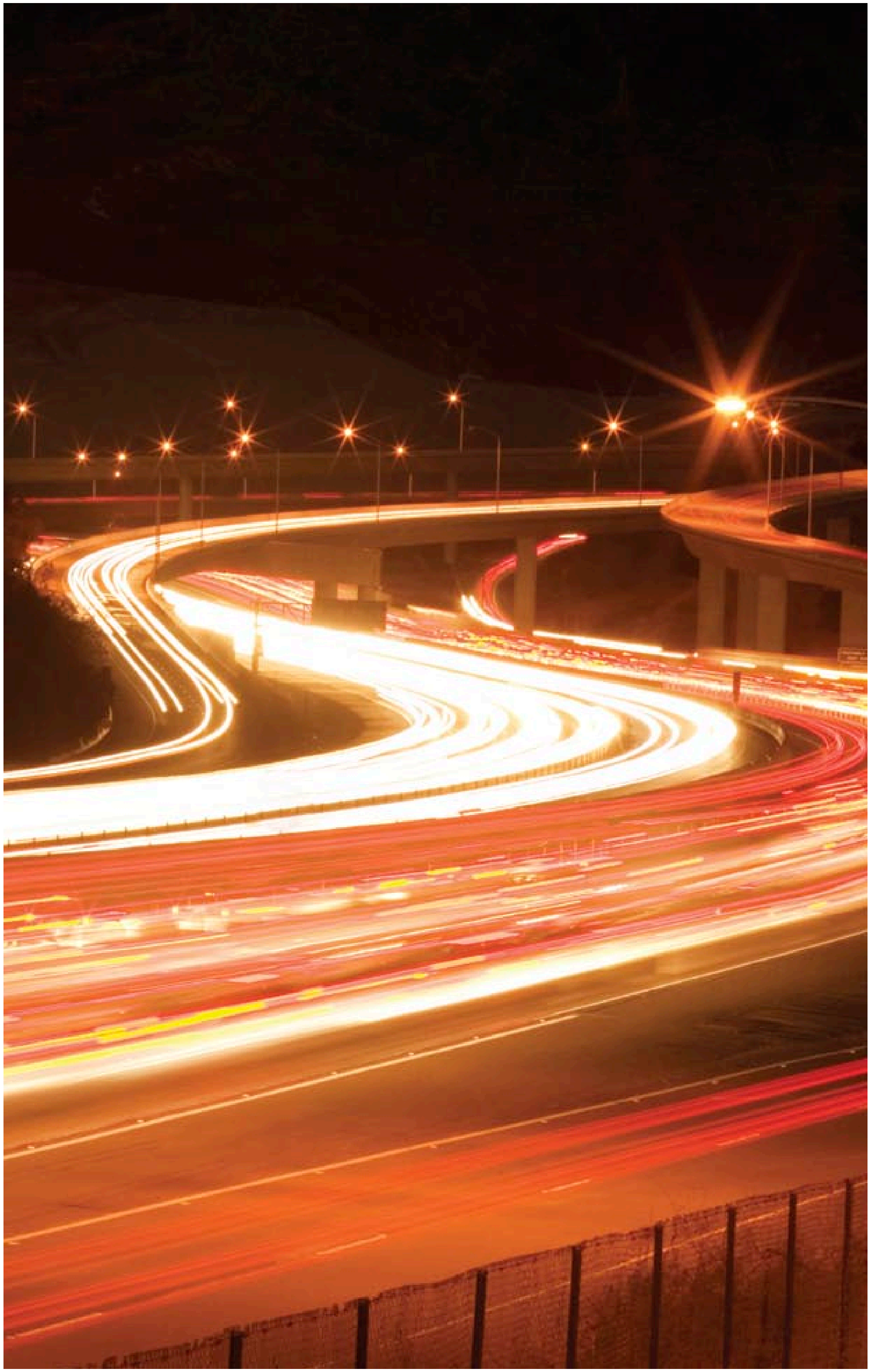
ALONG THE 91 EXPRESS LANES

MILESTONES

OCTA

2008 ANNUAL REPORT



ALONG THE 91 EXPRESS LANES

The Inland Empire housing boom of the late 1980s brought rapid growth to communities along the Riverside Freeway (SR-91). To provide traffic relief for the many new commuters traveling between Orange and Riverside counties, the Orange County Transportation Authority (OCTA) planned improvements to the SR-91. However, lack of public funds for construction and the state's readiness to authorize private toll roads allowed a private company to purchase the plans and build California's first modern, privately-owned toll road—the 91 Express Lanes.

