SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

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Independent Auditors' Report

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

We have audited the accompanying financial statements of San Joaquin Hills Transportation Corridor Agency as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the San Joaquin Hills Transportation Corridor Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the San Joaquin Hills Transportation Corridor Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Joaquin Hills Transportation Corridor Agency as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

September 19, 2011

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the U.S. member firm of KPMG International Cooperative
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SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Management's Discussion and Analysis

June 30, 2011

(In thousands)

This discussion and analysis of the San Joaquin Hills Transportation Corridor Agency's (the agency) financial performance provides an overview of the agency's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the agency's financial statements and accompanying notes.

Background

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

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

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

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

Financial Highlights

Tolls, fees, and fines collected in fiscal year 2011 (FY11) totaled $96,427 compared to $94,782 in the prior fiscal year, an increase of 1.7%.

Interest and principal payments of $82,502 and $16,280, respectively, on the agency's long-term debt were made in FY11 compared to $82,502 and $13,100, respectively, in the prior fiscal year. Accretion on the agency's capital appreciation bonds totaled $31,261 compared to $30,315 in the prior fiscal year.

As of June 30, 2011, the agency has $353,606 in restricted cash and investments governed under the 1993 and 1997 master indentures of trust. The agency also has $8,672 in unrestricted cash.

Total net deficit at June 30, 2011 was $(1,756,231) compared to $(1,716,630) in the prior fiscal year. The deficit results primarily from the recording of long-term debt, proceeds of which funded the construction of the corridor. Ownership of the corridor was transferred to Caltrans upon completion. The net deficit is also attributable to accretion recorded on the capital appreciation bonds, which is greater than principal payments made.

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Overview of the Financial Statements

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

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

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

Financial Analysis

The following table summarizes the assets, liabilities, and net deficit of the agency as of June 30, 2011 and 2010:

		2011	2010	Percentage increase (decrease)
Assets:				
Current assets	$	87,104	120,833	(27.9)%
Capital assets, net		4,079	19,928	(79.5)
Noncurrent assets		281,403	256,818	9.6
Total assets		372,586	397,579	(6.3)
Liabilities:				
Bonds payable		2,079,712	2,064,731	0.7
Other liabilities		49,105	49,478	(0.8)
Total liabilities		2,128,817	2,114,209	0.7
Total net deficit	$	(1,756,231)	(1,716,630)	2.3

The purpose of the agency is to provide traffic relief to Orange County through the construction and operation of the toll road. With nearly all construction complete, the agency's primary focus is on operation of the facility and collection of tolls to extinguish the related long-term bond debt. The debt, issued in the form of tax-exempt

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revenue bonds, was issued initially to construct the toll road. Subsequent to completion, the road was transferred to Caltrans. The net deficit results primarily from using bond proceeds to construct the corridor, which was then contributed to Caltrans, as well as to fund noncapitalized expenses related to the corridors and from the accretion of interest on the bonds.

Current assets have decreased this year due to the transfer of funds to a non-current toll stabilization fund to pay future debt service. This is an indentured fund designated primarily for payment of future debt service.

Capital assets, net have decreased due to the completion of capital improvement projects transferred to Caltrans.

The increase in bonds payable results from the current year accretion on the capital appreciation bonds totaling $31,261 offset by a principal payment of $16,280.

The following is a summary of the agency's revenues, expenses, and changes in net deficit for the years ended June 30, 2011 and 2010:

		2011	2010	Percentage increase (decrease)
Operating revenues:				
Tolls, fees, and fines	$	96,427	94,782	1.7%
Development impact fees		1,764	452	290.3
Total operating revenues		98,191	95,234	3.1
Operating expenses		28,467	13,566	109.8
Operating income		69,724	81,668	(14.6)
Nonoperating expenses, net		(109,325)	(101,358)	7.9
Change in net deficit		(39,601)	(19,690)	101.1
Net deficit at beginning of year		(1,716,630)	(1,696,940)	1.2
Net deficit at end of year	$	(1,756,231)	(1,716,630)	2.3

Revenues for the agency consist primarily of tolls, fees, and fines, which comprised 98.2% of total revenue in FY11 as compared to 99.5% in fiscal year 2010 (FY10). Tolls, fees, and fines increased 1.7% over the prior year primarily due to increases in toll transactions and collection of fees and fines. Development impact fees were $1,764 in FY11 compared to $452 in FY10, an increase of 290.3%. This increase is directly related to an upturn in residential and nonresidential development in Orange County within the area of benefit of the San Joaquin Hills Corridor.

