed, widening the SR-55, and transit improvements in central Orange County. The new study will get underway during 2006 and take 12 to 18 months to complete. It will ultimately provide a recommendation for a comprehensive strategy to improve travel in central Orange County. During the study, the public, community leaders and local officials will have several opportunities to provide comments and input to the study.

*The San Diego Freeway (I-405) Study:* This major study covering the I-405 corridor from the San Gabriel River Freeway (I-605) to the SR-73 kicked off in late 2003. In spring 2004, the study entered the conceptual alternatives stage. The technical team presented the public with 15 possible solutions to the congestion problem. After receiving input from the public, elected officials and business and community leaders, the technical team reviewed the 15 conceptual alternatives for feasibility and cost effectiveness to narrow the possibilities down to three. In October 2005, after carefully considering input from the public and the project's elected officials group, the OCTA Board of Directors will choose an alternative for further study. A policy decision on a preferred strategy is expected by the end of 2005.

*Riverside County to Orange County Corridor Study:* The OCTA and the Riverside County Transportation Commission, in partnership with the Foothill/Eastern Transportation Corridor Agency, are currently working towards developing solutions to improve mobility between Orange and Riverside counties. The first phase of the Riverside County - Orange County Major Investment Study (MIS) began in Summer 2004 and consisted of working with the public to identify the key concerns and issues related to improving mobility between the two counties. Based on the feedback received, a Purpose and Need Statement was created that provided a starting point for developing conceptual alternatives to relieve congestion.

Five conceptual improvement corridors and 12 conceptual alternatives plus a no-build alternative were then developed and presented to the public at several community meetings and open houses conducted in Spring 2005. Community members were given many opportunities to review the corridors and alternatives and provide valuable feedback to the Study team. At the conclusion of the planning process, the MIS Policy Committee evaluated the five corridors and 12 alternatives, and selected three major-build alternatives and a no-build alternative for further evaluation. A policy decision on a preferred strategy is expected by December 2005.

**Streets and Roads**—Local streets and roads provide daily transportation for Orange County’s more than three million residents and are a critical component of the county’s vast transportation network. There are presently more than 7,200 miles of local streets and roads within Orange County.

OCTA sets priorities and allocates funding to local governments to supplement their programs for maintaining and improving roadways. Projects include the elimination of potholes, rough surfaces and bottlenecks, as well as increasing street and road capacity to improve mobility and reduce traffic congestion throughout the county.

During fiscal year 2005, OCTA allocated approximately \$55 million in Measure M funds to local cities and the County for the improvement and maintenance of local and regional streets and roads, interchanges and intersections. Since the passage of Measure M in 1990, local cities and the County have received more than \$712 million in Measure M revenues.

**Paratransit**—OCTA operates curb-to-curb paratransit van service for persons with disabilities. This service, known as ACCESS, is mandated by the Americans with Disabilities Act (ADA) and is intended to provide public transit service to persons who are unable to use regular fixed-route buses. ACCESS service requires the completion of an eligibility process to determine the rider’s transportation limitations. Demand for ACCESS has continued to grow since its inception in 1993. ACCESS provided 1,141,740 unlinked trips during fiscal year 2005, an increase of 10.9 percent from the previous fiscal year.

In an effort to manage future growth and still provide quality service that meets ADA requirements, OCTA implemented several Paratransit Growth Management strategies to manage paratransit ridership growth. The strategies included: increasing the efficiency of OCTA’s ADA paratransit service; educating the disabled community on the value of OCTA’s 100 percent accessible fixed-route service; creating a more balanced fare structure consistent with ADA requirements; and increasing overall fixed-route services for our customers with special needs.

With these strategies, OCTA developed and implemented several effective programs. The Senior Mobility Program, which supplies operating funds and retired vehicles to local cities' senior programs, provided more than 16,500 trips per month to elderly persons. OCTA partnered with the Orange County Office on Aging, cities and senior centers throughout the County to provide special service such as nutrition transportation via contracted taxi providers. OCTA partners with special agencies to transport developmentally disabled adults to and from vocational programs, and also with local senior service agencies to furnish an operating subsidy to transport disabled adults to day care centers. OCTA introduced Reduced Fare IDs that allow paratransit customers to use the 100 percent accessible fixed-route service for only \$.25. OCTA also initiated the Late Night ACCESS Program by contracting with taxi companies to provide transportation for paratransit customers requiring service between 10 p.m. and 4 a.m.

**Commuter Rail (Metrolink)**—Commuter rail service is operated by the Southern California Regional Rail Authority (SCRRA) and is popularly known as Metrolink. SCRRA is a joint powers authority formed by transportation agencies in five counties including OCTA. Metrolink trains serve Orange County with 40 train trips per day along three commuter rail lines:

- Orange County Line with station stops in Oceanside, San Clemente, San Juan Capistrano, Laguna Niguel/Mission Viejo, Irvine, Tustin, Santa Ana, Orange, Anaheim, Fullerton, Norwalk/Santa Fe Springs, Commerce and Downtown Los Angeles
- Inland Empire/Orange County (IEOC) Line serving stations in San Bernardino, Riverside Downtown, Riverside-La Sierra, North Main Corona, Anaheim Canyon, Orange, Santa Ana, Tustin, Irvine, Laguna Niguel/Mission Viejo and San Juan Capistrano
- 91 Line serving stations in Riverside Downtown, Riverside-La Sierra, North Main Corona, Anaheim Canyon, Fullerton, Norwalk/Santa Fe Springs, Commerce and Downtown Los Angeles

During fiscal year 2005, total commuter rail ridership for the three lines serving Orange County (including the Metrolink riders on Amtrak) exceeded three million passengers. OCTA and partner cities are in the process of expanding the system with a new Metrolink station in Buena Park slated for completion in 2006.

**Light Rail**—Even though The CenterLine, the 9.3-mile light rail starter system planned to service central Orange County, entered the final design phase during fiscal year 2005, in the absence of federal funding allocation, OCTA cannot complete the project by 2010, thus triggering the need to substitute its

Transportation Control Measure with projects that can provide equivalent emission reductions in the same timeframe. On October 14, 2005, The OCTA Board directed staff to cease all efforts towards the project and redirect resources to other rapid transit projects.

**Advanced Rail Transit**—As directed by the Board, OCTA staff began studying a variety of alternatives to The CenterLine, some of which will be recommended to the Board, including:

- Launching a new bus rapid transit (BRT) system in a dedicated lane on all or part of the existing CenterLine route starting at Bristol Street in Santa Ana and extending as far as John Wayne Airport
- Accelerating planned expansion of Metrolink commuter rail service to provide service every 30 minutes, seven days a week
- Widening Bristol Street in Santa Ana between Civic Center Drive and Warner Avenue, reserving the center median for future transit use
- Implementing a new street-running BRT system that would use existing traffic lanes with buses operating on a comprehensive network and serving key destinations in Orange and Los Angeles counties, including several Metrolink stations
- Exploring other rapid transit options, including a light rail system on the former Pacific Electric right of way in west Orange County, a people mover in Irvine and/or a magnetic-levitation (Maglev) train between Anaheim and Las Vegas
- Reallocating Measure M funds to approved freeway and/or local street projects, which would require voter approval

**Motorist and Other Services**—OCTA also facilitates other state and locally funded programs primarily related to motorist services.

*Service Authority for Freeway Emergencies (SAFE)*—Orange County broke new ground in 1987 when it pioneered a solar-powered cellular technology call box system. During 2003, the entire network was equipped with Text Telephone assistance devices for the hearing impaired. The program is funded by a \$1 per year fee on vehicles registered in Orange County. SAFE now operates and maintains 1,226 call boxes throughout Orange County. In fiscal year 2005, 18,540 calls (an average of 1,545 calls per month) were received through the SAFE callbox network.

*Freeway Service Patrol (FSP)*—Orange County's FSP, which consists of a fleet of dedicated tow trucks that patrol the County's vast freeway system, helps to keep freeways flowing freely by removing disabled cars and other physical impediments. By assisting drivers with dead batteries, empty gas tanks, and flat tires, traffic congestion from freeway incidents has been greatly reduced.

FSP is sponsored by SAFE and the California Highway Patrol and is funded by California State Highway funds administered by Caltrans and matching funds from SAFE. This program is part of an overall plan to significantly improve freeway traffic flow and reduce smog caused by stop-and-go congestion. During fiscal year 2005, the FSP program assisted an estimated 68,160 stranded motorists (an average of 5,680 assists per month) on Orange County freeways and public toll roads utilizing 35 tow trucks during peak hours and five tow trucks during midday hours.

*Service Authority for Abandoned Vehicles (SAAV)*—Established in October 1991, SAAV funds the cost of removing abandoned vehicles from roadsides throughout Orange County. Funded by a \$1 per vehicle registration fee, this program allows the County and its 34 cities to remove unsightly and potentially dangerous vehicles from local Orange County streets and roads. Using SAAV funds for this purpose means that cities do not have to use important law enforcement and code enforcement funds on vehicle removal. During fiscal year 2005, the SAAV program funded the removal of 13,413 abandoned vehicles from Orange County streets.

*Orange County Taxicab Administration Program (OCTAP)*—California cities are required by law to regulate taxicabs. OCTAP, a regulatory program operated by OCTA, was formed to regulate taxicab companies, drivers, and vehicles on behalf of Orange County's 34 cities as well as the County. OCTAP began operation in January 1998. The service is funded by fees paid by taxicab drivers and operators, requiring no tax subsidies. Prior to OCTAP, each taxicab company and its affiliated drivers had to follow a variety of rules and regulations established by each of the cities in which they operated. This made the task of ensuring compliance with taxicab rules and regulations difficult and time consuming. OCTAP was established to alleviate the administrative burden from local cities, centralize the issuance of permits to taxicab companies and drivers, and eliminate duplication of efforts. Enforcement is conducted by local police departments. All 34 cities in Orange County and the County itself have now joined the program, ensuring added efficiency and effectiveness for local governments countywide. By the end of fiscal year 2005, OCTAP was responsible for the permitting of 17 taxi companies, 671 taxicabs and 974 taxi drivers.

**Cash Management**—OCTA's Treasury/Public Finance Department contracts with several private sector investment management firms to manage the majority of OCTA's cash assets. Separate investment accounts are maintained for the proceeds and the interest earnings from each of OCTA's debt issues. The remainder of OCTA's cash and investments are maintained in commingled accounts, with interest earnings allocated to the respective funds and accounts based on daily dollar average balances.

Each of the investment manager's accounts is monitored on a daily basis by the Treasury/Public Finance Department to ensure compliance with OCTA's investment policy. The investment policy has been adopted by OCTA's Board of Directors and is approved annually to ensure that it complies with all applicable laws and regulations and that the policy meets OCTA's foremost investment objective: *safeguarding of principal*.

OCTA maintains commercial checking accounts at Bank of the West for the purposes of issuing payroll and general accounts payable. The bank collateralizes all balances over the \$100,000 covered by the Federal Deposit Insurance Corporation with a pooled collateral account held by the financial institution's trust department in OCTA's name. Bank of the West also provides a controlled disbursement service to OCTA under terms of a cooperative agreement between Bank of the West and Mellon Bank. This service is funded on a daily basis from an OCTA Sweep investment account with Bank of the West's Trust Department. On a daily basis, OCTA's Treasury/Public Finance Department invests excess cash in these accounts in accordance with OCTA's investment policy. These investments are facilitated by Bank of the West's California Treasury Division.

The Treasury/Public Finance Department prepares monthly reports for presentation to the Finance and Administration Committee of the Board and quarterly reports for the Board. These reports review compliance with OCTA's investment policy, as well as the overall performance of OCTA's investment portfolio.

**Debt Administration**—As of June 30, 2005, OCTA's outstanding debt consisting of bonds, commercial paper notes, and certificates of participation was \$658 million, net of unamortized amounts. The current portion of this debt totals \$110 million. Final maturity of the Measure M Sales Tax Revenue Bonds is scheduled for 2011, when the current Measure M sales tax program expires. OCTA refinanced the taxable bonds assumed in the 91 Express Lanes purchase with tax-exempt bonds in November 2003. These bonds final maturity is scheduled for December 2030. Final maturity for the transit certificates of participation is scheduled for July 2007. The commercial paper notes have a maximum maturity of 270 days, and OCTA has entered into an irrevocable direct-pay letter of credit reimbursement agreement with Dexia Bank to provide liquidity support for the commercial paper notes.



