KPMG

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

Financial Statements

June 30, 2010

(With Independent Auditors' Report Thereon)

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

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KPMG LLP
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Independent Auditors' Report

The Honorable Board of Directors
Foothill/Eastern Transportation Corridor Agency:

We have audited the accompanying financial statements of Foothill/Eastern Transportation Corridor Agency (the agency) as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the 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 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 Foothill/Eastern Transportation Corridor Agency as of June 30, 2010, 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 7 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 21, 2010

This discussion and analysis of the Foothill/Eastern Transportation Corridor Agency's (the agency) financial performance provides an overview of the agency's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the agency's financial statements.

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 the Foothill (State Route 241) and Eastern (State Route 241, State Route 261, and State Route 133) Toll Roads.

Planning began in the 1970s when local transportation studies identified the need for new highways, including the Foothill and Eastern Transportation Corridors (State Route 241, State Route 261, and State Route 133), 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 241, State Route 261, and State Route 133 Toll Roads as part of the state highway system. This agreement eliminated the need for the agency to seek additional funding sources for road maintenance.

In 1993, the first 3.2-mile segment of the Foothill (State Route 241) Toll Road opened to traffic, the first toll road in Southern California to use FasTrak®, an electronic toll collection system that allowed drivers to pay tolls without stopping at a toll booth. Today, approximately 173,000 transactions are recorded on the State Route 241, State Route 261, and State Route 133 Toll Roads every weekday, serving as an important, time-saving alternative route to local freeways and arterial roads.

Financial Highlights

Tolls, fees, and fines collected in fiscal year 2010 (FY10) totaled $113,623 compared to $103,433 in the prior fiscal year, an increase of 9.9%.

Interest and principal payments of $70,513 and $10,300, respectively, on the agency's long-term debt were made in FY10 compared to $51,861 and $31,360, respectively, in the prior fiscal year. Accrual basis interest was $90,471 in FY10 compared to $51,072 in the prior fiscal year, and accretion on the agency's capital appreciation bonds and convertible capital appreciation bonds totaled $41,947 in FY10, compared to $76,659 in the prior fiscal year.

As of June 30, 2010, the agency had $537,032 in restricted cash and investments governed under the 1995 and 1999 master indentures of trust. The agency also had $92,492 in unrestricted cash.

Total net deficit at June 30, 2010 was $(1,378,798). The deficit results primarily from the recording of long-term debt, proceeds of which funded the construction of the corridors. Ownership was transferred to Caltrans upon completion. The net deficit is also a result of accretion recorded on the capital appreciation bonds and convertible capital appreciation bonds, which was greater than principal payments made.

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, the statement of cash flows, and notes to the 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 Foothill/Eastern Transportation Corridors. In addition, all of the agency's construction-related activities, including the design, construction, and mitigation on the Foothill/Eastern Transportation Corridors as well as all financing costs and administration of the project, are reflected in the statements. The activities are financed by toll revenues, development impact fees, fees and fines, and investment income.

(Continued)

(In thousands)

Financial Analysis

The following table summarizes the assets, liabilities, and net deficit for the agency as of June 30, 2010 and 2009:

		2010	2009	Percentage increase
Assets:				
Current assets	$	183,806	169,713	8.3%
Capital assets, net		350,176	339,136	3.3
Other noncurrent assets		452,389	441,038	2.6
Total assets		986,371	949,887	3.8
Liabilities:				
Bonds payable		2,299,783	2,268,136	1.4
Other liabilities		65,386	49,847	31.2
Total liabilities		2,365,169	2,317,983	2.0
Total net deficit	$	(1,378,798)	(1,368,096)	0.8

The purpose of the agency is to plan, finance, design, and construct the remaining portions of the corridor system and to operate and collect tolls from the patrons of the corridors to extinguish the related long-term bond debt. The debt, issued in the form of tax-exempt bonds, was issued initially to construct the roads. Subsequent to completion, the roads are transferred to Caltrans. The net deficit results primarily from using bond proceeds to construct the corridors, which were then contributed to Caltrans, and from the accretion of interest on the outstanding bonds.

Current assets have increased this year mainly due to higher toll, fee, and fine revenue collected during the year.

Capital assets, net have increased as a result of additions to construction in progress primarily related to the preliminary design and environmental planning costs associated with the 241 completion project, as well as construction related to the Windy Ridge capital improvement project.