Operating expenses were $28,467 in FY11 compared to $13,566 in FY10, an increase of 109.8%. This increase is due to the noncash expense of $14,966 of capital improvement project costs transferred to Caltrans during the

year. In FY10, this project was included in construction in progress. Also included in operating expenses is the noncash expense of depreciation on fixed assets of $1,328 compared to $1,380 in FY10. Operating expenses, excluding contributions to Caltrans and depreciation, were $12,173 in FY11 and $12,186 in FY10, a reduction of $13.

Nonoperating expenses, net consist of investment income of $4,321 and a net settlement expense recovery of $118, in connection with settling a lawsuit related to the agency's toll violation processes. This income was offset by interest expense of $113,764. For FY10, nonoperating expenses, net consist of investment income of $11,535, interest expense of $112,817, and settlement expense of $76. The decrease in investment income of $7,214 can be attributed to lower yields earned on investments. Interest expense comprises both interest payments and change in accrued interest on long-term debt and accretion of bonds outstanding.

Capital Assets, Net

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

		2011	2010
Construction in progress	$	—	14,946
Right-of-way acquisitions, grading, or improvements		119	119
Furniture and equipment		3,960	4,863
Total capital assets, net	$	4,079	19,928

The decrease in construction in progress at June 30, 2011 is a result of the completion of the Catalina View Mainline widening project. Right-of-way acquisitions, grading, or improvements include easements and environmental mitigation parcels. Furniture and equipment include transponders, toll and violations collection equipment, toll booths and buildings, and changeable message signs.

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

Debt Administration

The agency has outstanding bonds payable of $2,079,712 at June 30, 2011, an increase from the prior year of $14,981 due to the accretion of principal on capital appreciation bonds totaling $31,261, offset by a principal payment of $16,280. All of the agency's toll, fee, and fine revenue, less certain expenses, as defined in the indentures of trust, is pledged to repay these bonds. While toll revenue has generally increased over the last several years and the agency continues to pay its operating costs and debt service, revenue has not grown as fast as originally projected when the bonds were issued. Since 2000, the agency has taken numerous measures to help bridge the gap between actual and projected revenue, including establishing the toll rate stabilization fund, implementing toll rate increases, defeasing debt with proceeds from the Orange County bankruptcy settlement, and reducing operational costs by competitively bidding the major operations related contracts. The agency has achieved the required coverage ratio of 1.3x Annual Debt Service since the bonds were issued; however, absent capital infusion, it was anticipated that compliance would not be maintained as early as fiscal year 2007.

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During FY11, bondholders consented to amending the master indentures and approved a supplemental indenture to revise the agency's debt service coverage ratio requirement from 1.3x to 1.0x with a requirement that the agency continues to optimize revenues and amend certain terms of $430 million of the convertible capital appreciation bonds. The bonds amended had original maturity dates in 2018, 2020, 2022, 2023, and 2024, and the changes approved included changing the originally scheduled maturity dates to 2037, 2038, 2040, 2041, and 2042, respectively. The bond amendment and new supplemental indenture improves the agency's financial position by reducing coverage ratio requirements and reducing annual debt service payments for the next 13 years. As part of the amendment, the agency will have the ability to use cash available in reserves to meet the debt service coverage ratio requirement if needed, however, the agency is required to optimize net toll revenues on an annual basis. After payment of debt service and fulfillment of debt service reserve funds, any remaining net operating revenue will be deposited into the toll stabilization fund to be used primarily for future debt service. The supplemental indenture provides for the amended bonds to begin a 10 year accretion period during which time interest on the bonds will accrue at the same rates prior to the amended terms. Subsequent to the accretion period, a portion of the interest payable shall be junior lien interest. Such interest is junior and subordinate to the principal of and other interest on the balance of the outstanding bonds not amended by the supplemental indenture.

The agency has several debt covenants contained in the master indentures of trust. Management of the agency represents that the agency was in compliance with all of its covenants as of and for the year ended June 30, 2011.

Economic Factors

The agency continues to operate in a fiscally conservative manner by reducing costs and spending resources only on the most important programs to keep its systems in a state of good repair.