**Risk Management**—OCTA management is of the opinion that recorded liabilities for OCTA's self-insured claims are adequate, and resources are being accumulated in the internal service funds to meet potential losses. In addition, a series of training and wellness programs for OCTA administrative, maintenance and coach operator employees seek to evaluate and control losses in health and workers' compensation claims. Defensive driving, customer service and assistance, and other coach operator training programs seek to control general claim exposure.

**Pension Benefits**—A majority of OCTA's employees participate in the Orange County Employees Retirement System, which is a cost-sharing, multiple-employer defined benefit plan. A nominal number of employees participate in the Public Employees' Retirement System of the State of California. Financial activities for the two retirement systems are not included in this document as the Board does not oversee the retirement systems.

### **Awards and Acknowledgments**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the OCTA for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the 23rd straight year OCTA or its predecessor agency has received this prestigious award. In order to be awarded a Certificate of Achievement, OCTA published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the U.S. and applicable legal requirements.

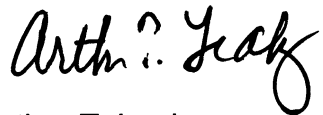
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The California Society of Municipal Finance Officers (CSMFO) awarded a Certificate of Award for Outstanding Financial Reporting to the OCTA for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the fourth straight year OCTA has received the award. The certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared. We believe our current report continues to conform to the Certificate of Award for Outstanding Financial Reporting Program requirements, and we are submitting it to CSMFO.

The preparation of the Comprehensive Annual Financial Report on an efficient basis required the dedication of staff in many OCTA departments. We wish to

express our appreciation to all the department managers and staff who assisted and contributed to the preparation of this report, as well as our independent auditors for their participation in the review and preparation of this report. We are especially grateful for the dedicated efforts over the past few years of the Accounting and Financial Reporting Department staff, who have prepared for and coordinated our implementation and continued support of the new financial reporting model. Special appreciation is extended to the Board for its support for efforts to excel in the operational and financial management of OCTA.

Respectfully submitted,

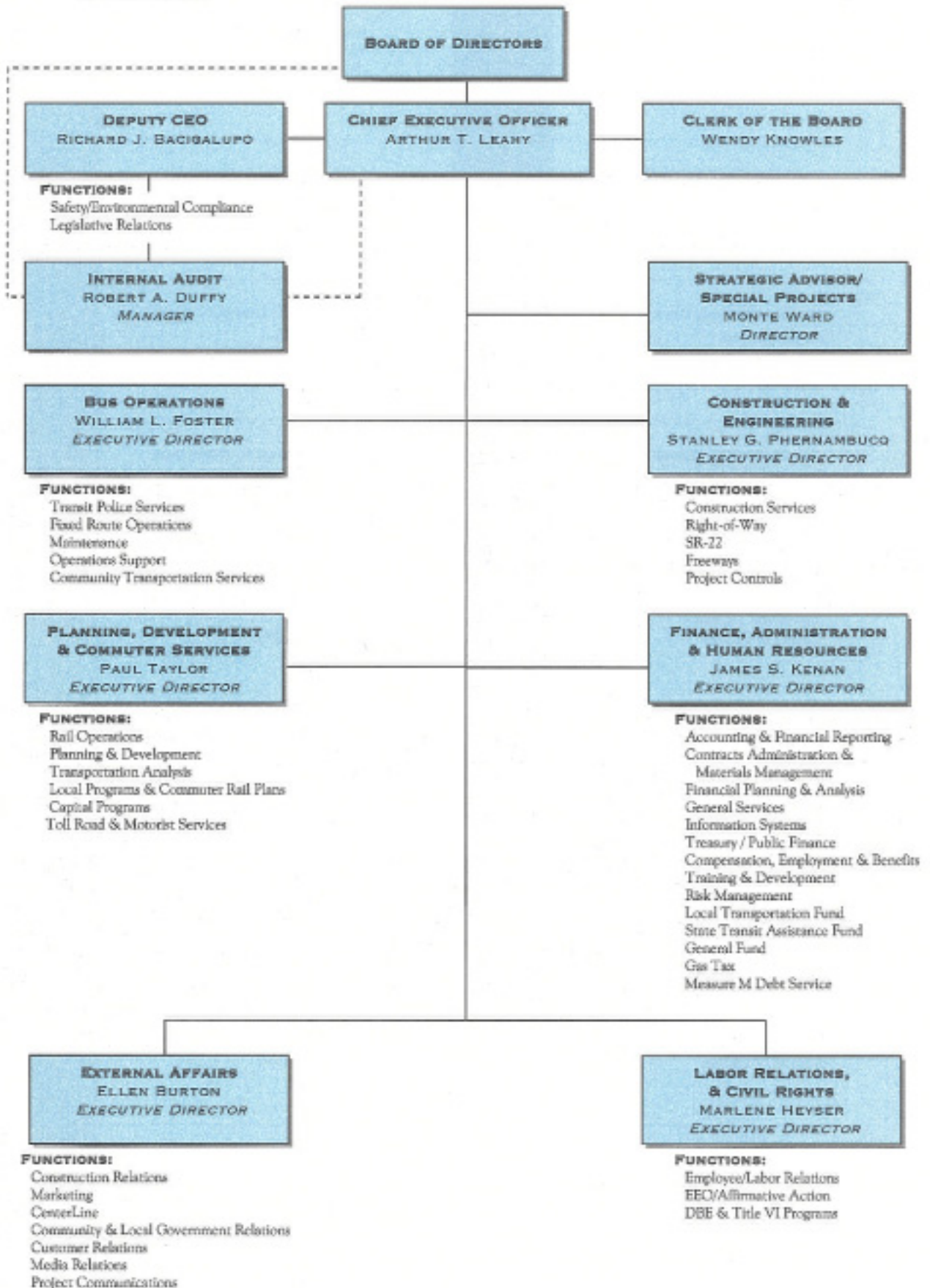


Arthur T. Leahy  
Chief Executive Officer



James S. Kenan  
Executive Director of Finance, Administration and Human Resources

(AS OF JUNE 30, 2008)



<p><b>BILL CAMPBELL</b>  <b>CHAIRMAN</b>                      Supervisor, District 3                      County of Orange</p>		<p><b>ARTHUR C. BROWN,</b>  <b>VICE-CHAIRMAN</b>                      Mayor Pro Tem                      City of Buena Park</p>	
<p><b>CAROLYN CAVECCHIE, DIRECTOR</b>                      Mayor Pro Tem                      City of Orange</p>		<p><b>LOU CORREA, DIRECTOR</b>                      Supervisor, District 1                      County of Orange</p>	
<p><b>RICHARD DIXON, DIRECTOR</b>                      Mayor Pro Tem                      City of Lake Forest</p>		<p><b>MICHAEL D. DUVALL, DIRECTOR</b>                      Mayor Pro Tem                      City of Yorba Linda</p>	
<p><b>GATHY GREEN, DIRECTOR</b>                      Councilmember                      City of Huntington Beach</p>		<p><b>GARY MONAHAN, DIRECTOR</b>                      Mayor Pro Tem                      City of Costa Mesa</p>	
<p><b>CHRIS NORBY, DIRECTOR</b>                      Supervisor, District 4                      County of Orange</p>		<p><b>CURT PRINGLE, DIRECTOR</b>                      Mayor                      City of Anaheim</p>	
<p><b>MIGUEL PULIDO, DIRECTOR</b>                      Mayor                      City of Santa Ana</p>		<p><b>SUSAN RITSCHKE, DIRECTOR</b>                      Councilmember                      City of San Clemente</p>	
<p><b>MARK ROSEN, DIRECTOR</b>                      Mayor Pro Tem                      City of Garden Grove</p>		<p><b>JAMES W. SILVA, DIRECTOR</b>                      Supervisor, District 2                      County of Orange</p>	
<p><b>THOMAS W. WILSON, DIRECTOR</b>                      Supervisor, District 5                      County of Orange</p>		<p><b>GREGORY T. WINTERBOTTOM,</b>  <b>DIRECTOR</b>                      Public Member</p>	
<p><b>VACANT, DIRECTOR</b>                      Public Member</p>		<p><b>CINDY QUON, GOVERNOR'S EX-</b>  <b>OFFICIO MEMBER</b>                      Director, Caltrans District 12</p>	

2005 | MANAGEMENT STAFF

---

(AS OF JUNE 30, 2005)

ARTHUR T. LEAHY	Chief Executive Officer
RICHARD J. BACIGALUPO	Deputy Chief Executive Officer
WENDY KNOWLES	Clerk of the Board
MONTE WARD	Strategic Advisor / Special Projects Manager
ROBERT A. DUFFY	Manager, Internal Audit
<hr/>	
ELLEN BURTON	Executive Director, External Affairs
WILLIAM L. FOSTER	Executive Director, Bus Operations
MARLENE HEYSER	Executive Director, Labor Relations, & Civil Rights
JAMES S. KENAN	Executive Director, Finance, Administration & Human Resources
STANLEY G. PHERNAMBUQC	Executive Director, Construction & Engineering
PAUL TAYLOR	Executive Director, Planning, Development & Commuter Services
<hr/>	
KENNETH G. PHIPPS	Division Director, Finance, Administration & Human Resources
VIRGINIA ABADESSA	Manager, Contracts Administration and Materials Management
AL GORSKI	Acting Manager, Compensation, Employment & Benefits
TOM WULF	Manager, Accounting and Financial Reporting
KIRK AVILA	Manager, Treasury and Public Finance / Treasurer
KENNETH G. PHIPPS	Acting Manager, Financial Planning and Analysis
AL GORSKI	Manager, Risk Management
WILLIAM MAO	Chief Information Officer
RICH SMITH	Manager, General Services
JULIE ESPY	Manager, Training & Development
<hr/>	
KENNARD R. SMART, JR.	General Counsel

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange County  
Transportation Authority,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Zjelle*

President

*Jeffrey R. Emer*

Executive Director

*California Society of  
Municipal Finance Officers*

Certificate of Award

*Outstanding Financial Reporting 2003-2004*

Presented to the

*Orange County Transportation Authority*

*This certificate is issued in recognition of meeting professional standards and criteria in reporting  
which reflect a high level of quality in the annual financial statements  
and in the underlying accounting system from which the reports were prepared.*

*February 24, 2005*

*Sandra A. Schmidt*

Sandra Schmidt, Chair  
Professional & Technical Standards Committee

*Dedicated to Excellence in Municipal Financial Management*



This page intentionally left blank.





SR-22 FREEWAY



FREEWAY CONSTRUCTION WORKERS



## MACIAS GINI & COMPANY<sup>LLP</sup>

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.

*Mauar, Jini & 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.