The increase in bonds payable results from the current year accretion on the capital appreciation bonds and the convertible capital appreciation bonds totaling $41,947 offset by a principal payment of $10,300. Other liabilities have increased due to an increase in scheduled interest payments for the 1999 convertible capital appreciation bonds.

(In thousands)

The following is a summary of the agency's revenues, expenses, and changes in net deficit for the years ended June 30, 2010 and 2009:

		2010	2009	Percentage increase (decrease)
Operating revenues:				
Tolls, fees, and fines	$	113,623	103,433	9.9%
Development impact fees		4,254	2,146	98.2
Other revenue		835	881	(5.2)
Total operating revenues		118,712	106,460	11.5
Operating expenses		24,043	25,960	(7.4)
Operating income		94,669	80,500	17.6
Nonoperating expenses, net		(105,371)	(100,670)	4.7
Change in net deficit		(10,702)	(20,170)	(46.9)
Net deficit at beginning of year		(1,368,096)	(1,347,926)	1.5
Net deficit at end of year	$	(1,378,798)	(1,368,096)	0.8

Revenues for the agency consist primarily of tolls, fees, and fines, which comprised 95.7% of total revenue in FY10 compared to 97.2% of total revenue in FY09. Tolls, fees, and fines increased 9.9% over the prior year primarily due to an increase in toll rates and fees in July 2009. Development impact fees were $4,254 in FY10 compared to $2,146 in FY09, an increase of 98.2%. This increase is directly related to an upturn in residential and nonresidential development in several cities in Orange County within the area of benefit of the Foothill/Eastern Corridor.

Operating expenses were $24,043 in FY10 compared to $25,960 in FY09, a decrease of 7.4%. This decrease is due to the agency's efforts to reduce operating costs including payments to third-party contractors for systems and equipment, violation processing, service center, and toll collection operations. The agency also reduced operating expenses related to professional fees and toll facilities costs for maintaining the agency's toll booths and buildings. Also included in operating expenses is the noncash expense of depreciation on fixed assets of $3,418 compared to $3,709 in FY09.

Nonoperating expenses, net consist of investment income of $27,185, offset by interest expense of $132,418, amortization of $62, and a settlement expense of $76 incurred in connection with settling a lawsuit related to the agency's toll violation process. For FY09, nonoperating expenses, net consist of investment income of $27,855, offset by interest expense of $127,731, amortization of $62, and settlement expense of $732. Interest expense comprises both interest payments and the change in accrued interest on long-term debt and accretion of bonds outstanding. Amortization represents capitalized bond issuance costs associated with the fixed rate Subordinate

(Continued)

(In thousands)

Lien Toll Road Revenue Bonds, Series 2007. The agency exercised the early redemption option of these bonds on January 15, 2010 as disclosed in note 6 to the financial statements.

Capital Assets, Net

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

		2010	2009
Construction in progress	$	318,157	303,925
Right-of-way acquisitions, grading, or improvements		15,539	16,539
Furniture and equipment		16,480	18,672
Total capital assets	$	350,176	339,136

Construction in progress at June 30, 2010 primarily represents improvements in progress related to the 241 completion project. Right-of-way acquisitions, grading, or improvements include easements and environmental mitigation parcels. Furniture and equipment includes facility and toll revenue equipment related to the corridor operations facility, 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 $2,299,783 at June 30, 2010, an increase from the prior year of $31,647 due to the accretion of principal on convertible capital appreciation bonds and capital appreciation bonds of $41,947, offset by a principal payment of $10,300. All of the agency's toll revenue, less certain expenses, as defined in the indentures of trust, is pledged to repay these bonds. There were no changes to the debt structure during FY10.

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, 2010.

While toll revenue increased during FY10 and the agency continues to pay its operating costs and debt service, the agency made a proactive step in April 2009 to ensure that it met its required coverage ratio of 1.3x annual debt service in current and future years by establishing an escrow defeasance fund. Available surplus funds that are deposited with the trustee into the escrow fund can be used instead of toll revenues to pay debt service to assure that the debt service coverage ratio is met should revenues decline.

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. To reduce administrative costs, the agency offered an incentive-based program to employees who voluntarily vacated their positions as of June 30, 2010; six employees applied for and were granted the separation incentive. Positions vacated cannot be filled for at least one year.

The agency is also continuing to seek ways to increase revenue and encourage more drivers to use FasTrak, which is considered the most cost-effective way for the agency to collect tolls. During FY10, the agency implemented toll rate increases at all mainline toll plazas and ramps, excluding the Windy Ridge mainline toll plaza. The agency also offered quarterly promotions in FY10 to attract new drivers and reward current customers throughout the year, including its "Drive-a-Week Free" campaign and "Refer-a-Friend" program.