The agency is also continuing to focus on customer incentives and promotions to maintain and build transactions and revenue and continued to offer quarterly promotions to attract new drivers and reward current customers throughout the year, including its "Drive-a-Week Free" campaign, "Refer-a-Friend" program, and monthly drawings for $1,000 in free tolls to accountholders who signed up to receive a chance to win each time they used the road.

Based on economic conditions, specifically the high unemployment rate in Southern California, the agency did not implement toll rate increases for FY11. However, toll rate increases were implemented for FY12 at all locations by $0.25 for cash transactions and 5%, rounded to the nearest $0.05, for FasTrak transactions.

Contacting the Agency's Financial Management

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

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Statement of Net Deficit

June 30, 2011

(In thousands)

Assets		
Current assets:		
Cash and investments	$	8,672
Restricted cash and investments		72,203
Receivables:		
Accounts, net of allowance of $368		804
Fees		23
Interest		1,741
Total receivables		2,568
Due from Foothill/Eastern Transportation Corridor Agency		2,930
Other assets		731
Total current assets		87,104
Noncurrent assets:		
Restricted cash and investments		281,403
Capital assets, net		4,079
Total assets		372,586
Liabilities		
Current liabilities:		
Accounts payable		1,372
Deferred revenue		5,420
Due to Foothill/Eastern Transportation Corridor Agency		863
Employee compensated absences payable		199
Interest payable		41,251
Current portion of bonds payable		31,355
Total current liabilities		80,460
Long-term bonds payable		2,048,357
Total liabilities		2,128,817
Net Deficit		
Invested in capital assets, net of related debt		(2,075,633)
Restricted		310,730
Unrestricted		8,672
Total net deficit	$	(1,756,231)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Statement of Revenues, Expenses, and Changes in Net Deficit

Year ended June 30, 2011

(In thousands)

Operating revenues:		
Tolls, fees, and fines	$	96,427
Development impact fees		1,764
Total operating revenues		98,191
Operating expenses:		
Contribution of capital to Caltrans		14,966
Toll compliance and customer service		3,663
Salaries and wages		2,725
Toll systems		1,471
Depreciation		1,328
Toll collections		1,187
Professional services		1,132
Insurance		688
Facilities rent		411
Toll facilities		328
Marketing		180
Other operating expenses		388
Total operating expenses		28,467
Operating income		69,724
Nonoperating revenue (expenses):		
Investment income		4,321
Interest expense		(113,764)
Settlement expense recovery, net		118
Nonoperating expenses, net		(109,325)
Change in net deficit		(39,601)
Net deficit at beginning of year		(1,716,630)
Net deficit at end of year	$	(1,756,231)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Statement of Cash Flows

Year ended June 30, 2011

(In thousands)

Cash flows from operating activities:		
Cash received from toll road patrons	$	96,200
Cash received from development impact fees		1,766
Cash payments to suppliers		(9,449)
Cash payments to employees		(2,831)
Net cash provided by operating activities		85,686
Cash flows from capital and related financing activities:		
Cash received for settlement expense recovery, net		118
Cash payments for construction in progress		(129)
Cash payments for equipment		(434)
Cash payments for interest and principal		(98,782)
Net cash used in capital and related financing activities		(99,227)
Cash flows from investing activities:		
Cash received from interest, net of realized gains and losses		7,345
Cash payments for purchase of investments		(217,914)
Cash received from the maturity and sale of investments		226,009
Net cash provided by investing activities		15,440
Net increase in cash and cash equivalents		1,899
Cash and cash equivalents at beginning of year		43,106
Cash and cash equivalents at end of year (note 4)	$	45,005
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	69,724
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		1,328
Contribution of capital improvements to Caltrans		14,966
Changes in operating assets and liabilities:		
Accounts receivable		(163)
Fees receivable		2
Due from Foothill/Eastern Transportation Corridor Agency		(56)
Other assets		33
Accounts payable, less accounts payable for fixed assets and construction in progress		(100)
Deferred revenue		(4)
Due to Foothill/Eastern Transportation Corridor Agency		(5)
Employee compensated absences payable		(39)
Total adjustments		15,962
Net cash provided by operating activities	$	85,686
Noncash transactions:		
Interest expense recorded for accretion of bonds outstanding	$	(31,261)
Unrealized loss on investments		(2,722)
Amortization of discount/premium on investments		(30)

See accompanying notes to financial statements.