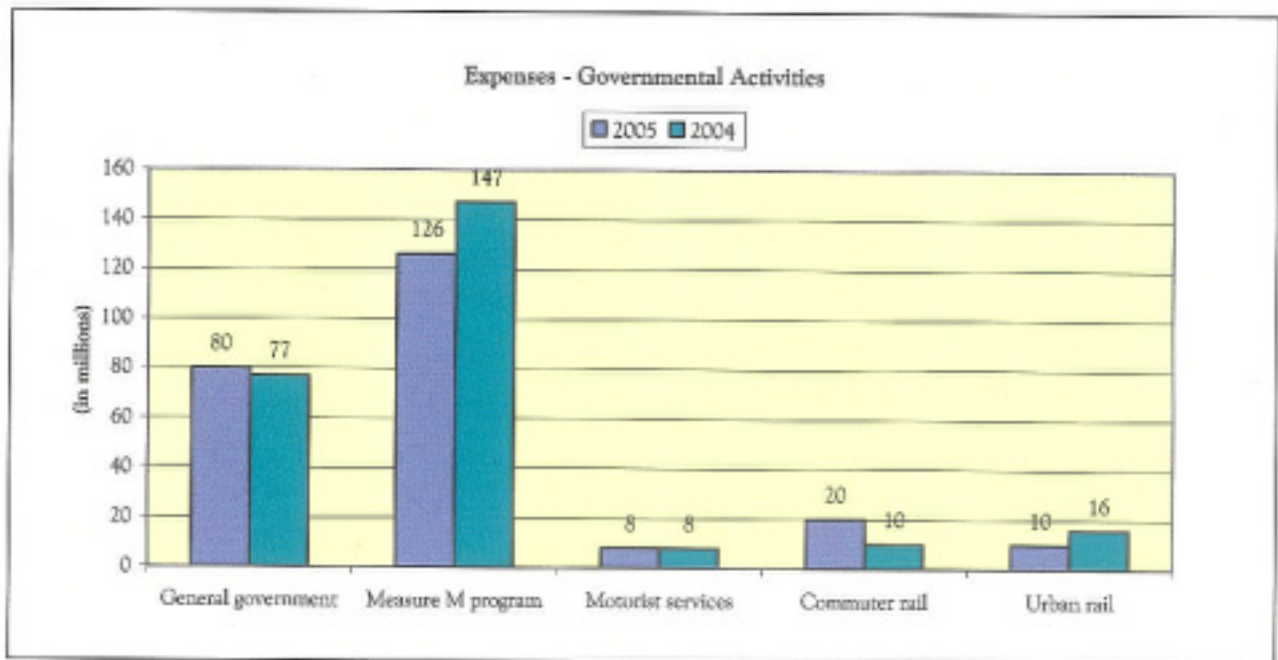
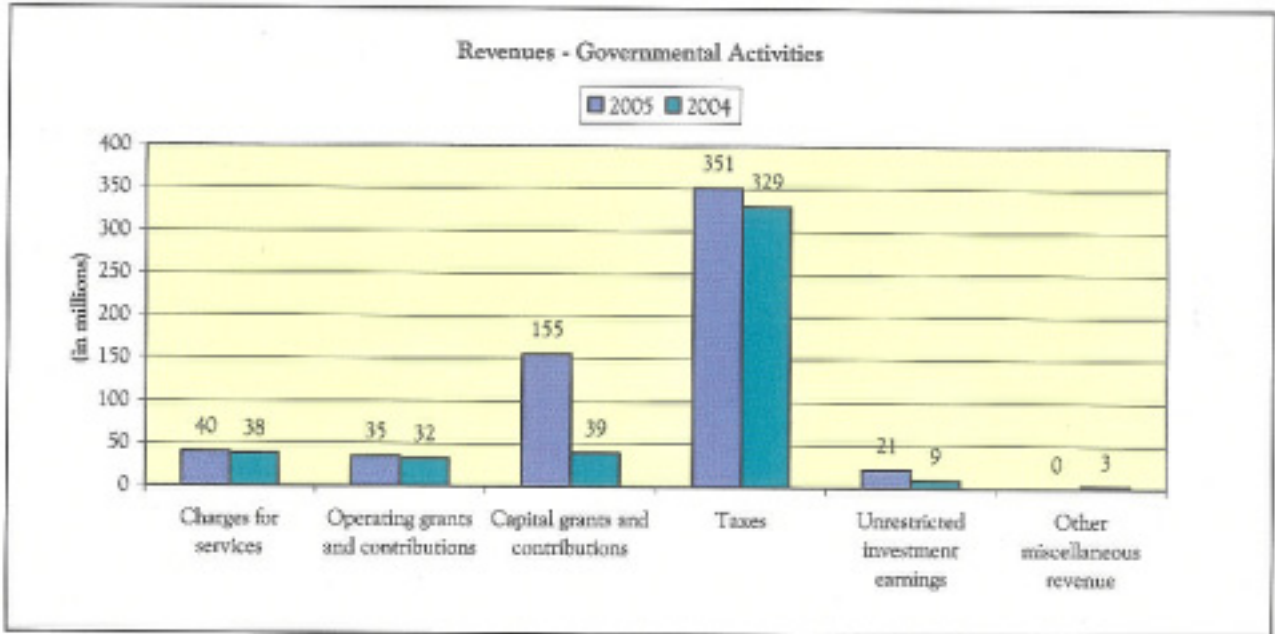
Table 2  
 Orange County Transportation Authority  
 Changes in Net Assets  
 (in millions)

	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**

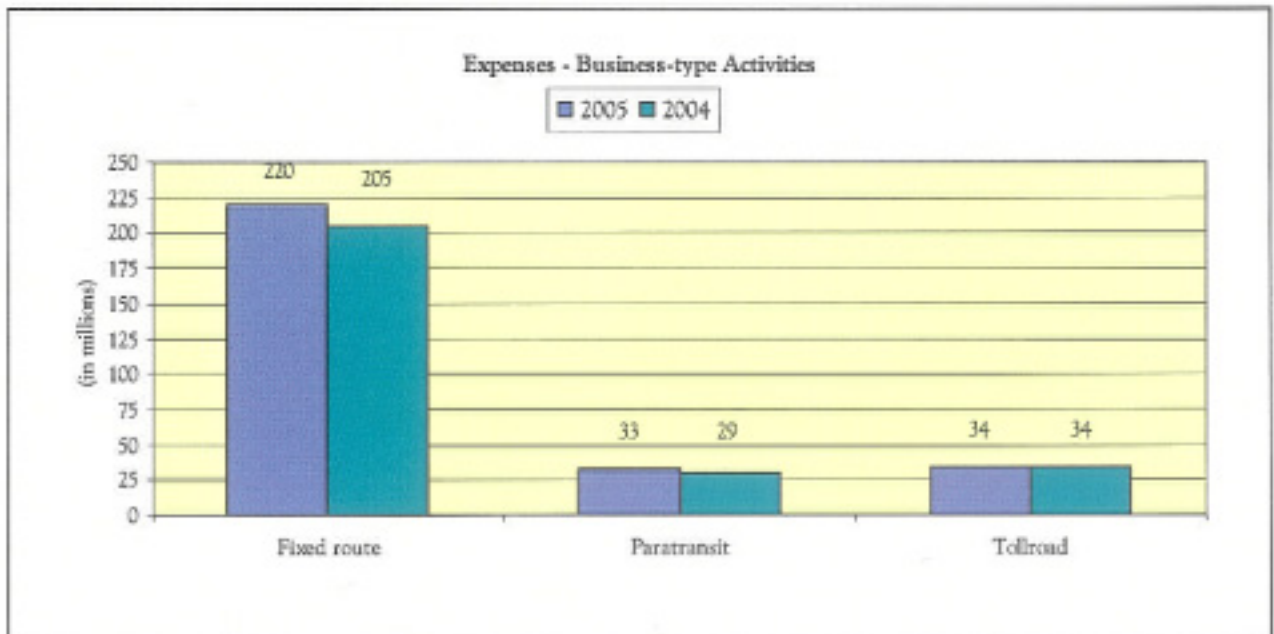
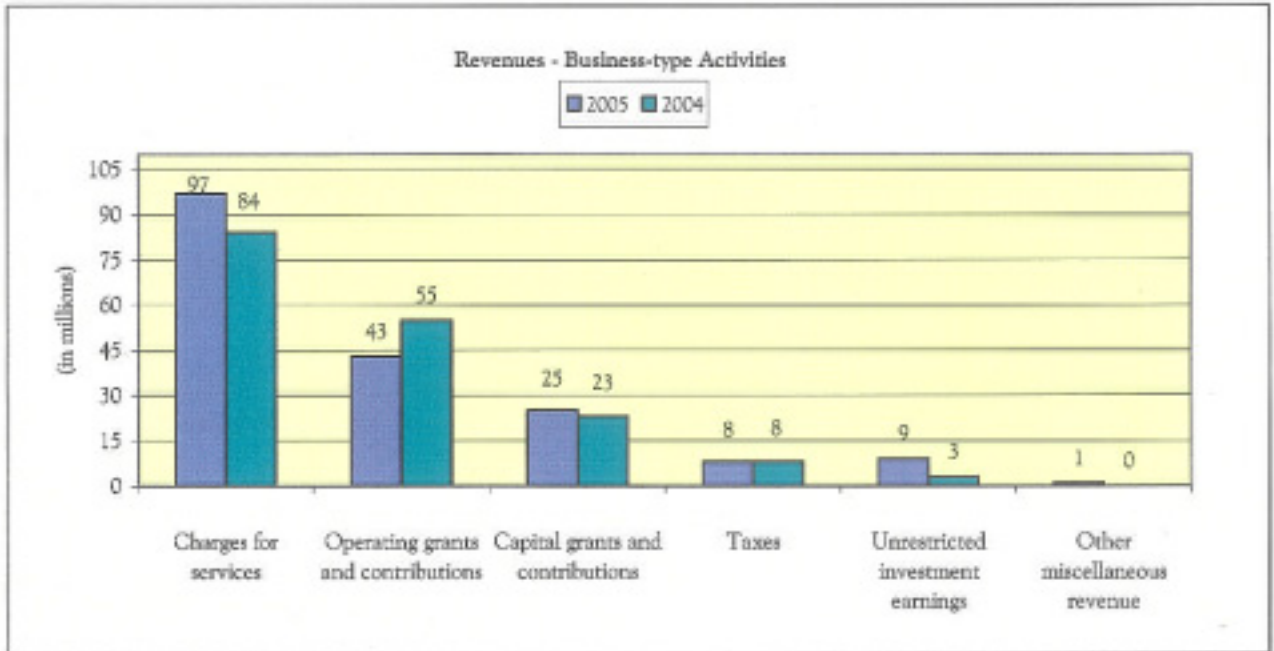
Total revenues for OCTA's governmental activities increased \$152,633 primarily due to increases in sales taxes, capital grant reimbursements for the SR-22 construction project and investment earnings as a result of higher interest rates. Total expenses decreased \$13,444 primarily due to the cessation 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
<b>Totals</b>	<b>\$ 260</b>	<b>\$ 139</b>	<b>\$ 428</b>	<b>\$ 425</b>	<b>\$ 688</b>	<b>\$ 564</b>

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
<b>Totals</b>	<b>\$ 480</b>	<b>\$ 547</b>	<b>\$ 196</b>	<b>\$ 202</b>	<b>\$ 676</b>	<b>\$ 749</b>

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 1<sup>st</sup> 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 2<sup>nd</sup> 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
<b>ASSETS</b>			
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
<b>TOTAL ASSETS</b>	<b>1,219,221</b>	<b>767,621</b>	<b>1,986,842</b>
<b>LIABILITIES</b>			
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
<b>TOTAL LIABILITIES</b>	<b>552,187</b>	<b>242,704</b>	<b>794,891</b>
<b>NET ASSETS</b>			
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
<b>TOTAL NET ASSETS</b>	<b>\$ 667,034</b>	<b>\$ 524,917</b>	<b>\$ 1,191,951</b>

See accompanying notes to the financial statements.



STATEMENT OF ACTIVITIES

(Thousands)

Net (Expense) Revenue and  
Changes in Net Assets

for the year ended June 30, 2005	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>							
<b>PRIMARY GOVERNMENT</b>							
<b>GOVERNMENTAL ACTIVITIES:</b>							
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)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>244,111</b>	<b>40,164</b>	<b>35,263</b>	<b>154,565</b>	<b>(14,119)</b>	<b>-</b>	<b>(14,119)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
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
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>286,726</b>	<b>96,894</b>	<b>42,681</b>	<b>25,218</b>	<b>-</b>	<b>(121,933)</b>	<b>(121,933)</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 530,837</b>	<b>\$ 137,058</b>	<b>\$ 77,944</b>	<b>\$ 179,783</b>	<b>(14,119)</b>	<b>(121,933)</b>	<b>(136,052)</b>
<b>GENERAL REVENUES:</b>							
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
<b>TRANSFERS</b>					(91,273)	91,273	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>280,718</b>	<b>108,695</b>	<b>389,413</b>
Change in net assets					266,599	(13,238)	253,361
Net assets - beginning, as restated					400,435	538,155	938,590
<b>NET ASSETS - ENDING</b>					<b>\$ 667,034</b>	<b>\$ 524,917</b>	<b>\$ 1,191,951</b>

See accompanying notes to the financial statements.