Based on FY10 traffic and revenue trends, estimated transactions for FY11, and current economic conditions, specifically the high unemployment rate in Southern California, the agency did not implement toll rate increases for FY11.

The agency is focused on the 241 completion project. The project includes the extension of the State Route 241 Toll Road south from its current end near Rancho Santa Margarita and Mission Viejo to the I-5 Freeway near San Clemente. During fiscal year 2006, the agency's Board of Directors certified the Environmental Impact Statement/Supplemental Environmental Impact Report and selected a locally preferred Foothill-South alignment. In February 2008, the California Coastal Commission denied the approval of this alignment, and under the federal Coastal Zone Management Act, the agency filed an appeal of this decision with the U.S. Secretary of Commerce, which sustained the Coastal Commission decision in December 2008. The agency is continuing to pursue options for the 241 completion.

In April 2003, the agency and the San Joaquin Hills Transportation Corridor Agency (SJHTCA) formed a joint powers agency, the Transportation Corridor System (TCS), to explore the possibility of purchasing the assets of both the agency and SJHTCA and managing both toll roads as a single system. In August 2007, the TCS met to discuss a potential acquisition that would finance the purchase of the two agencies through the issuance of new bonds. The proceeds of the sale of their assets would be used by the agency and SJHTCA to defease or extinguish existing debt. Currently, this transaction is not economically feasible.

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, Foothill/Eastern Transportation Corridor Agency, 125 Pacifica, Suite 100, Irvine, CA 92618 or to http://www.thetollroads.com.

FOOTHILL/EASTERN TRANSPORTATION
CORRIDOR AGENCY

Statement of Net Deficit

June 30, 2010

(In thousands)

Assets		
Current assets:		
Cash and investments	$	92,492
Restricted cash and investments		84,643
Receivables:		
Accounts, net of allowance of $855		1,205
Fees		14
Interest		3,080
Total receivables		4,299
Due from San Joaquin Hills Transportation Corridor Agency		977
Other assets		1,395
Total current assets		183,806
Noncurrent assets:		
Restricted cash and investments		452,389
Capital assets, net		350,176
Total assets		986,371
Liabilities		
Current liabilities:		
Accounts payable		4,102
Deferred revenue		12,804
Due to San Joaquin Hills Transportation Corridor Agency		2,874
Employee compensated absences payable		506
Interest payable		45,100
Current portion of bonds payable		4,540
Total current liabilities		69,926
Long-term bonds payable		2,295,243
Total liabilities		2,365,169
Net Deficit		
Invested in capital assets, net of related debt		(1,949,607)
Restricted		478,317
Unrestricted		92,492
Total net deficit	$	(1,378,798)

See accompanying notes to financial statements.

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

Statement of Revenues, Expenses, and Changes in Net Deficit

Year ended June 30, 2010

(In thousands)

Operating revenues:		
Tolls, fees, and fines	$	113,623
Development impact fees		4,254
Other revenues		835
Total operating revenues		118,712
Operating expenses:		
Toll compliance and customer service		7,118
Salaries and wages		3,521
Depreciation		3,418
Toll systems		3,207
Toll collections		2,173
Marketing		1,024
Toll facilities		894
Contribution of capital improvements to Caltrans		875
Insurance		795
Professional services		400
Facilities operations, maintenance, and repairs		224
Other operating expenses		394
Total operating expenses		24,043
Operating income		94,669
Nonoperating revenue (expenses):		
Investment income		27,185
Amortization of bond issuance costs		(62)
Settlement expense		(76)
Interest expense		(132,418)
Nonoperating expenses, net		(105,371)
Change in net deficit		(10,702)
Net deficit at beginning of year		(1,368,096)
Net deficit at end of year	$	(1,378,798)

See accompanying notes to financial statements.