(1) Reporting Entity

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

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

(2) Summary of Significant Accounting Policies

The accounting policies of the agency are in conformity with U.S. generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

(a) Basis of Presentation

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

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

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(b) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the agency does not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

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

(c) Budget

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

(d) Cash and Cash Equivalents

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

(e) Investments

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

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

(f) Receivables

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

(g) Capital Assets

Capital assets include easements and environmental mitigation parcels, toll and violation collection equipment, transponders, toll booths, buildings, changeable message signs, vehicles, furniture, and construction in progress. Capital assets are defined by the agency as assets with an initial, individual cost of more than five thousand dollars, with the exception of transponders, which are valued in total, and an estimated useful life in excess of one year. Such assets are recorded at cost.

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

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

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

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

(h) Deferred Revenue

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

(i) Revenue Recognition

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

(j) Allocation of Common Costs

Expenses directly related to the agency were charged entirely to the agency, and those incurred on behalf of both the agency and F/ETCA were allocated between the two agencies based on the estimated benefit to each. In addition, the agency also has amounts due from F/ETCA related to F/ETCA FasTrak customers incurring tolls on the agency’s corridor and has amounts due to F/ETCA related to the agency’s FasTrak customers incurring tolls on State Routes 241, 261, and 133 and

other expenses. At June 30, 2011, the agency has a net receivable due from F/ETCA of $2,067 for such items.

(k) Net Assets

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

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

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

Unrestricted: All other categories of net assets.

(l) Use of Estimates

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

(3) Development Impact Fees

The sources of development impact fees were the following for the year ended June 30, 2011:

Source		Amount
City of San Juan Capistrano	$	639
City of Irvine		539
City of Santa Ana		218
City of Aliso Viejo		129
County of Orange		62
City of Laguna Niguel		58
City of Laguna Woods		43
City of Newport Beach		26
City of San Clemente		21
City of Laguna Hills		14
City of Dana Point		14
City of Costa Mesa		1
	$	1,764

(4) Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Cash and investments	$	8,672
Current restricted cash and investments		72,203
Noncurrent restricted cash and investments		281,403
	$	362,278

Cash and investments as of June 30, 2011 consist of the following:

		Cash and cash equivalents	Investments	Total
Cash on hand	$	43	—	43
Demand deposits		4,971	—	4,971
Money market		23,891	—	23,891
Commercial paper		—	1,500	1,500
Federal agency securities		—	6,399	6,399
Investments held with trustee per debt agreements		16,100	309,374	325,474
Total	$	45,005	317,273	362,278

(a) Cash Deposits

Custodial Credit Risk Related to Cash Deposits

The custodial credit risk for deposits is the risk that the agency will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. This risk is mitigated in that of the total cash balance, $43 was cash on hand, and $4,971 was insured by federal depository insurance and collateralized in accordance with Section 53652 of the California Government Code with securities held by the pledging financial institution in the agency's name.

At June 30, 2011, the carrying amount of the agency's cash deposits was $4,971, and the corresponding bank balance was $4,972. The difference of $1 was principally due to outstanding checks. The agency's petty cash fund and toll change funds totaled $43.

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(b) Investments

Credit Risk and Concentration of Credit Risk

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

(Continued)

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

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

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

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

(Continued)

At June 30, 2011, 5% or more of the agency's investments were in the Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation as authorized by the agency's investment policy. These investments are 23%, 18%, 17%, and 7%, respectively, of the agency's investments.

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

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

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

At June 30, 2011, all of the agency's investments held were rated at or above the minimum required rating per the agency's investment policy and debt agreements: the federal agency securities, U.S. Treasury bills, and U.S. Treasury notes that were held by the agency were rated AAA by S&P and AAA by Moody's; the money market funds were rated AAA by S&P; and commercial paper was rated A-1+ by S&P and P1 by Moody's.

Custodial Credit Risk

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

Interest Rate Risk

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

A summary of all the agency's investments governed by both the agency's investment policy and its bond agreements, including money market funds of $23,891 and investments with trustee of $16,100 that are considered cash equivalents held at June 30, 2011, is as follows:

		Remaining maturity		
Investment type	**Fair value**	**12 months or less**	**13 to 24 months**	**25 to 60 months**
Federal agency securities	$ 231,224	82,701	88,783	59,740
U.S. Treasury bills	53,458	53,458	—	—
U.S. Treasury notes	46,642	22,707	23,935	—
Money market funds	23,891	23,891	—	—
Commercial paper	2,049	2,049	—	—
Total	$ 357,264	184,806	112,718	59,740