BALANCE SHEET - GOVERNMENTAL FUNDS  
(In thousands)

June 30, 2005	General	LTA	Local Transportation	CURE	Rail Capital Project	LTA Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>								
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
<b>TOTAL ASSETS</b>	<b>\$ 13,010</b>	<b>\$ 616,677</b>	<b>\$ 22,919</b>	<b>\$ 144,410</b>	<b>\$ 1,741</b>	<b>\$ 110,433</b>	<b>\$ 38,778</b>	<b>\$ 947,968</b>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>LIABILITIES</b>								
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	-	17,932	-	4,232	-	-	-	22,184
Other liabilities	31	21	-	-	-	-	-	52
Commercial paper notes	-	40,900	-	-	-	-	-	40,900
<b>TOTAL LIABILITIES</b>	<b>7,199</b>	<b>106,609</b>	<b>7,338</b>	<b>7,477</b>	<b>984</b>	<b>-</b>	<b>6,294</b>	<b>135,901</b>
<b>FUND BALANCES</b>								
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
<b>TOTAL FUND BALANCES</b>	<b>5,811</b>	<b>510,068</b>	<b>15,581</b>	<b>136,933</b>	<b>757</b>	<b>110,433</b>	<b>32,484</b>	<b>812,067</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 13,010</b>	<b>\$ 616,677</b>	<b>\$ 22,919</b>	<b>\$ 144,410</b>	<b>\$ 1,741</b>	<b>\$ 110,433</b>	<b>\$ 38,778</b>	<b>\$ 947,968</b>

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:

<b>TOTAL FUND BALANCES (PAGE 16)</b>	\$	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.		<u>(439,107)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 14)</b>	<b>\$</b>	<b><u><u>667,034</u></u></b>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

(in thousands)

for the year ended June 30, 2005

REVENUES	General	LTA	Local Transportation	CURE	Rail Capital Project	LTA Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
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
<b>TOTAL REVENUES</b>	<b>41,969</b>	<b>392,007</b>	<b>96,249</b>	<b>2,467</b>	<b>5,168</b>	<b>4,443</b>	<b>41,551</b>	<b>583,854</b>
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 longterm debt	-	-	-	-	-	60,615	-	60,615
Interest on long-term debt and commercial paper	-	722	-	-	-	27,603	-	28,325
<b>TOTAL EXPENDITURES</b>	<b>49,577</b>	<b>221,235</b>	<b>3,729</b>	<b>20,505</b>	<b>10,116</b>	<b>88,436</b>	<b>34,243</b>	<b>427,841</b>
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
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>6,425</b>	<b>(91,179)</b>	<b>(89,670)</b>	<b>8,677</b>	<b>4,664</b>	<b>78,850</b>	<b>(7,946)</b>	<b>(90,179)</b>
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
<b>FUND BALANCES-ENDING</b>	<b>\$ 5,811</b>	<b>\$ 510,068</b>	<b>\$ 15,581</b>	<b>\$ 136,933</b>	<b>\$ 757</b>	<b>\$ 110,433</b>	<b>\$ 32,484</b>	<b>\$ 812,067</b>

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:

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (PAGE 18)</b>	<b>\$ 65,834</b>
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
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (PAGE 15)</b>	<b>\$ 266,599</b>

See accompanying notes to the financial statements.

## STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS

(thousands)

June 30, 2005	Enterprise Funds					
	OCTD	91 Express Lanes	Bus Operations	Nonmajor Enterprise Fund OCTAP	Total Enterprise Funds	Internal Service Funds
<b>ASSETS</b>						
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	-
<b>TOTAL ASSETS</b>	<b>449,327</b>	<b>250,354</b>	<b>86,943</b>	<b>20</b>	<b>786,644</b>	<b>49,554</b>
<b>LIABILITIES</b>						
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	-
<b>TOTAL LIABILITIES</b>	<b>37,623</b>	<b>245,394</b>	<b>27</b>	<b>11</b>	<b>283,055</b>	<b>27,457</b>
<b>NET ASSETS</b>						
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
<b>TOTAL NET ASSETS</b>	<b>\$ 411,704</b>	<b>\$ 4,960</b>	<b>\$ 86,916</b>	<b>\$ 9</b>	<b>\$ 503,589</b>	<b>\$ 22,097</b>

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:

<b>TOTAL NET ASSETS (PAGE 20)</b>	\$	503,589
<p>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.</p>		
		<u>21,328</u>
<b>NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE 14)</b>	\$	<u><u>524,917</u></u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (DEFICIT)  
 PROPRIETARY FUNDS

(thousands)

June 30, 2005	Enterprise Funds					
	OCTD	91 Express Lanes	Bus Operations	Nonmajor Enterprise Fund OCTAP	Total Enterprise Funds	Internal Service Funds
<b>OPERATING REVENUES:</b>						
User fees and charges	\$ 46,879	\$ 39,584	\$ -	\$ -	\$ 86,463	\$ -
Permit fees	-	-	-	275	275	-
Charges for services	-	-	-	-	-	26,453
<b>TOTAL OPERATING REVENUES</b>	<b>46,879</b>	<b>39,584</b>	<b>-</b>	<b>275</b>	<b>86,738</b>	<b>26,453</b>
<b>OPERATING EXPENSES:</b>						
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	-
<b>TOTAL OPERATING EXPENSES</b>	<b>240,291</b>	<b>23,614</b>	<b>112</b>	<b>245</b>	<b>264,262</b>	<b>38,182</b>
Operating income (loss)	(193,412)	15,970	(112)	30	(177,524)	(11,729)
<b>NONOPERATING REVENUES (EXPENSES):</b>						
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
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>65,207</b>	<b>(8,718)</b>	<b>1,995</b>	<b>-</b>	<b>58,484</b>	<b>1,411</b>
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
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 411,704</b>	<b>\$ 4,960</b>	<b>\$ 86,916</b>	<b>\$ 9</b>	<b>\$ 503,589</b>	<b>\$ 22,097</b>

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:

<b>NET CHANGE IN FUND NET ASSETS - TOTAL ENTERPRISE FUNDS (PAGE 22)</b>	\$ (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.	<u>(11,018)</u>
<b>CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE 15)</b>	<u><u>\$ (13,238)</u></u>

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(Thousands)

	Enterprise Funds					
	OCTD	91 Express Lanes	Bus Operations	Nonmajor Enterprise Fund OCTAP	Totals	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
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	-
	(155,556)	26,194	(108)	6	(129,464)	(1,368)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>						
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
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)	-
	157,517	-	(14,000)	-	143,517	284
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES</b>						
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
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)	-
	(11,860)	(13,391)	-	-	(25,251)	-
<b>NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchase of investments	-	(12,635)	-	-	(12,635)	-
Investment earnings	4,082	1,330	2,042	-	7,454	1,040
	4,082	(11,305)	2,042	-	(5,181)	1,040
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>						
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
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 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

(in thousands)

	Enterprise Funds						Internal Service Funds
	OCTD	91 Express Lanes	Bus Operations	Nonmajor Enterprise Fund OCTAP	Totals		
for the year ended June 30, 2005							
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>							
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	
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>\$ (155,556)</b>	<b>\$ 26,194</b>	<b>\$ (108)</b>	<b>\$ 6</b>	<b>\$ (129,464)</b>	<b>\$ (1,368)</b>	
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS</b>							
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	
<b>SCHEDULE OF NONCASH ACTIVITIES:</b>							
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
<b>ASSETS</b>	
Cash and investments	\$ 17
<b>TOTAL ASSETS</b>	<u>17</u>
<b>NET ASSETS</b>	
Held in trust for future scholarships	17
<b>TOTAL NET ASSETS</b>	<u>\$ 17</u>

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
<b>ADDITIONS</b>	
Contributions	
Private donations	\$ 22
<b>TOTAL ADDITIONS</b>	<b>22</b>
<b>DEDUCTIONS</b>	
Scholarships	19
<b>TOTAL DEDUCTIONS</b>	<b>19</b>
Change in net assets	3
Net assets - beginning	14
<b>NET ASSETS - ENDING</b>	<b>\$ 17</b>

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.

(THOUSANDS)

JUNE 30, 2005

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.

(THOUSANDS)

JUNE 30, 2005

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

<u>ASSET TYPE</u>	<u>USEFUL LIFE</u>
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 <sup>th</sup> 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	<u>(13,964)</u>
<b>NET ADJUSTMENT TO INCREASE FUND BALANCE - TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS - GOVERNMENTAL ACTIVITIES</b>	<b><u>\$260,334</u></b>

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	<u>(129)</u>
<b>NET ADJUSTMENT TO DECREASE FUND BALANCE - TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT NET ASSETS - GOVERNMENTAL ACTIVITIES</b>	<b><u>\$(439,107)</u></b>

**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	<u>(1,131)</u>
<b>NET ADJUSTMENT TO INCREASE NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 121,296</u></u></b>

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	<u>(6)</u>
<b>NET ADJUSTMENT TO DECREASE NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ (1,100)</u></u></b>

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	<u>(59)</u>
<b>NET ADJUSTMENT TO INCREASE NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$61,798</u></u></b>

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	<u>\$ (8)</u>
<b>NET ADJUSTMENT TO DECREASE NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS TO ARRIVE AT CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ (8)</u></u></b>



(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:

<b>DEPOSITS:</b>	
Petty cash	\$ 7
Deposits	3,714
<b>TOTAL CASH</b>	<b><u>3,721</u></b>
 <b>INVESTMENTS:</b>	
With Orange County Treasurer	22,176
With LAIF	24,162
With Trustee	144,408
With Custodian	870,181
<b>TOTAL INVESTMENTS</b>	<b><u>1,060,927</u></b>
<b>TOTAL CASH AND INVESTMENTS</b>	<b><u>\$ 1,064,648</u></b>

Total deposits and investments are reported in the following funds:

<b>UNRESTRICTED CASH AND INVESTMENTS:</b>	
Governmental Funds	\$ 640,807
Proprietary Funds:	
Enterprise	278,646
Internal Service	46,734
Fiduciary Funds	17
<b>RESTRICTED INVESTMENTS:</b>	
Governmental Funds	72,673
Proprietary Funds:	
Enterprise	25,771
<b>TOTAL CASH AND INVESTMENTS</b>	<b><u>\$ 1,064,648</u></b>

(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
<b>TOTAL INVESTMENTS</b>	<b>\$ 1,060,927</b>	<b>\$ 1,057,451</b>			

#### 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 3 month LIBOR +	AA/AA

(THOUSANDS)  
JUNE 30, 2005

FHLMC	Notes	Variable to fixed after 11/05	12 basis points 3 month LIBOR +	AAA/Aaa
Goldman Sachs	Notes	1.81% to 3.32%	18 basis points	A+/Aa3
National City Bank	Notes	1.45% to 3.31%	1 month LIBOR flat 3 month LIBOR +	A+/Aa3
Wells Fargo	Notes	1.96% to 3.48%	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%
<b>TOTAL</b>				<b>100%</b>

#### 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:

RECEIVABLES:	GOVERNMENTAL FUNDS				ENTERPRISE FUND		TOTAL
	GENERAL	LTA	LTF	CURE	NONMAJOR FUNDS	OCTD	
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
<b>TOTAL</b>	<b>\$ 1,741</b>	<b>\$ 101,825</b>	<b>\$ 3,145</b>	<b>\$ 80</b>	<b>\$ 6,082</b>	<b>\$ 4,086</b>	<b>\$ 116,959</b>

**(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 Senior/disabled subsidy and negative cash
OCTD Enterprise Fund	Nonmajor Governmental Funds	3,673	funding
OCTD Enterprise Fund	Internal Service Funds	284	Negative cash funding
<b>TOTAL</b>		<b>\$ 77,569</b>	

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
			Transportation projects and
Nonmajor Governmental Funds	General Fund	2,545	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
<b>TOTAL</b>		<b>\$249,398</b>	

(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
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET</b>	<b>\$ 139,044</b>	<b>\$ 121,484</b>	<b>\$ 194</b>	<b>\$ 260,334</b>
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
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET</b>	<b>\$ 425,535</b>	<b>\$ 47,897</b>	<b>\$ 45,798</b>	<b>\$427,634</b>

(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
<b>TOTAL DEPRECIATION EXPENSE – GOVERNMENTAL ACTIVITIES</b>	<b><u>\$1,131</u></b>
Business-type activities:	
Fixed route and paratransit	\$ 25,369
Tollroad	9,108
<b>TOTAL DEPRECIATION AND AMORTIZATION EXPENSE – BUSINESS-TYPE ACTIVITIES</b>	<b><u>\$34,477</u></b>

## (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:

	<u>2005</u>	<u>2004</u>
<b>GENERAL LIABILITY</b>		
<b>UNPAID CLAIMS AS OF JULY 1,</b>	\$ 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	<u>10,923</u>	<u>1,033</u>
<b>PAYMENTS:</b>		
Claims attributable to current year events	2,197	591
Claims attributable to prior year events	1,458	202
Total payments	<u>(3,655)</u>	<u>(793)</u>
Unpaid claims at June 30,	<u>10,064</u>	<u>2,796</u>



(THOUSANDS)  
JUNE 30, 2005

	2005	2004
<b>WORKERS' COMPENSATION</b>		
<b>UNPAID CLAIMS AS OF JULY 1,</b>	12,239	9,896
Incurring 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
<b>PAYMENTS:</b>		
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
<b>EMPLOYEE HEALTH</b>		
<b>UNPAID CLAIMS AS OF JULY 1,</b>	1,264	1,014
Incurring 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
<b>PAYMENTS:</b>		
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
<b>TOTAL UNPAID CLAIMS AT JUNE 30,</b>	<b>26,776</b>	<b>16,299</b>
Less current portion of unpaid claims	10,830	4,316
<b>TOTAL LONG-TERM PORTION OF UNPAID CLAIMS</b>	<b>\$ 15,946</b>	<b>\$ 11,983</b>

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

(THOUSANDS)  
JUNE 30, 2005

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%.