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

Statement of Cash Flows

Year ended June 30, 2010

(In thousands)

Cash flows from operating activities:	
Cash received from toll road patrons	$ 113,709
Cash received from development impact fees	4,258
Cash received from property rental	446
Cash received from miscellaneous revenue sources	389
Cash payments to suppliers	(16,390)
Cash payments to employees	(3,304)
Net cash provided by operating activities	99,108
Cash flows from capital and related financing activities:	
Cash payments for settlement	(808)
Cash payments for equipment	(1,188)
Cash payments for construction in progress	(18,310)
Cash payments for interest and principal	(80,813)
Net cash used in capital and related financing activities	(101,119)
Cash flows from investing activities:	
Cash received for interest, net of realized gains and losses	19,127
Cash payments for purchase of investments	(516,061)
Cash received from the maturity and sale of investments	183,263
Net cash used in investing activities	(313,671)
Net decrease in cash and cash equivalents	(315,682)
Cash and cash equivalents at beginning of year	371,670
Cash and cash equivalents at end of year (note 4)	$ 55,988
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 94,669
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	3,418
Contribution of capital improvements to Caltrans	875
Changes in operating assets and liabilities:	
Accounts receivable	(163)
Fees receivable	4
Accounts payable, less accounts payable for fixed assets and construction in progress	152
Deferred revenue	101
Due from San Joaquin Hills Transportation Corridor Agency	(76)
Due to San Joaquin Hills Transportation Corridor Agency	223
Other assets	(34)
Employee compensated absences payable	(61)
Total adjustments	4,439
Net cash provided by operating activities	$ 99,108
Noncash transactions:	
Interest expense recorded for accretion of bonds outstanding	$ (41,947)
Unrealized gain on investments	13,581
Amortization of discount/premium on investments	92
Amortization of bond issuance costs	(62)

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 Foothill/Eastern Transportation Corridor Agency (the agency) was created in January 1986 by a joint exercise of powers agreement. Current members are the County and the cities of Anaheim, Dana Point, Irvine, Lake Forest, Mission Viejo, Orange, Rancho Santa Margarita, San Clemente, San Juan Capistrano, Santa Ana, Tustin, and Yorba Linda (collectively, the member agencies). The purpose of the agency is to plan, design, construct, finance, administer funds for, and operate the Foothill and Eastern Transportation Corridors, including thoroughfares and bridges. The agency is governed by a Board of Directors comprising representatives from the member agencies. The agency has the power to, among other things, incur debt and establish and collect tolls.

These 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 San Joaquin Hills Transportation Corridor Agency (SJHTCA) 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 corridors. The agency's operating expenses include contribution expense, depreciation, materials, services, and other expenses related to the operation of the corridors. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(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. As provided in 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 construction in progress, environmental mitigation sites, easements, the corridor operations facility, transponders, toll and violations collection equipment, toll booths, buildings, changeable message signs, vehicles, and furniture. 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 three years. Such assets are recorded at cost.

The Foothill/Eastern Transportation Corridors 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 value to 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 they are 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 SJHTCA were allocated between the two agencies based on the estimated benefit to each. In addition, the agency also has amounts due from SJHTCA related to SJHTCA FasTrak customers incurring tolls on the agency's corridors and other expenses and has

(Continued)

(In thousands)

amounts due to SJHTCA related to the agency's FasTrak customers incurring tolls on State Route 73. At June 30, 2010, the agency has a net payable due to SJHTCA of $1,897 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 assets contributed 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, 2010:

City of Irvine	$	2,917
City of Yorba Linda		949
City of San Clemente		131
City of Lake Forest		131
City of Tustin		46
County of Orange		28
City of Rancho Santa Margarita		35
City of Orange		10
City of Anaheim		3
City of Santa Ana		3
City of Mission Viejo		1
	$	4,254

(In thousands)

(4) Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Cash and investments	$	92,492
Current restricted cash and investments		84,643
Noncurrent restricted cash and investments		452,389
	$	629,524

Cash and investments as of June 30, 2010 consist of the following:

		Cash and cash equivalents	Investments	Total
Cash on hand	$	118	—	118
Demand deposits		14,255	—	14,255
Money market		20,818	—	20,818
Commercial paper		—	4,184	4,184
Federal agency securities		—	85,427	85,427
Investments held with trustee per debt agreements		20,797	483,925	504,722
Total	$	55,988	573,536	629,524

(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, $118 was cash on hand, and $14,255 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, 2010, the carrying amount of the agency's cash deposits was $14,255, and the corresponding bank balance was $14,523. The difference of $268 was principally due to outstanding checks. The agency's petty cash fund and toll change funds totaled $118.

(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 also indicates specific rating requirements for certain types of investments. Percentage limitations on specific types of securities are based on the purchase price of the security, as compared to the market value of the portfolio, at the time of purchase. The policy does not require sales in a portfolio for subsequent changes in market value of the total portfolio to avoid exceeding the prescribed allocation level.

(In thousands)

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 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

(Continued)

(In thousands)

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum investment in one issuer	Specific rating requirement
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
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.