(Continued)

(5) Capital Assets

Capital assets activity consists of the following:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$ 14,946	20	(14,966)	—
Right-of-way acquisitions, grading, or improvements	5,231	—	—	5,231
Furniture and equipment	11,111	425	(1,133)	10,403
	31,288	445	(16,099)	15,634
Impairment loss on right-of-way acquisitions, grading, or improvements	(5,112)	—	—	(5,112)
Furniture and equipment accumulated depreciation	(6,248)	(1,328)	1,133	(6,443)
	$ 19,928	(883)	(14,966)	4,079

Impairment of Capital Assets

In fiscal year 2005, the agency adopted Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This resulted in recording a noncash impairment loss on right-of-way acquisitions, grading or improvements of $5,112 related to mitigation parcels held that will ultimately be conveyed to other owners for no consideration. This write-down did not reflect any physical change to the properties; rather it was to reflect the development cycle of mitigation assets.

Transfer of Ownership

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

(6) Long-Term Obligations

The following is a summary of changes in general long-term obligations during the year ended June 30, 2011:

		Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 1997A Toll Road Refunding Revenue Bonds:						
Current Interest Bonds	$	604,885	—	—	604,885	—
Convertible Capital Appreciation Bonds		680,000	—	(430,000)	250,000	—
Restructured Convertible Capital Appreciation Bonds		—	430,000	—	430,000	
Capital Appreciation Bonds		559,666	31,261	(16,280)	574,647	31,355
Series 1993 Senior Lien Toll Road Revenue Bonds:						
Current Interest Bonds		220,180	—	—	220,180	—
Total bonds payable	$	2,064,731	461,261	(446,280)	2,079,712	31,355

(a) *Toll Road Revenue Bonds*

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

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

In May 2011, bondholders consented to amending the master indentures and approved a supplemental indenture to amend certain terms of $430 million of the convertible capital appreciation bonds (Restructured Bonds) that had original maturity dates in 2018, 2020, 2022, 2023, and 2024. The primary change in terms for these bonds was to extend the originally scheduled maturity dates to 2037, 2038, 2040, 2041, and 2042, respectively.

The Restructured Bonds will cease to bear interest after payment of the interest due on July 15, 2011 and will begin a 10 year accretion period during which interest on the bonds will accrue at the same

rates that they beared prior to the amended terms which range from 5.65% to 5.75% compounded semiannually through July 15, 2021. Subsequent to the expiration of the accretion period, a portion of the interest payable on the amended bonds shall be junior lien interest. Such interest payable is junior and subordinate to the principal of and other interest on the other outstanding 1997A bonds. Commencing January 15, 2022, interest on the accreted value of the bonds will be payable semiannually. The bonds mature in annual installments from January 15, 2037 to January 15, 2042 and are subject to early redemption from mandatory sinking fund payments beginning January 15, 2037 by payment of accrued interest and principal with no premium.

The 1997A convertible capital appreciation bonds not amended by the supplemental indenture accrue interest at rates ranging from 5.60% to 5.75% compounded semiannually. Interest is payable semiannually based on accreted amounts commencing on July 15, 2007. The bonds mature in installments on January 15 of the years 2016, 2017, 2019, and 2021. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2014 by payment of accrued interest, principal, and a premium of up to 2.00%.

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

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

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

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The following is a summary of the agency's annual debt service requirements by fiscal year for the 1993 senior lien toll road revenue bonds and the 1997A toll road refunding revenue bonds as of June 30, 2011:

		Principal	Interest[1]	Junior lien interest[1]	Total
2012	$	31,355	58,777	—	90,132
2013		32,551	60,636	—	93,187
2014		32,219	62,549	—	94,768
2015		31,924	64,573	—	96,497
2016		52,844	57,268	—	110,112
2017 – 2021		218,740	260,240	—	478,980
2022 – 2026		162,548	532,553	86,624	781,725
2027 – 2031		690,426	281,924	216,562	1,188,912
2032 – 2036		397,102	460,536	216,562	1,074,200
2037 – 2041		403,650	427,065	—	830,715
2042		26,353	21,438	—	47,791
	$	2,079,712	2,287,559	519,748	4,887,019

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

Included in principal is $580,120 related to accreted principal on convertible capital appreciation bonds and capital appreciation bonds.