#### 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 1 <sup>ST</sup> SENIOR BOND	1992 2 <sup>ND</sup> SENIOR BOND	1994 2 <sup>ND</sup> SENIOR BOND	1997 2 <sup>ND</sup> SENIOR	1998 2 <sup>ND</sup> SENIOR BOND	2001 2 <sup>ND</sup> 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
<b>TOTAL</b>	<b>\$144,645</b>	<b>\$23,755</b>	<b>\$41,690</b>	<b>\$57,415</b>	<b>\$122,955</b>	<b>\$48,518</b>

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
<b>TOTAL</b>	<b>\$438,890</b>	<b>\$89,457</b>

#### 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	-	-
<b>TOTAL</b>	<b>\$3,705</b>	<b>\$292</b>	<b>\$1,260</b>	<b>\$25</b>

(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:

YEAR ENDING JUNE 30	\$75,000 SERIES 2003-B-1 (1)			\$25,000 SERIES-B-2 (1)			TOTAL
	PRINCIPAL	INTEREST	INTEREST RATE SWAP NET	PRINCIPAL	INTEREST	INTEREST RATE SWAP NET	
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
	<u>\$ 75,000</u>	<u>\$ 37,369</u>	<u>\$ 28,705</u>	<u>\$ 25,000</u>	<u>\$ 11,812</u>	<u>\$ 9,570</u>	<u>\$ 187,456</u>

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
<b>TOTAL</b>	<b>\$191,630</b>	<b>\$128,904</b>	<b>\$320,534</b>

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
<b>TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES</b>	<b>\$501,545</b>	<b>\$ 2,740</b>	<b>\$63,333</b>	<b>\$440,952</b>	<b>\$65,580</b>
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
<b>TOTAL BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES</b>	<b>\$204,086</b>	<b>\$31,198</b>	<b>\$24,723</b>	<b>\$210,561</b>	<b>\$21,528</b>

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
<b>TOTAL</b>	<b>\$ 377,206</b>	<b>\$ 355,025</b>	<b>\$ 22,181</b>

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
<b>TOTAL</b>	<b>\$</b>	<b>19,796</b>

#### (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, 26<sup>th</sup> 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)
<b>BEGINNING BALANCE, AS RESTATED</b>	<b>\$ 538,155</b>	<b>\$ 409,089</b>

**(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

(THOUSANDS)

JUNE 30, 2005

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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
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
<b>TOTAL REVENUES</b>	<b>42,222</b>	<b>42,222</b>	<b>41,969</b>	<b>(253)</b>
<b>EXPENDITURES</b>				
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
<b>TOTAL EXPENDITURES</b>	<b>49,634</b>	<b>49,966</b>	<b>46,971</b>	<b>2,995</b>
Excess (deficiency) of revenues over (under) expenditures	(7,412)	(7,744)	(5,002)	2,742
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	7,413	7,413	6,425	(988)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>7,413</b>	<b>7,413</b>	<b>6,425</b>	<b>(988)</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
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)
<b>TOTAL REVENUES</b>	<b>261,126</b>	<b>390,726</b>	<b>392,007</b>	<b>1,281</b>
<b>EXPENDITURES</b>				
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)
<b>TOTAL EXPENDITURES</b>	<b>163,386</b>	<b>558,369</b>	<b>493,178</b>	<b>65,191</b>
Excess (deficiency) of revenues over (under) expenditures	97,740	(167,643)	(101,171)	66,472
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	19,558	19,558
Transfers out	(102,166)	(102,166)	(111,830)	(9,664)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(102,166)</b>	<b>(102,166)</b>	<b>(92,272)</b>	<b>9,894</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Sales tax revenue	\$ 89,002	\$ 89,002	\$ 94,971	\$ 5,969
Interest	348	348	1,275	927
Miscellaneous	-	-	3	3
<b>TOTAL REVENUES</b>	<b>89,350</b>	<b>89,350</b>	<b>96,249</b>	<b>6,899</b>
<b>EXPENDITURES</b>				
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)
<b>TOTAL EXPENDITURES</b>	<b>2,167</b>	<b>2,167</b>	<b>3,729</b>	<b>(1,562)</b>
Excess of revenues over expenditures	87,183	87,183	92,520	5,337
<b>OTHER FINANCING USES</b>				
Transfers out	(89,460)	(89,460)	(89,670)	(210)
<b>TOTAL OTHER FINANCING USES</b>	<b>(89,460)</b>	<b>(89,460)</b>	<b>(89,670)</b>	<b>(210)</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Fines	\$ 21	21 \$	11 \$	(10)
Interest	4,768	4,768	1,758	(3,010)
Miscellaneous	551	551	698	147
<b>TOTAL REVENUES</b>	<b>5,340</b>	<b>5,340</b>	<b>2,467</b>	<b>(2,873)</b>
<b>EXPENDITURES</b>				
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
<b>TOTAL EXPENDITURES</b>	<b>18,842</b>	<b>27,197</b>	<b>20,447</b>	<b>6,750</b>
Excess (deficiency) of revenues over (under) expenditures	(13,502)	(21,857)	(17,980)	3,877
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	11,823	11,823	8,677	(3,146)
Transfers out	(500)	(500)	-	500
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>11,323</b>	<b>11,323</b>	<b>8,677</b>	<b>(2,646)</b>
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
<b>TOTAL EXPENDITURES (GAAP)</b>	<b>\$ 49,577</b>	<b>\$ 221,235</b>	<b>\$ 20,505</b>

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

(in thousands)

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

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

(thousands)

	Special Revenue						Capital Projects	
	OCUTT	SAFE	SAAV	STAF	Gas Tax	General	OCITD	Total
for the year ended June 30, 2005								
<b>REVENUES:</b>								
Sales taxes	\$ -	\$ -	\$ -	6,805	\$ -	\$ -	\$ -	\$ -
Gasoline taxes	-	-	-	-	23,000	-	-	23,000
Vehicle registration fees	-	2,309	2,507	-	-	-	-	4,816
Contributions from other agencies	873	4,280	-	-	-	89	-	5,153
Interest	556	141	9	204	-	-	-	910
Federal capital assistance grants	-	-	-	-	-	752	-	752
Miscellaneous	-	26	-	-	-	-	-	26
<b>TOTAL REVENUES</b>	<b>1,429</b>	<b>6,756</b>	<b>2,516</b>	<b>7,009</b>	<b>23,000</b>	<b>841</b>	<b>-</b>	<b>40,710</b>
<b>EXPENDITURES:</b>								
Current:								
General government:								
Supplies and services	171	5,329	13	1	5	204	178	382
Contributions to other local agencies	-	-	2,324	-	23,000	-	-	25,324
Capital outlay	-	-	-	-	-	1,201	1,817	3,018
<b>TOTAL EXPENDITURES</b>	<b>171</b>	<b>5,329</b>	<b>2,337</b>	<b>1</b>	<b>23,005</b>	<b>1,405</b>	<b>1,995</b>	<b>3,400</b>
Excess (deficiency) of revenues over (under) expenditures	1,258	1,427	179	7,008	(5)	(564)	(1,995)	(2,555)
<b>OTHER FINANCING SOURCES (USES):</b>								
Transfers in	-	-	-	-	-	476	1,995	2,471
Transfers out	(2,420)	-	(125)	(6,348)	-	(1,524)	-	(1,524)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(2,420)</b>	<b>-</b>	<b>(125)</b>	<b>(6,348)</b>	<b>-</b>	<b>(1,048)</b>	<b>1,995</b>	<b>947</b>
Net change in fund balances	(1,162)	1,427	54	660	(5)	(1,612)	-	(1,612)
Fund balances-beginning	14,939	6,976	174	43	549	10,426	15	10,441
<b>FUND BALANCES-ENDING</b>	<b>\$ 13,777</b>	<b>\$ 8,403</b>	<b>\$ 228</b>	<b>\$ 703</b>	<b>\$ 544</b>	<b>\$ 8,814</b>	<b>\$ 15</b>	<b>\$ 8,825</b>

**BUDGETARY COMPARISON SCHEDULE**

**LOCAL TRANSPORTATION AUTHORITY DEBT SERVICE FUND (BUDGETARY BASIS)**

(thousands)

for the year ended June 30, 2005	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Interest	\$ 3,797	\$ 3,797	\$ 4,443	\$ 646
<b>TOTAL REVENUES</b>	<b>3,797</b>	<b>3,797</b>	<b>4,443</b>	<b>646</b>
<b>EXPENDITURES</b>				
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	-
<b>TOTAL EXPENDITURES</b>	<b>88,457</b>	<b>88,457</b>	<b>88,436</b>	<b>21</b>
Excess (deficiency) of revenues over (under) expenditures	(84,660)	(84,660)	(83,993)	667
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	88,218	88,218	96,884	8,666
Transfers out	-	-	(18,034)	(18,034)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>88,218</b>	<b>88,218</b>	<b>78,850</b>	<b>(9,368)</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Interest	\$ 252	\$ 252	\$ 21	(231)
Federal capital assistance grants	11,200	11,200	5,147	(6,053)
<b>TOTAL REVENUES</b>	<b>11,452</b>	<b>11,452</b>	<b>5,168</b>	<b>(6,284)</b>
<b>EXPENDITURES</b>				
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)
<b>TOTAL EXPENDITURES</b>	<b>17,056</b>	<b>19,603</b>	<b>8,888</b>	<b>10,715</b>
Excess (deficiency) of revenues over (under) expenditures	(5,604)	(8,151)	(3,720)	4,431
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	5,583	5,583	4,664	(919)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>5,583</b>	<b>5,583</b>	<b>4,664</b>	<b>(919)</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Contributions from other agencies	\$ -	\$ -	873	873
Interest	779	779	556	(223)
<b>TOTAL REVENUES</b>	<b>779</b>	<b>779</b>	<b>1,429</b>	<b>650</b>
<b>EXPENDITURES</b>				
Current:				
General government:				
Supplies and services	30	620	228	392
<b>TOTAL EXPENDITURES</b>	<b>30</b>	<b>620</b>	<b>228</b>	<b>392</b>
Excess of revenues over expenditures	749	159	1,201	1,042
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(2,910)	(2,910)	(2,420)	490
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(2,910)</b>	<b>(2,910)</b>	<b>(2,420)</b>	<b>490</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
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)
<b>TOTAL REVENUES</b>	<b>5,585</b>	<b>5,585</b>	<b>6,756</b>	<b>1,171</b>
<b>EXPENDITURES</b>				
Current:				
General government:				
Supplies and services	6,717	6,717	5,329	1,388
<b>TOTAL EXPENDITURES</b>	<b>6,717</b>	<b>6,717</b>	<b>5,329</b>	<b>1,388</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Vehicle registration fees	\$ 2,358	\$ 2,358	\$ 2,507	149
Interest	23	23	9	(14)
<b>TOTAL REVENUES</b>	<b>2,381</b>	<b>2,381</b>	<b>2,516</b>	<b>135</b>
<b>EXPENDITURES</b>				
Current:				
General government:				
Supplies and services	55	55	13	42
Contributions to other local agencies	2,240	2,240	2,324	(84)
<b>TOTAL EXPENDITURES</b>	<b>2,295</b>	<b>2,295</b>	<b>2,337</b>	<b>(42)</b>
Excess of revenues over expenditures	86	86	179	93
<b>OTHER FINANCING USES</b>				
Transfers out	(123)	(123)	(125)	(2)
<b>TOTAL OTHER FINANCING USES</b>	<b>(123)</b>	<b>(123)</b>	<b>(125)</b>	<b>(2)</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Sales tax revenue	\$ 5,271	\$ 5,271	\$ 6,805	\$ 1,534
Interest	33	33	204	171
<b>TOTAL REVENUES</b>	<b>5,304</b>	<b>5,304</b>	<b>7,009</b>	<b>1,705</b>
<b>EXPENDITURES</b>				
Current:				
General government:				
Supplies and services	1	1	1	-
<b>TOTAL EXPENDITURES</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>-</b>
Excess of revenues over expenditures	5,303	5,303	7,008	1,705
<b>OTHER FINANCING USES</b>				
Transfers out	(5,271)	(5,271)	(6,348)	(1,077)
<b>TOTAL OTHER FINANCING USES</b>	<b>(5,271)</b>	<b>(5,271)</b>	<b>(6,348)</b>	<b>(1,077)</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Gasoline tax revenue	\$ 23,000	\$ 23,000	\$ 23,000	-
Interest	-	-	-	-
<b>TOTAL REVENUES</b>	<b>23,000</b>	<b>23,000</b>	<b>23,000</b>	<b>-</b>
<b>EXPENDITURES</b>				
Current:				
General government:				
Supplies and services	1	1	5	(4)
Contributions to other local agencies	23,000	23,000	23,000	-
<b>TOTAL EXPENDITURES</b>	<b>23,001</b>	<b>23,001</b>	<b>23,005</b>	<b>(4)</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Contributions from other agencies	\$ 1,990	\$ 1,990	\$ 89	(1,901)
Federal capital assistance grants	-	-	752	752
<b>TOTAL REVENUES</b>	<b>1,990</b>	<b>1,990</b>	<b>841</b>	<b>(1,149)</b>
<b>EXPENDITURES</b>				
Current:				
General government:				
Supplies and services	2,211	2,420	170	2,250
Capital outlay	-	3,202	2,334	868
<b>TOTAL EXPENDITURES</b>	<b>2,211</b>	<b>5,622</b>	<b>2,504</b>	<b>3,118</b>
Excess (deficiency) of revenues over (under) expenditures	(221)	(3,632)	(1,663)	1,969
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	476	476
Transfers out	-	-	(1,524)	(1,524)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>(1,048)</b>	<b>(1,048)</b>
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		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Interest	\$ 7	\$ 7	-	\$ (7)
<b>TOTAL REVENUES</b>	<b>7</b>	<b>7</b>	<b>-</b>	<b>(7)</b>
<b>EXPENDITURES</b>				
Current:				
General government:				
Supplies and services	26	86	178	(92)
Capital outlay	125	165	176	(11)
<b>TOTAL EXPENDITURES</b>	<b>151</b>	<b>251</b>	<b>354</b>	<b>(103)</b>
Excess (deficiency) of revenues over (under) expenditures	(144)	(244)	(354)	(110)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	125	125	1,995	1,870
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>125</b>	<b>125</b>	<b>1,995</b>	<b>1,870</b>
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
<b>ASSETS</b>				
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
<b>TOTAL ASSETS</b>	<b>27,402</b>	<b>14,555</b>	<b>7,597</b>	<b>49,554</b>
<b>LIABILITIES</b>				
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
<b>TOTAL LIABILITIES</b>	<b>10,084</b>	<b>16,327</b>	<b>1,046</b>	<b>27,457</b>
<b>NET ASSETS (DEFICIT)</b>				
Unrestricted	17,318	(1,772)	6,551	22,097
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ 17,318</b>	<b>\$ (1,772)</b>	<b>\$ 6,551</b>	<b>\$ 22,097</b>