At June 30, 2010, 5% or more of the agency's investments were in the U.S. Resolution Funding Corporation (RFCO), the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, and the Federal National Mortgage Association as authorized by the agency's investment policy. These investments are 21%, 17%, 16%, and 12%, respectively, of the agency's total 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 following table 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 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.

(In thousands)

At June 30, 2010, 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, U.S. Treasury notes, and U.S. Treasury strips that were held by the agency were rated AAA by S&P and AAA by Moody's; the RFCO strips were rated AAA by Moody's; commercial paper was rated A-1+ by S&P and P1 by Moody's; and the money market funds were rated AAA by S&P.

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 the agency's investments governed by both the agency's investment policy and its bond agreements, including money market funds of $20,818 and investments held with trustee of $20,797 that are considered cash equivalents held at June 30, 2010, is as follows:

		Remaining maturity			
Investment type	**Fair value**	**12 months or less**	**13 to 24 months**	**25 to 60 months**	**More than 60 months**
Federal agency securities	$ 296,967	85,678	73,179	138,110	—
RFCO strips	128,311	8,973	8,905	25,431	85,002
U.S. Treasury notes	105,358	12,966	33,795	58,597	—
U.S. Treasury bills	46,810	46,810	—	—	—
Money market funds	20,818	20,818	—	—	—
Commercial paper	10,177	10,177	—	—	—
U.S. Treasury strips	6,710	—	—	—	6,710
Total	$ 615,151	185,422	115,879	222,138	91,712

(In thousands)

(5) Capital Assets

Capital assets consist of the following:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$ 303,925	15,107	(875)	318,157
Right-of-way acquisitions, grading, or improvements	42,526	—	(1,000)	41,526
Furniture and equipment	33,841	1,226	(1,437)	33,630
	380,292	16,333	(3,312)	393,313
Impairment loss on right-of-way acquisitions, grading, or improvements	(25,987)	—	—	(25,987)
Furniture and equipment accumulated depreciation	(15,169)	(3,418)	1,437	(17,150)
	$ 339,136	12,915	(1,875)	350,176

Transfer of Ownership

Ownership of the Foothill/Eastern Transportation Corridor construction, right-of-way, grading, and improvements were transferred to Caltrans during the year ended June 30, 1999 upon satisfaction of all conditions contained within the Cooperative Agreements between the agency and Caltrans. For the year ended June 30, 2010, 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 transferred on an ongoing basis. The balance of construction in progress represents capital improvements in progress, including the 241 completion project. Upon completion, these capital assets will also be transferred to Caltrans and recognized as a contribution expense.

(In thousands)

(6) Long-Term Obligations

The following is a summary of changes in long-term obligations during the year ended June 30, 2010:

		Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 2007 (fixed rate) Subordinate Lien Toll Road Revenue Bonds:						
Current Interest Bonds	$	10,300	—	(10,300)	—	—
Series 1999 Toll Road Refunding Revenue Bonds:						
Current Interest Bonds		728,010	—	—	728,010	4,540
Capital Appreciation Bonds		661,435	40,318	—	701,753	—
Convertible Capital Appreciation Bonds		688,401	1,629	—	690,030	—
Series 1995A (fixed rate) Senior Lien Toll Road Revenue Bonds:						
Current Interest Bonds		179,990	—	—	179,990	—
Total bonds payable	$	2,268,136	41,947	(10,300)	2,299,783	4,540

(a) Toll Road Revenue Bonds

In May 2007, the agency issued term toll road revenue bonds (2007 Bonds) consisting of current interest bonds in the principal amount of $10,300. The 2007 Bonds were junior and subordinate to the 1999 Bonds (1999 Refunding Bonds) and remaining 1995 bonds (1995 Unrefunded Bonds) and were collateralized by net revenues, as defined in the master indentures, consisting primarily of toll revenues less current expenses.

Interest on the 2007 Bonds was payable semiannually at a rate of 5.25%. The bonds were due to mature on July 15, 2010 and were subject to early redemption, at the option of the agency, beginning July 15, 2008 by payment of accrued interest, principal, and if redeemed prior to July 15, 2009, a premium of 1.00%. The agency exercised the early redemption option January 15, 2010.