A portion of the Series 1997A toll refunding bonds was used to purchase U.S. government securities, which were placed in an irrevocable escrow fund to be used for the debt service payments related to the refunded portion of the 1993 bonds. As of June 30, 2011, the amount of the refunded bonds outstanding, which were previously eliminated in the financial statements as a result of the refunding, was $725,861.

(b) ***Debt Compliance***

While the agency has historically and currently been able to pay its operating costs and debt service payments, actual revenues continue to run below revenues projected by an independent traffic and revenue consultant at the time of financing. Since 2000, the agency has taken numerous measures to help bridge the gap between actual and projected revenues, including establishing the toll rate stabilization fund, which is an indentured fund designed primarily for payment of future debt service, implementing toll rate increases, defeasing debt with proceeds from the settlement of the Orange County bankruptcy, and reducing operational costs by competitively bidding the major operations related contracts. Since the bonds were issued, the agency has achieved the required coverage ratio through current year revenues and the use of its toll rate stabilization fund, including amounts received from F/ETCA mitigation payments as described below. In May 2011, the agency amended the master indentures and restructured $430 million of its convertible capital appreciation bonds as discussed in note 6(a) and changed the debt service coverage ratio from 1.3x to 1.0x with the ability to use cash available in reserves to meet the debt service coverage ratio requirement, while being required to optimize net toll revenues on an annual basis.

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

In addition, F/ETCA committed to provide loans, subject to the terms of the Agreement, on an as-needed basis, up to $1,040,000 to assist the agency in achieving its debt service coverage of 1.3x. The Agreement was amended on March 1, 2011 to reflect the modification of the agency's debt service coverage ratio from 1.3x to 1.0x. Accrued interest will not count toward the $1,040,000 principal limitation. Payments of accrued interest and outstanding principal will begin in the fiscal year when the agency has a surplus in revenues that exceeds the amount needed to meet the debt coverage requirement. All principal and accrued interest is due and payable on January 1, 2037 to the extent that the agency has toll stabilization and surplus revenue funds available to pay all amounts due. At June 30, 2011, no amounts had been borrowed.

The Agreement was designed to meet the near-term needs of each agency while preserving the flexibility to continue to pursue alternatives. The Agreement provides that F/ETCA loans will be made only to the extent that surplus revenues are available and all findings and determinations required by law are met, including California Government Code Section 66484.3, paragraph (f), which requires that the following findings must be met before F/ETCA can make a loan: 1) F/ETCA will benefit mutually financially by sharing and/or loaning revenues with the agency, 2) F/ETCA possesses adequate financial resources to fund all costs of construction of existing and future projects that it plans to undertake prior to the final maturity of the loan, and 3) the funding of the loan will not materially impair its financial condition or operations during the term of the loan. The agency's obligation to repay the loans is, in turn, secured by and payable only from its toll stabilization and surplus revenue funds. The Agreement also stipulates that F/ETCA will not be obligated to make

(Continued)

loans to the agency prior to securing the necessary funds for constructing the 241 completion project unless F/ETCA has determined that it will not build the project. F/ETCA is also not required to increase toll rates to ensure sufficient revenues are available and that any liens or revenue pledges required in order to finance the 241 completion project and complete certain other capital projects would have priority over loans to the agency. If the commencement and diligent pursuit of the construction of the 241 completion project does not occur by December 31, 2015, the mitigation payments will be added to the principal amount of the loan.

(7) Commitments and Contingencies

(a) Toll Collection and Revenue Management System Agreements

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

(b) Corridor Operations Facility Lease

In January 2000, the agency relocated to the Corridor Operations Facility and signed a lease agreement with F/ETCA. Future minimum payments at June 30, 2011 due to F/ETCA under the terms of the lease agreement through June 30, 2012 are $396. Future minimum payments are based on the fair market rental value and adjust annually.

(c) Project Costs

The agency has a commitment to Caltrans to provide a maintenance facility for State Route 73. At June 30, 2011, the agency has earmarked $7,841 in order to fulfill the commitment.

(d) Litigation

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

(e) Risk Management

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

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(8) Employees' Retirement Plan

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

Plan members contribute a percentage of their annual covered salary at actuarially determined rates based on the age of entry into the plan; however, the agency pays up to 7% of the employee's required contribution. The agency is also required to contribute a percentage of each employee's covered salary into the plan. The agency has contributed 100% of its required contributions of approximately $354, $373, and $364 to the plan for the years ended June 30, 2011, 2010, and 2009, respectively.