## 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
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 1,033	\$ 9,420	\$ 16,000	\$ 26,453
<b>TOTAL OPERATING REVENUES</b>	<b>1,033</b>	<b>9,420</b>	<b>16,000</b>	<b>26,453</b>
<b>OPERATING EXPENSES:</b>				
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
<b>TOTAL OPERATING EXPENSES</b>	<b>11,838</b>	<b>11,639</b>	<b>14,705</b>	<b>38,182</b>
Operating income (loss)	(10,805)	(2,219)	1,295	(11,729)
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment earnings	637	284	140	1,061
Other	35	219	96	350
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>672</b>	<b>503</b>	<b>236</b>	<b>1,411</b>
Change in net assets	(10,133)	(1,716)	1,531	(10,318)
Total net assets (deficit) - beginning	27,451	(56)	5,020	32,415
<b>TOTAL NET ASSETS (DEFICIT) - ENDING</b>	<b>\$ 17,318</b>	<b>\$ (1,772)</b>	<b>\$ 6,551</b>	<b>\$ 22,097</b>

## 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
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
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)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>(3,424)</b>	<b>2,107</b>	<b>(51)</b>	<b>(1,368)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	-	-	284	284
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>284</b>	<b>284</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment earnings	637	267	136	1,040
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>637</b>	<b>267</b>	<b>136</b>	<b>1,040</b>
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
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 26,963</b>	<b>\$ 13,330</b>	<b>\$ 6,441</b>	<b>\$ 46,734</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>				
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
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>\$ (3,424)</b>	<b>\$ 2,107</b>	<b>\$ (51)</b>	<b>\$ (1,368)</b>



METROLINK



FREEWAY SERVICE PATROL

**GOVERNMENT-WIDE EXPENSES BY FUNCTION**

( thousands )

Fiscal Year	General Government	Measure M Program	Motorist Services	Commuter Rail	Urban Rail	Fixed Route	Paratransit	Tollroad (1)	Taxicab Admin	Total
2005	\$ 79,777	\$ 126,042	\$ 7,672	\$ 20,505	\$ 10,115	\$ 220,037	\$ 32,558	\$ 33,886	\$ 245	\$ 530,837
2004	76,583	147,135	7,619	10,463	15,755	204,436 (2)	28,935	33,508	243	524,677
2003	72,284	134,900	8,681	10,294	37,992	184,495	23,567	16,575	311	489,099
2002	80,919	156,775	7,986	11,029	1,312	161,026	19,497	-	262	438,806

GASB 34 was implemented July 1, 2001. Prior years' information is not available.

Source: Accounting and Financial Reporting Department

(1) The tollroad operations were purchased on January 3, 2003.

(2) Amount has been restated by \$5,061. See Note 16.

**GOVERNMENT-WIDE NET (EXPENSE) REVENUE BY FUNCTION**

( thousands )

Fiscal Year	General Government	Measure M Program	Motorist Services	Commuter Rail	Urban Rail	Fixed Route	Paratransit	Tollroad (1)	Taxicab Admin	Total
2005	\$ (13,340)	\$ 22,717	\$ 1,424	\$ (19,952)	\$ (4,968)	\$ (104,857)	\$ (22,818)	\$ 5,712	\$ 30	\$ (136,052)
2004	(36,664)	(116,781)	(5,479)	(9,889)	(7,644)	(81,522) (2)	(22,360)	(1,117)	(18)	(281,474)
2003	(37,612)	(116,565)	(6,482)	(9,759)	(9,061)	(71,611)	(16,613)	(2,177)	(85)	(269,965)
2002	(49,220)	(128,137)	(5,372)	(10,511)	(1,312)	(21,100)	(13,280)	-	(33)	(228,965)

GASB 34 was implemented July 1, 2001. Prior years' information is not available.

Source: Accounting and Financial Reporting Department

(1) The tollroad operations were purchased on January 3, 2003.

(2) Amount has been restated by \$5,061. See Note 16.

**GOVERNMENT-WIDE REVENUES**

( thousands )

Fiscal Year	Program Revenues			General Revenues			Total
	Charges for services	Operating Grants & Contributions	Capital Grants & Contributions	Taxes	Unrestricted Investment Earnings	Misc.	
2005	\$ 137,058	\$ 77,944	\$ 179,783	\$ 359,658	\$ 29,002	\$ 753	\$ 784,198
2004	122,087	87,259	61,697	336,699	11,413	3,333	622,488
2003	98,790	60,445	59,899	331,250	51,347	5,116	606,847
2002	78,759	38,844	92,238	327,395	65,671	3,272	606,179

GASB 34 was implemented July 1, 2001. Prior years' information is not available.

Source: Accounting and Financial Reporting Department

Fiscal Year	2005	2004	2003	2002
<b>NET ASSETS</b>				
Governmental activities:				
Invested in capital assets, net of related debt	\$ 260,334	\$ 139,044	\$ 160,756	\$ 166,410
Restricted	637,820	566,921	455,630	396,455
Unrestricted	(231,120)	(305,530)	(327,947)	(392,245)
<b>TOTAL</b>	<b>667,034</b>	<b>400,435</b>	<b>288,439</b>	<b>170,620</b>
Business-type activities:				
Invested in capital assets, net of related debt	249,263	241,883 (1)	198,772	227,694
Restricted	25,771	22,942	25,439	-
Unrestricted	249,883	273,330	328,129	324,717
<b>TOTAL</b>	<b>524,917</b>	<b>538,155</b>	<b>552,340</b>	<b>552,411</b>
Total government:				
Invested in capital assets, net of related debt	509,597	380,927 (1)	359,528	394,104
Restricted	663,591	589,863	481,069	396,455
Unrestricted	18,763	(32,200)	182	(67,528)
<b>TOTAL</b>	<b>\$ 1,191,951</b>	<b>\$ 938,590</b>	<b>\$ 840,779</b>	<b>\$ 723,031</b>

(1) Amount has been restated by \$5,061. See Note 16.

GASB 34 was implemented July 1, 2001. Prior years' information is not available.

Source: Accounting and Financial Reporting Department



**EXPENDITURES BY FUNCTION - ALL GOVERNMENTAL FUNDS (1)**  
( thousands )

Fiscal Year	General Government	Contributions to Other Local Agencies	Capital Outlay	Debt Service	Total
<b>2005</b>	<b>\$ 106,579</b>	<b>\$ 90,517</b>	<b>\$ 141,805</b>	<b>\$ 88,940</b>	<b>\$ 427,841</b>
2004	96,856	93,340	20,745	88,623	299,564
2003	116,975	84,366	28,590	88,537	318,468
2002	66,815	97,386	72,881	89,425	326,507
2001	49,511	94,050	87,318	90,746	321,625
2000	50,964	98,737	130,174	90,733	370,608
1999	54,063	87,310	201,082	75,477	417,932
1998	61,627	73,726	144,262	68,914	348,529
1997	48,047	68,173	122,644	67,273	306,137
1996	56,076	43,817	111,928	67,653	279,474

(1) Includes general, special revenue, debt service and capital project funds.

SOURCE: Accounting and Financial Reporting Department

**REVENUES BY SOURCE - ALL GOVERNMENTAL FUNDS (1)**  
( thousands )

Fiscal Year	Sales Taxes	Gas Taxes	Registration Fees	Fines	Contributions from Other Agencies	Charges for Services	Interest	General Capital Assistance Grants	Miscellaneous	Total
<b>2005</b>	<b>\$ 351,185</b>	<b>\$ 23,000</b>	<b>\$ 4,816</b>	<b>\$ 172</b>	<b>\$ 117,572</b>	<b>\$ 39,242</b>	<b>\$ 19,262</b>	<b>\$ 27,549</b>	<b>\$ 1,056</b>	<b>\$ 583,854</b>
2004	328,853	23,000	4,840	160	12,639	37,087	5,472	8,585	3,833	424,469
2003	301,011	23,000	4,801	185	23,516	33,804	35,074	30,291	3,871	455,553
2002	297,705 (2)	23,000	4,699	185	17,023	29,805	43,390	15,678	916	432,401
2001	303,817 (2)	23,000	4,651	158	33,413	26,851	47,414	2,048	1,458	442,810
2000	273,394	23,000	4,533	168	18,598	26,679	30,487	-	38,860 (3)	415,719
1999	245,573	23,000	4,500	156	26,990	24,531	25,536	-	4,274	354,560
1998	230,301	23,000	4,230	155	30,361	24,486	24,466	-	239	337,238
1997	209,068	-	4,188	135	18,132	24,239	30,547	-	196	286,505
1996	231,069	-	4,208	143	8,304	26,371	33,217	-	4,660	307,972

(1) Includes general, special revenue, debt service and capital projects funds.

(2) Includes \$6,048 of revenues related to the implementation of GASB Statement No. 33 for nonexchange revenues in fiscal year 2001.

(3) Includes \$38,514 of net litigation proceeds from the Orange County bankruptcy.