The 1999 Refunding Bonds were issued by the agency in August 1999, and included serial, term, and capital appreciation toll road refunding revenue bonds in the aggregate principal amount of $1,588,144 consisting of current interest bonds in the principal amount of $831,965, convertible capital appreciation bonds in the principal amount of $388,223, and capital appreciation bonds in the principal amount of $367,956. The 1999 Refunding Bonds are subordinate to the remaining 1995 Unrefunded Bonds of $179,990 and are collateralized by net revenues, as defined in the master indentures, consisting primarily of toll revenues less current expenses.

The 1995 Unrefunded Bonds are current interest bonds. Interest on the bonds is payable semiannually at a rate of 5.00% and is capitalized through January 1, 2032. The bonds mature on

(Continued)

(In thousands)

January 1, 2035. The bonds are subject to early redemption, at the option of the agency, beginning January 1, 2005 by payment of accrued interest and principal with no premium.

Interest on the 1999 current interest bonds is payable semiannually at rates ranging from 4.38% to 5.75%. The bonds mature in annual installments from January 15, 2004 to January 15, 2040. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2010 by payment of accrued interest, principal, and a premium of up to 1.00%.

The 1999 capital appreciation bonds accrue interest at rates ranging from 5.63% to 6.09%, compounded semiannually. The bonds mature in annual installments from January 15, 2017 to January 15, 2038. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2010 by payment of accrued interest, principal, and a premium of up to 2.00%.

The 1999 convertible capital appreciation bonds accrue interest at rates ranging from 5.80% to 5.88% compounded semiannually. Interest is payable semiannually based on accreted amounts commencing on January 15, 2010. The bonds mature in annual installments from January 15, 2020 to January 15, 2029. 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 1.00%.

The master indentures of trust 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.

The following is a summary of the agency's annual debt service requirements by fiscal year for the 1995 Senior Lien Toll Road Revenue Bonds and the 1999 Toll Road Refunding Bonds as of June 30, 2010:

		Principal	Interest[1]	Total
2011	$	4,540	90,092	94,632
2012		11,390	89,690	101,080
2013		15,705	88,990	104,695
2014		25,160	87,918	113,078
2015		30,205	86,452	116,657
2016 – 2020		251,585	450,261	701,846
2021 – 2025		285,036	576,281	861,317
2026 – 2030		593,630	427,662	1,021,292
2031 – 2035		394,793	789,303	1,184,096
2036 – 2040		687,739	689,509	1,377,248
	$	2,299,783	3,376,158	5,675,941

[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 $635,604 related to accreted principal on convertible capital appreciation bonds and capital appreciation bonds.

The net proceeds of the 1999 Refunding Bonds plus additional 1995 series moneys were 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 bonds. As of June 30, 2010, the amount of the refunded bonds outstanding, which were previously eliminated in the financial statements as a result of the refunding, was $570,476.

(7) Commitments and Contingencies

(a) Toll Collection and Revenue Management System Agreements

The agency and SJHTCA 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) Project Costs

As of June 30, 2010, the agency has outstanding commitments and contracts for remaining corridor construction of the 241 completion project and improvements on existing construction of approximately $16,996.

(c) 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.

(d) 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.

(e) Mitigation Payment and Loan Agreement

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

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In addition, the agency committed to provide loans, subject to the terms of the Agreement, on an as-needed basis, to SJHTCA up to $1,040,000 to assist SJHTCA in achieving its debt service coverage of 1.3x. The Agreement provides that the agency 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 the agency can make a loan: 1) the agency will benefit mutually financially by sharing and/or loaning revenues with SJHTCA, 2) the agency 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 Agreement also stipulates that the agency will not be obligated 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 certain other capital projects would have priority over loans to the SJHTCA. 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 of the loan. 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 SJHTCA has a surplus in revenues that exceeds the amount needed to meet the debt coverage requirement. All principal and accrued interest will be due and payable on January 1, 2037 to the extent that SJHTCA has surplus revenues available to pay all amounts due. At June 30, 2010, no amounts were outstanding on the loan.

(8) Corridor Operations Facility Lease

In January 2000, the agency, along with SJHTCA, relocated to the Corridor Operations Facility. At that time, a lease agreement was executed between the agency (lessor) and SJHTCA (lessee). The lease agreement expires at the earliest occurrence of 1) dissolution of the agency, 2) sale of the facility, or 3) dissolution of the SJHTCA. Future minimum lease payments receivable from SJHTCA under the lease agreement at June 30, 2010 are $411 through June 30, 2011. Future minimum payments after June 30, 2010 are based on the fair market rental value and adjust annually.

(9) 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 $806, $827, and $702 to the plan for the years ended June 30, 2010, 2009, and 2008, respectively.