In 2003, OCTA purchased the 10-mile, four-lane, fully automated toll road. OCTA's purchase of the 91 Express Lanes transferred ownership of the toll road to the public and removed the original restrictions prohibiting improvements along the SR-91 corridor. Improvements to the SR-91, funded in part by revenues from the 91 Express Lanes, began to provide traffic relief for all commuters.

Today, after five years of ownership, the 91 Express Lanes continues to create national and international interest as a successful model of contemporary toll road operation. Throughout fiscal year 2008, the 91 Express Lanes gave customers the precious gift of time saved on their commutes. In the pages that follow, you will discover ten major milestones made along the 91 Express Lanes during OCTA's five years of ownership.

A MESSAGE FROM THE CEO AND GENERAL MANAGER

Dear Friend,

On January 3, 2003, the Orange County Transportation Authority (OCTA) purchased the 91 Express Lanes from the private company that owned and operated the 10-mile toll road since it began in 1995. With that purchase, OCTA transformed a private, for profit enterprise into a public benefit. OCTA's purchase also eliminated a non-compete clause that prevented any improvements to the heavily congested Riverside Freeway (SR-91).

Today, we are very proud to present the 91 Express Lanes 2008 Annual Report. Within this report, you will discover ten major milestones that were made along the 91 Express Lanes during OCTA's five years of ownership.

Perhaps the most significant milestone of the last year was the passing of Senate Bill 1316 (Correa). This bill allows OCTA to work in conjunction with the Riverside County Transportation Commission to extend the 91 Express Lanes an additional 10 miles into Riverside County.

There were major technological milestones as well. All in-lane video cameras were replaced with more powerful models for increased safety. The Traffic Operations Center was expanded and upgraded and is now capable of monitoring activity along the entire length of the toll road. A new telephone system with Interactive Voice Response was installed for improved customer service.

The 91 Express Lanes was honored with the International Bridge, Tunnel and Turnpike Association's 2008 Toll Excellence Award for tollway administration.

Additional milestones of note during the past year included a restriping project that resulted in the addition of an auxiliary lane from the Chino Valley Freeway (SR-71) to Serfas Club Drive. The 2008 SR-91 Implementation Plan was approved by the OCTA Board of Directors and motorists will continue to see progress made to ease congestion along the SR-91 corridor.

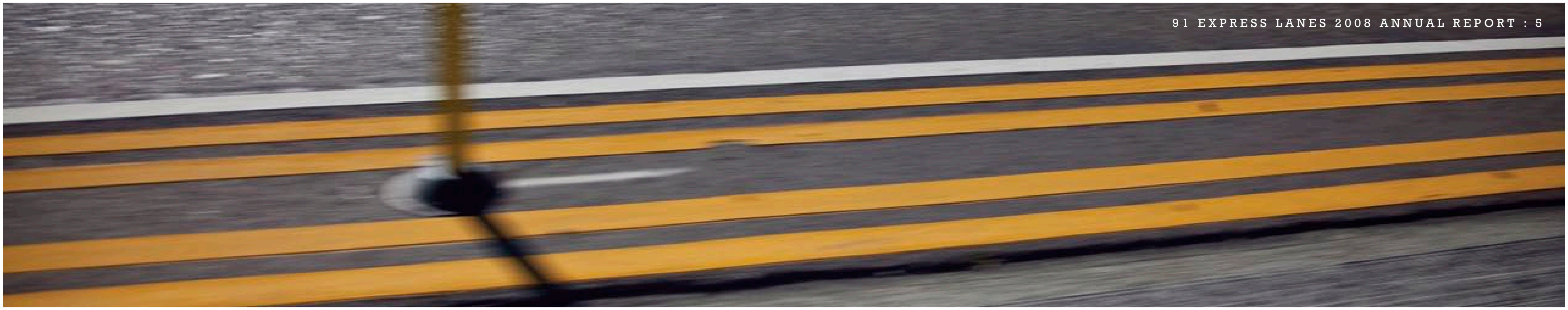
The 91 Express Lanes was honored with the International Bridge, Tunnel and Turnpike Association's 2008 Toll Excellence Award for tollway administration. The 91 Express Lanes' revolutionary toll management formula creates value for the customer by meeting demands while managing congestion. The 91 Express Lanes is a model of success and has set the standard by which other projects are measured.

We are proud of these milestones. During our five years of ownership, OCTA employed its award-winning management formula for the 91 Express Lanes, with less traffic congestion, increased customer safety and satisfaction, and financial viability as the results. OCTA is dedicated to improving mobility for all who travel the 91 Express Lanes and the 91 corridor as well.