SOURCE: Accounting and Financial Reporting Department

**GOVERNMENTAL FUND BALANCES**

(thousands)

Fiscal Year	General Fund	LTA	Local Transportation Funds	CURE	Rail Capital Project Fund	LTA Debt Service	Other Governmental Funds	Total Governmental Fund Balance
<b>2005</b>	<b>\$ 5,811</b>	<b>\$ 510,068</b>	<b>\$ 15,581</b>	<b>\$ 136,933</b>	<b>\$ 757</b>	<b>\$ 110,433</b>	<b>\$ 32,484</b>	<b>\$ 812,067</b>
2004	6,994	430,475	12,731	146,294	1,041	115,576	33,122	746,233
2003	8,053	392,710	8,965	136,329	994	114,518	34,197	695,766
2002	6,998	330,662	7,846	130,777	1,550	114,987	30,666	623,486
2001	7,638	292,690	6,393	132,397	1,738	111,757	38,569	591,182
2000	7,641	260,288	6,654	123,125	-	104,126	35,094	536,928
1999	4,702	287,752	5,141	119,953	-	108,587	60,370	586,505
1998	4,366	424,091	5,484	70,069	-	98,147	108,604	710,761
1997	6,403	317,132	4,950	62,233	-	73,332	79,943	543,993
1996	6,060	434,942	8,019	13,058	-	68,953	87,275	618,307

Source: Accounting and Financial Reporting Department

**REVENUES AND TRANSFERS IN BY SOURCE - TRANSIT DISTRICT**

(thousands)

Fiscal Year	User Fees and Charges	Bus Operations Fund	Local Transportation Funds (1)	Gas Tax Exchange	Other Transfers	Federal Capital & Operating Assistance Grants (2)	Property Taxes	Interest	Other	Total (3)
2005	\$ 46,879	\$ 14,000	\$ 85,314	\$ 23,000	\$ 11,405	\$ 44,899	\$ 8,473	\$ 4,098	\$ 10,543	\$ 248,611
2004	42,981	14,000	76,455	23,000	8,681	55,004	7,846	814	8,650	237,431
2003	41,662	14,000	69,875	23,000	7,220	47,313	7,239	8,043	8,116	226,468
2002	40,626	-	70,348	27,906	10,535	70,477	6,690	11,292	5,514	243,388
2001	39,149	-	73,950	23,000	11,766	28,901	6,199	14,287	5,927	203,179
2000	37,530	-	63,641	23,000	55,597	2,889	5,658	6,179	4,538	199,032
1999	33,032	-	56,254	23,000	6,337	2,483	5,260	5,779	4,153	136,298
1998	31,029	-	49,873	23,000	6,232	3,342	4,820	6,036	4,369	128,701
1997	28,623	27,519	45,432	-	9,669	4,543	4,613	4,453	3,140	127,992
1996	26,422	-	72,335	-	3,480	4,500	4,464	4,038	1,500	116,739

(1) In each year subsequent to 1996, \$38 million of LTF funds were diverted to Orange County.

(2) In fiscal 2001, capital grants received were recorded as revenue in accordance with GASB No. 33.

(3) Excludes charges for services.

SOURCE: Accounting and Financial Reporting Department

**OPERATING EXPENSES BY FUNCTION - TRANSIT DISTRICT**

(thousands)

Fiscal Year	Bus Operations & Maintenance	Administrative & General (1)	Professional Services	Purchased Transportation Services	Depreciation & Amortization	Total
2005	\$ 131,496	\$ 35,052	\$ 15,526	\$ 32,848	\$ 25,369	\$ 240,291
2004	118,220	33,541	16,361	30,329	29,913 (2)	228,364
2003	106,562	30,736	13,435	25,317	28,352	204,402
2002	89,716	30,008	12,094	22,675	20,909	175,402
2001	81,181	25,174	11,055	20,162	15,426	152,998
2000	77,576	24,295	9,241	12,469	13,701	137,282
1999	70,274	21,759	8,268	9,894	12,261	122,456
1998	69,645	20,180	7,368	7,803	9,406	114,402
1997	68,184	20,292	5,323	8,242	10,302	112,343
1996	72,851	22,531	5,488	8,283	10,543	119,696

(1) Included in this column are salaries and benefits relating to administrative employees and other operating expenses.

(2) Amount has been restated by \$5,061. See Note 16.

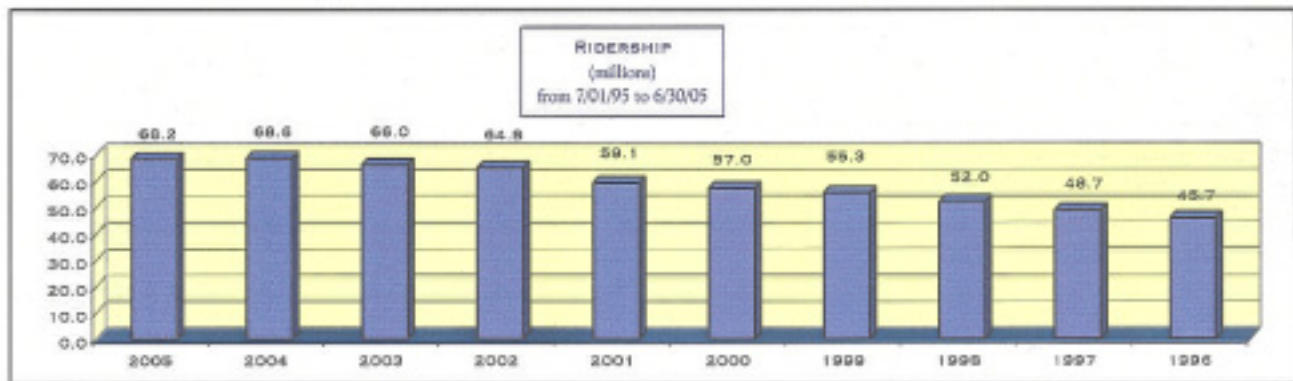
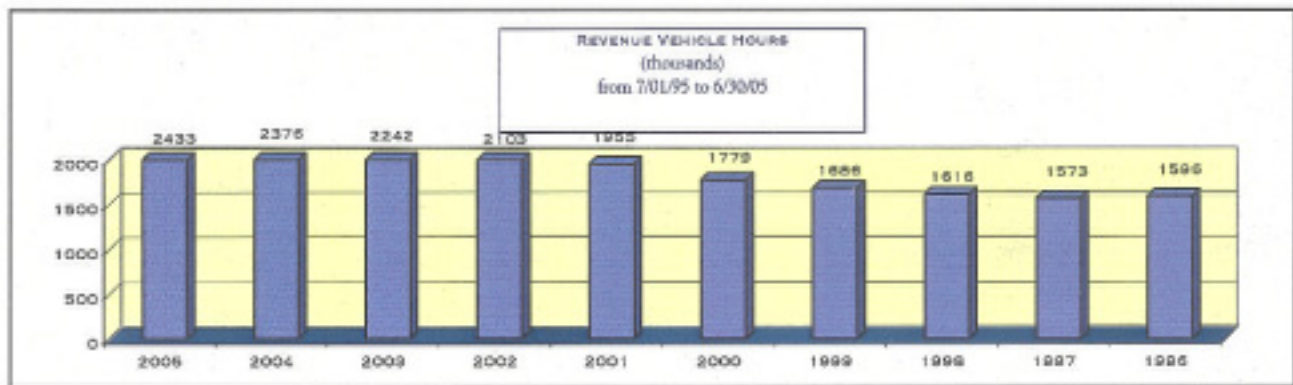
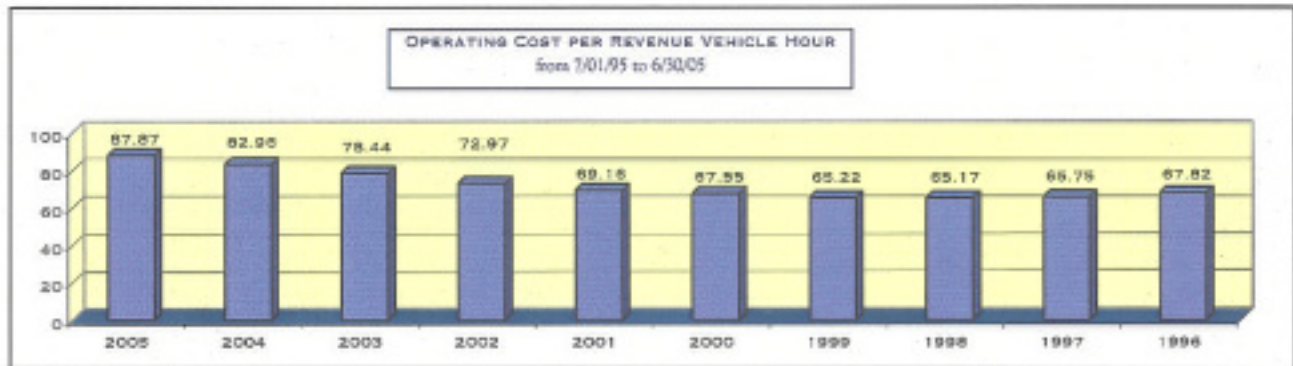
SOURCE: Accounting and Financial Reporting Department

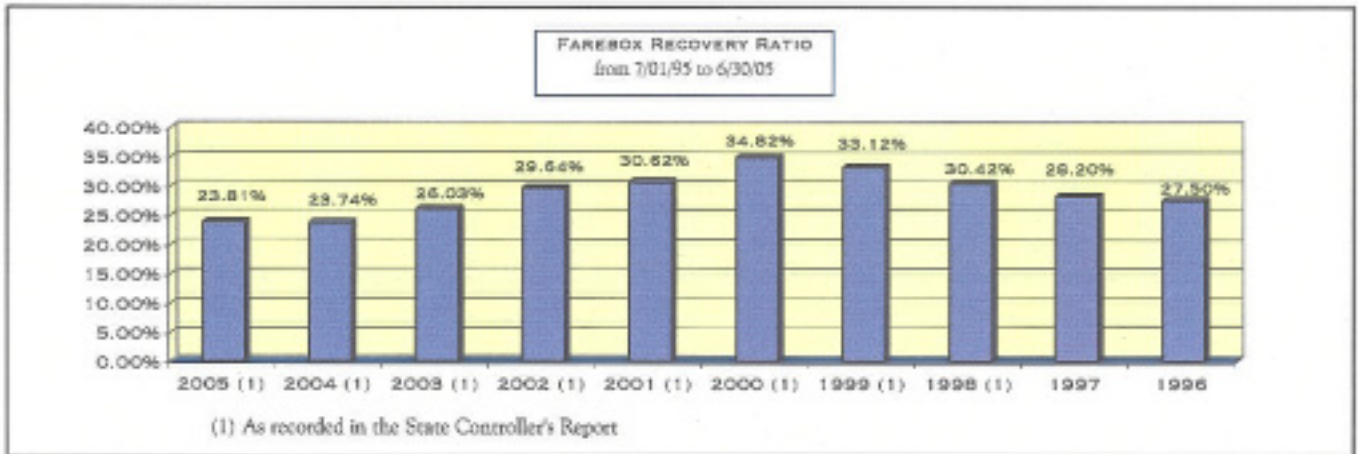
Fiscal Year	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Operating revenues	\$ 46,879	\$ 42,981	\$ 41,662	\$ 40,699	\$ 39,237	\$ 37,615	\$ 33,143	\$ 31,447	\$ 29,031	\$ 26,851
Operating expenses (1)	214,922	198,451	176,050	154,493	137,572	123,581	110,195	104,996	102,041	109,153
Loss from operations	(168,043)	(155,470)	(134,388)	(113,794)	(98,335)	(85,966)	(77,052)	(73,549)	(73,010)	(82,302)
Nonoperating revenues (expenses):										
Local Transportation, STA & other transfers	105,272	93,786	80,655	74,644	81,030	109,799	58,701	52,283	82,030	73,738
Gas tax exchange	23,000	23,000	23,000	27,906	23,000	23,000	23,000	23,000	-	-
Federal operating assistance grants	19,351	32,094	32,962	3,394	3,155	2,889	2,483	3,342	4,543	4,500
Federal capital assistance grants	25,548	22,910	14,351	67,083	25,746	-	-	-	-	-
Property taxes	8,473	7,846	7,239	6,690	6,199	5,658	5,260	4,820	4,613	4,464
Interest income	4,098	814	8,043	11,292	14,287	6,179	5,779	6,036	4,453	4,038
Interest expense	(258)	(402)	(483)	(617)	(914)	(1,359)	(1,251)	(1,469)	(2,121)	(1,265)
Capital transfers	-	-	(994)	(1,056)	(308)	(1,731)	(6,079)	(151)	(7,671)	-
Provision for uncollectable repayment claims	-	-	-	-	-	-	-	-	-	-
Non-operating expense	-	-	-	-	-	-	-	-	-	(20)
Other	10,543	8,650	8,116	5,514	5,927	4,538	4,153	4,369	2,732	1,071
Subtotal	196,027	188,698	172,889	194,850	158,122	148,973	92,046	92,230	88,579	86,526
Income (loss) before depreciation and amort.	27,984	33,228	38,501	81,056	59,787	63,007	14,994	18,681	15,569	4,224
Depreciation and amort.	25,369	29,913 (2)	28,352	20,909	15,426	13,701	12,261	9,406	10,302	10,543
Net income (loss)	\$ 2,615	\$ 3,315	\$ 10,149	\$ 60,147	\$ 44,361	\$ 49,306	\$ 2,733	\$ 9,275	\$ 5,267	\$ (6,319)

(1) Excludes depreciation and amortization.

(2) Amount has been restated by \$5,061. See Note 16.

SOURCE: Accounting and Financial Reporting Department





**TRANSIT DISTRICT FARE STRUCTURE AS OF JUNE 30, 2005**

	Local Service and Intra-county Express		Intercounty Express
	Peak/Off-Peak	Day Pass	
Regular Full Cash Fare	\$ 1.25	\$ 3.00	\$ 3.75
Senior Citizens and Persons with Disabilities (1)	\$ 0.50	\$ 1.00	\$ 3.35
ACCESS Eligible	\$ 0.25	\$ 1.00	\$ 3.35
Children (2)	No Charge	No Charge	No Charge

	ACCESS (3)	ACCESS (4)
	Per Trip	Premium Service
ADA Eligible Riders and Companion	\$ 2.25	\$ 0.80
Attendant to ADA eligible rider	No Charge	No Charge

Passes	7 - Day	15 - Day	30 - Day	Other
Regular	\$ 15.00	\$ 26.00	\$ 45.00	
Senior Citizens & Persons with Disabilities (5)	\$ 5.00	\$ 9.00	\$ 15.00	
Express (Intercounty)			\$ 128.00	
Youth 30-day			\$ 26.00	
Summer Youth Pass (6)				\$ 40.00
College Pass - Semester/Quarter (7)				\$120.00 / \$75.00

For University or Employer Pass information, call OCTA.

- (1) Senior and disabled fares are partially subsidized. The actual fare paid is \$0.50 peak and off-peak, with \$0.75 subsidized peak and \$0.10 subsidized off-peak.
- (2) Up to three (3) children, six (6) years of age and under, are free with a fare-paying passenger.
- (3) ACCESS services is restricted to ADA-eligible persons unable to use fixed route service because of their disability. The service is partially subsidized with the actual fare being \$2.50 with \$0.25 subsidized.
- (4) Effective July 1, 2005, the fare was increased to \$2.00 with no subsidy. The premium for door-to-door service is partially subsidized with the actual fare \$0.80 and \$1.00 subsidized.
- (5) The 30-day pass price of \$15.00 excludes a partial subsidy of \$8.50. The 15-day pass of \$9.00 excludes a partial subsidy of \$5.50. The 7-day pass of \$15.00 excludes a partial subsidy of \$2.50.
- (6) Summer youth pass for persons 6 to 18 years of age is good for the whole summer.
- (7) Sold only at schools and colleges. College student 30-day pass discontinued.

**COUNTY OF ORANGE - DEMOGRAPHIC STATISTICS**

( thousands )

As of June 30,	Population			Taxable Sales in O.C.
	County	State	U.S.	
<b>2005</b>	<b>3,057 (1)</b>	<b>36,810 (1)</b>	<b>296,783 (2)</b>	<b>\$ 52,679 (3)</b>
<b>2004</b>	3,017	36,144	294,409	48,403
<b>2003</b>	2,975	35,612	292,081	49,718
<b>2002</b>	2,931	35,000	288,369	46,216
<b>2001</b>	2,880	34,385	284,797	44,595
<b>2000</b>	2,830	33,753	281,422	44,462
<b>1999</b>	2,776	33,140	272,691	40,366
<b>1998</b>	2,725	32,657	270,248	37,108
<b>1997</b>	2,673	32,207	267,784	34,921
<b>1996</b>	2,625	31,837	265,229	32,533

Data Source:

- (1) State Department of Finance (Estimate done in current year)
- (2) U.S. Census (Estimate)
- (3) Estimate from Cal State Fullerton Center for Demographic Research

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION  
BONDED DEBT TO TOTAL GOVERNMENTAL FUNDS EXPENDITURES**

( thousands )

Fiscal Year	Principal	Interest	Total Debt Service Expenditures (1)	Total Govern- mental Fund Expenditures (2)	Ratio of Debt Service to General Govern- mental Expenditures
<b>2005</b>	<b>\$ 60,615</b>	<b>\$ 27,603</b>	<b>\$ 88,218</b>	<b>\$ 427,841</b>	<b>20.62%</b>
<b>2004</b>	57,660	30,344	88,004	299,564	29.38%
<b>2003</b>	54,200	33,680	87,880	318,468	27.59%
<b>2002</b>	51,565	36,000	87,565	326,507	26.82%
<b>2001</b>	49,045	39,351	88,396	321,625	27.48%
<b>2000</b>	46,800	43,933	90,733	370,608	24.48%
<b>1999</b>	31,720	43,757	75,477	417,932	18.06%
<b>1998</b>	32,698	36,216	68,914	348,529	19.77%
<b>1997</b>	29,610	37,663	67,273	306,137	21.98%
<b>1996</b>	28,355	39,298	67,653	279,474	24.21%

(1) Total debt service expenditures includes the principal and interest payments for the bonded indebtedness of the Local Transportation Authority.

(2) Includes general, special revenue, debt service and capital project funds.



COUNTY OF ORANGE - COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT

( thousands )

DIRECT BONDED DEBT:	Applicable Ratios	June 30, 2005
Orange County Transportation Authority	100.000	<u>\$ 3,705</u>
<b>OVERLAPPING BONDED DEBT:</b>		
<b>GOVERNMENTAL UNIT:</b>		
North Orange County Joint Community College District	97.400	240,319
Orange County General Fund Obligations	100.000	876,499 (1)
Orange County Pension Obligations	100.000	111,772
Orange County Board of Education Certificates of Participation	100.000	19,900
Orange County Teeter Plan Obligations	100.000	123,725
Coast Community College District	100.000	108,129
Rancho Santiago Community College District	100.000	212,705
Fullerton Joint Union High School District	90.532	58,426
Metropolitan Water District	21.160	88,558
Municipal Water District of Orange County Water Facilities Corporation	100.000	35,165
Orange County Sanitation Districts and Certificates of Participation	100.000	142,325
Community College Districts and Certificates of Participation	100.000	47,745
Unified School Districts and Certificates of Participation	100.000	196,781
Unified School Districts	100.000	583,419
High School Districts and Certificates of Participation	90.537-100.000	61,286
School Districts and Certificates of Participation	100.000	65,005
School Districts	100.000	186,442
Irvine Ranch Water District Certificates of Participation	100.000	46,600
Irvine Ranch Water District Improvement Districts	100.000	196,800
Moulton-Niguel Water District Certificates of Participation	100.000	33,555
Moulton-Niguel Water District Improvement Districts	100.000	59,575
Santa Margarita Water District Improvement Districts	100.000	207,400
Other Water Districts	100.000	6,510
Orange County Community Facilities Districts	100.000	699,275
Other Community Facilities Districts	100.000	1,186,118
Anaheim Union High School District	90.537	118,809
Huntington Beach Union High School District		178,960
Other Special District General Fund Obligations	100.000	39,300
Cities	100.000	28,070
City of Anaheim General Fund Obligations	100.000	669,383
Other City General Fund Obligations	100.000	576,333
City and Special District 1915 Act Bonds	100.000	842,175
County 1915 Act Bonds	100.000	<u>103,584</u>
Subtotal		<u>8,150,648</u>
Total Direct and Overlapping Bonded Debt		<u>\$ 8,154,353 (2)</u>

(1) Excludes accreted values. The County currently has General Fund and Pension Obligations that include capital appreciation bonds.

(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and nonbonded capital lease obligations.

**MEASURE M SALES TAX REVENUE BOND COVERAGE**

( thousands )

Fiscal Year	Net Measure M		Net Measure M Sales Tax Revenue, Net of Turnback	Measure M Aggregate Debt Service			Debt Service Coverage Ratio
	Sales Tax Revenue (1)	Turnback (2)		Principal	Interest	Total	
<b>2005</b>	<b>\$ 245,553</b>	<b>\$ 36,313</b>	<b>\$ 209,240</b>	<b>\$ 60,615</b>	<b>\$ 27,603</b>	<b>\$ 88,218</b>	<b>2.4</b>
2004	232,840	34,668	198,172	57,660	30,344	88,004	2.3
2003	215,001	34,176	180,825	54,200	33,680	87,880	2.1
2002	208,882	33,070	175,812	51,565	36,000	87,565	2.0
2001	217,456	32,489	184,967	49,045	39,351	88,396	2.1
2000	197,213	30,502	166,711	46,800	41,604	88,404	1.9
1999	178,985	26,480	152,505	31,720	41,386	73,106	2.1
1998	169,008	24,814	144,194	30,520	33,376	63,896	2.3
1997	154,965	21,992	132,973	29,075	35,185	64,260	2.1
1996	145,093	22,733	122,360	27,870	36,192	64,062	1.9

(1) Revenues distributed by the State Board of Equalization, net of fees included as supplies and services expenditures.

(2) Distributed to County and local cities as required by the Measure M Ordinance.

MISCELLANEOUS DATA

for the year ended June 30, 2005

DATE THE AUTHORITY BEGAN OPERATION .....	June 20, 1991
FORM OF GOVERNMENT .....	Board of Directors with full time Chief Executive Officer
NUMBER OF DIRECTORS .....	18
NUMBER OF EMPLOYEES (APPROVED POSITIONS) .....	1,909
TYPE OF TAX SUPPORT .....	3/4 percent of one percent sales tax and property tax
COUNTY IN WHICH AUTHORITY OPERATES .....	Orange County, California
AREA OF AUTHORITY IN SQUARE MILES .....	797
POPULATION OF COUNTY IN WHICH AUTHORITY OPERATES .....	3,056,965
MILES OF FIXED ROUTE .....	2,320
NUMBER OF FIXED SCHEDULED LINES .....	77
AVERAGE TRANSIT VEHICLE SPEED IN MILES PER HOUR .....	12.77
NUMBER OF CALLS RECEIVED AT THE INFORMATION CENTER FOR THE YEAR .....	625,556
NUMBER OF CALL BOXES IN COUNTY .....	1,226
NUMBER OF CALLS MADE FROM CALL BOXES .....	18,540
NUMBER OF VEHICLES ASSISTED BY FREEWAY SERVICE PATROL	
INCLUDING TEMPORARY SERVICE IN CONSTRUCTION AREAS .....	68,160
FREEWAY SERVICE PATROL VEHICLES .....	35
MILES OF COMMUTER RAIL:	
BETWEEN OCEANSIDE AND LOS ANGELES .....	87
BETWEEN AND SAN BERNARDINO AND SAN JUAN CAPISTRANO (INLAND EMPIRE – ORANGE COUNTY LINE) .....	70
BETWEEN RIVERSIDE AND LOS ANGELES (91-LINE) .....	61
COMMUTER RAIL SERVICE:	
19 TRIPS EACH WEEKDAY ON THE ORANGE COUNTY LINE	
12 TRIPS EACH WEEKDAY ON THE INLAND EMPIRE – ORANGE COUNTY LINE	
9 TRIPS EACH WEEKDAY ON THE 91-LINE	
METROLINK RIDERSHIP:	
BETWEEN OCEANSIDE AND LOS ANGELES .....	1,485,342
BETWEEN IRVINE AND SAN BERNARDINO .....	918,057
BETWEEN RIVERSIDE AND LOS ANGELES .....	473,820
RAIL 2 RAIL JOINT TICKETING PROGRAM .....	353,769
MEASURE M EXPENDITURES - FISCAL YEAR 2004/05 INCLUDING BOND INTEREST (IN THOUSANDS) .....	\$ 246,292
MEASURE M EXPENDITURES - SINCE INCEPTION (11/90) (IN THOUSANDS) .....	\$ 3,066,903

This page intentionally left blank.



ORANGE COUNTY TRANSPORTATION AUTHORITY

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



[HTTP:// WWW.OCTA.NET](http://www.octa.net)

550 S. MAIN STREET  
P.O. Box 14184  
ORANGE, CA 92863-1584

ORANGE COUNTY, CALIFORNIA