Sincerely,

Arthur T. Leahy
Chief Executive Officer
Orange County Transportation Authority

Kirk Avila
91 Express Lanes General Manager



MILESTONE

01

PAVING THE WAY FOR EXPANSION

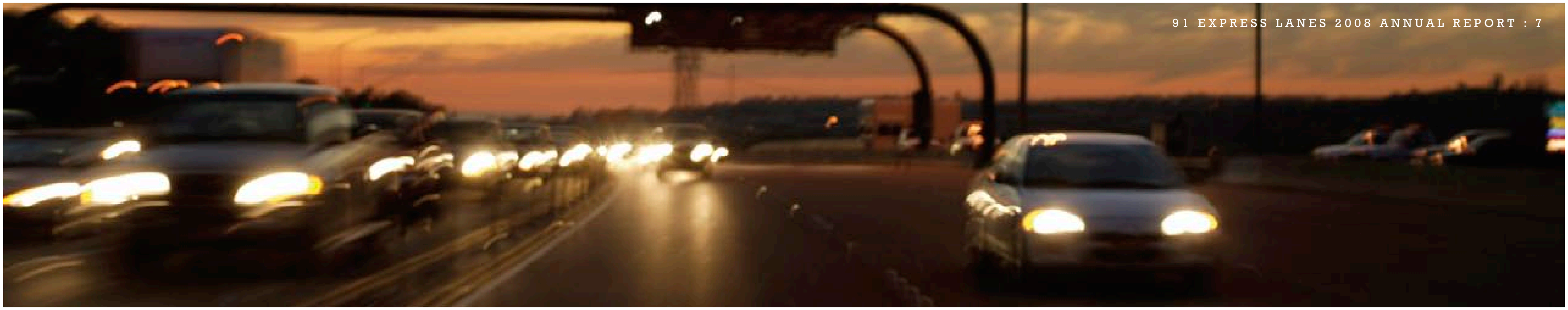
Public ownership of the 91 Express Lanes began with passage of Assembly Bill 1010 (Correa) in September 2002. This bill authorized OCTA to purchase the toll road franchise from the California Private Transportation Company and allowed OCTA to finance and operate the 91 Express Lanes. The legislation nullified the non-compete provision in the original franchise agreement that limited improvements to the Riverside Freeway (SR-91) until the year 2030. OCTA's purchase also allowed revenues in excess of those needed to support ongoing operations and bond payments to be used for improvements along the SR-91 corridor. • The passage of Senate Bill 1316 (Correa) approved extending the 91 Express Lanes toll facility along the SR-91 into Riverside County. The bill also extended the franchise agreement between the California Department of Transportation (Caltrans) and OCTA to a date no later than December 31, 2065. • SB 1316 reinforced the intercounty cooperation between Orange and Riverside counties, requiring OCTA and the Riverside County Transportation Commission (RCTC) to coordinate their respective tolling facilities. The bill also authorized a broader use of toll revenues to include improvement projects within five miles of the SR-91 corridor. Additional revenue generated by expansion of the 91 Express Lanes would finance these projects, which would benefit all motorists in the corridor.

MILESTONE

02

FIVE YEARS OF PUBLIC OWNERSHIP

January 2008 marked the fifth anniversary of public ownership of the 91 Express Lanes. Transferring the 10-mile, four-lane fully automated toll road from the private firm that had owned and operated it since its inception in 1995 to public ownership was the cornerstone of changes to come. • Within the first year of ownership, thanks to the elimination of the non-compete provision, OCTA partnered with Caltrans and RCTC to implement two improvement projects along the SR-91 that brought faster, more reliable drives for all commuters along the Riverside Freeway corridor. • Shortly after acquiring the 91 Express Lanes, OCTA teamed with RCTC and the Transportation Corridor Agencies (TCA) and embarked on a major investment study to evaluate various transportation alternatives and to create a balanced, long-term transportation plan. • OCTA's five years of 91 Express Lanes ownership has fostered continuous improvement and has promoted a closer working relationship between Orange and Riverside county public officials. Officials from both counties continue to work together to identify solutions for tomorrow's traffic challenges.



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03

AWARD-WINNING TOLL POLICY

The International Bridge, Tunnel and Turnpike Association (IBTTA) awarded OCTA its 2008 Toll Excellence Award for tollway administration. OCTA was commended for its toll policy that adjusts toll rates based on the number of vehicles on the 91 Express Lanes to maintain a "free flow" commute at all times. • Known as congestion management pricing, the 91 Express Lanes' toll policy has become a successful model for all toll roads. The toll policy uses a "Trigger Point" defined as 92 percent or more of maximum optimal capacity (3,128+ vehicles per hour, per day, per direction), and constant monitoring of hourly, daily, and directional traffic volumes to adjust tolls up or down. The 91 Express Lanes also implemented an annual Cost of Living Adjustment (COLA)—the first annual COLA adjustment in the United States toll road sector—to index non-Super Peak hours to inflation. • OCTA's by-the-numbers toll policy for the 91 Express Lanes has increased mobility in the SR-91 corridor. For the many satisfied customers who enjoy saving time on their commute, the 91 Express Lanes is indeed an award-winning toll road.

MILESTONE

04

ENCOURAGING GROUP DYNAMICS

Shortly after acquiring the 91 Express Lanes and in a continuing effort to reduce traffic volume along the 91 corridor, OCTA implemented the "Three Ride Free" policy. This innovative policy encouraged carpooling by allowing a group of three or more commuters per vehicle to travel free during most hours in the HOV3+ lane. Besides saving time, 91 Express Lanes customers who carpooled in a group of three of more could save money on tolls. In addition, with every carpool the number of vehicles on the road was reduced, which also reduced emissions and improved air quality. • Since instituting the "Three Ride Free" policy in May 2003, HOV3+ trips have steadily increased. Prior to the policy being in effect, 15 percent of the total traffic was comprised of HOV3+ trips. During 2008, HOV3+ traffic accounted for 21.8 percent of total trips.

MILESTONE

05

FORMING NEW PARTNERSHIPS

The 91 Express Lanes has a history of innovative public/private partnerships. From the very start, the toll road was a partnership between the Caltrans and the California Private Transportation Company. Thanks to this partnership, drivers commuting between Orange and Riverside counties had a time-saving alternative for their travel. • Today, a public/private partnership exists for the 91 Express Lanes. OCTA represents the public ownership of the toll road. Operations of the toll road are carried out by many partners, including Cofiroute USA, Sirit Corporation and Northern Lakes Data Corporation, all private firms that contract with OCTA. • Year after year, the success of this synergistic partnership between private interests and public resourcefulness has resulted in thousands of grateful commuters enjoying fast, safe and reliable commutes.

MILESTONE

06

TECHNOLOGY TO IMPROVE YOUR DRIVE

Modern technology is a wonderful thing. From the very beginning, the 91 Express Lanes has been fully automated. Customers enjoy smooth sailing along the entire 10-mile length of the toll road with no stops required for toll collection. In 2003, OCTA replaced the Electronic Toll and Traffic Management system. This highly sophisticated system detects each vehicle passing through the toll plaza, records it on video, identifies the transponder and automatically bills for the toll. • OCTA also invested in a specialized customer account management and toll operations system called TollPro™. This technological upgrade provided more accurate customer account data and more efficient toll collections and processing. • OCTA replaced the 35 in-lane cameras with newer models that have powerful pan, tilt and zoom capabilities. Additional security cameras were installed at the 91 Express Lanes' facilities, and digital image recording devices were upgraded. • As a premier toll facility, OCTA is continuously setting the standard by strategically investing in toll road technology upgrades and enhancements.

MILESTONE

07

IMPROVING THE CORRIDOR

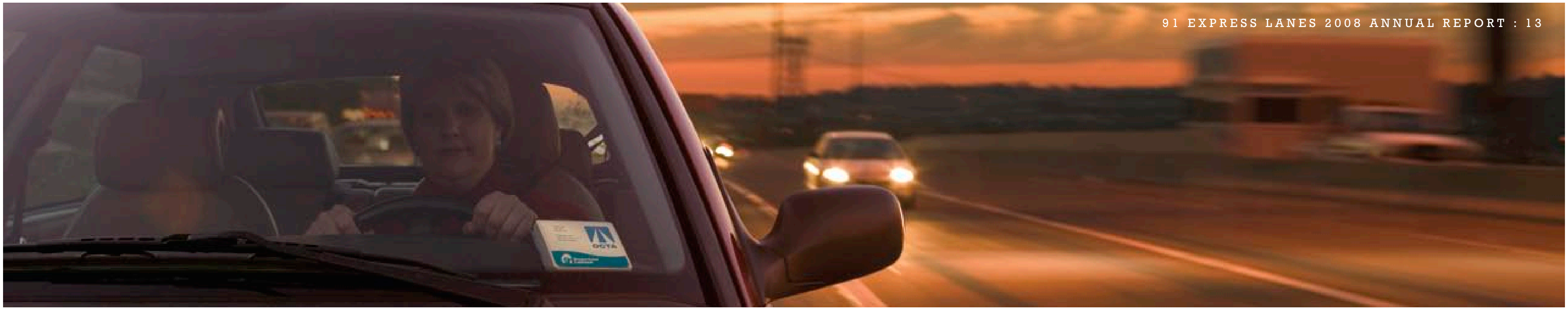
The ten miles of the 91 Express Lanes are part of the SR-91 corridor that stretches from the Los Angeles/Orange County line to Interstate 15 in Riverside County. Each year since OCTA took ownership in 2003, an SR-91 Implementation Plan was developed. This plan outlines the improvements that will be made along the SR-91 corridor. The 2008 SR-91 Implementation Plan was approved by the OCTA Board of Directors, allowing planned improvements to continue. • Recent improvements included a restriping project along the SR-91 that added an auxiliary lane from the Chino Valley Freeway (SR-71) to Serfas Club Drive to help reduce congestion in the area. The SR-91 Eastbound Lane Addition Project is an upcoming project that will be partially funded by 91 Express Lanes revenues. The project will add a general purpose lane on the SR-91 freeway between the Foothill/Eastern Toll Road (SR-241) and the SR-71 to reduce traffic congestion and benefit all motorists traveling through the corridor.

MILESTONE

08

KEEPING CUSTOMERS SAFE

Ensuring a smooth, safe ride on the 91 Express Lanes is OCTA's foremost goal. Around-the-clock monitoring of the entire toll lanes was enhanced with the new in-lane cameras. This new equipment will give the Traffic Operations Specialists an accurate view of any accident, breakdown or debris blocking traffic lanes. When an incident arises, these specialists can dispatch Customer Assistance Patrol trucks or law enforcement personnel as needed to keep the toll lanes flowing. • During the past year, 91 Express Lanes' customers felt secure knowing that the Customer Assistance Patrol was on duty. A team of five Customer Assistance Specialists patrolled the toll lanes weekdays from 5 a.m. to 9 p.m. and on weekends as well. With their specially marked tow trucks and service vehicles, the Customer Assistance Patrol rendered help free of charge to customers in need.



MILESTONE

09

SATISFYING CUSTOMERS YEAR AFTER YEAR

In a recent Customer Satisfaction Survey for the 91 Express Lanes, 81 percent of respondents said that they were satisfied with the toll road and cited time savings as the number one reason for their satisfaction. Over 80 percent of those surveyed ranked OCTA high in professional treatment of customers. • This high level of customer satisfaction is due in part to two Customer Service Centers that provide phone assistance for customers. A new telephone system was installed with Interactive Voice Response (IVR) functionality, which allows customers to update their credit card information and make credit card payments through the IVR menu. The new system also features functionality that displays customer account information automatically on screen when a call is transferred from the IVR to a representative. These new features helped make transactions faster and more efficient for a better customer service experience.

MILESTONE

10

STABILITY IN ACTION

Since OCTA took ownership of the 91 Express Lanes, the enterprise continues to be a model of financial stability. Fiscal Year 2008 witnessed the start of the current economic downturn, and the state of the economy no doubt exerted an influence on the number of vehicle trips. Even with this downturn, the 91 Express Lanes continued to receive strong ratings from Moody's Investors Service, Fitch Ratings and Standard and Poor's. • Throughout the past year, the 91 Express Lanes continued to meet its financial obligations while providing its customers with time savings and less stress on their daily commutes.

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INDEPENDENT AUDITORS' REPORT FROM MAYER HOFFMAN MCCANN P.C.

We have audited the accompanying financial statements of the 91 Express Lanes, an enterprise fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2008, which collectively comprise OCTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of OCTA'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the 91 Express Lanes Fund of OCTA and do not purport to, and do not, present fairly the financial position of OCTA, as of June 30, 2008, and the changes in its financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 91 Express Lanes Fund of OCTA as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Irvine, California
October 17, 2008

STATEMENT OF FUND NET ASSETS

JUNE 30, 2008

An Enterprise Fund of the Orange County Transportation Authority

ASSETS	
CURRENT ASSETS:	
Cash and investments	$ 52,833,188
Receivables:	
Interest	741,538
Violations, net	6,167,854
Other	927,972
Due from other governments	9,780
Other assets	319,172
Total current assets	60,999,504
NONCURRENT ASSETS:	
Restricted cash and investments:	
Cash equivalents	15,349,021
Investments	18,634,792
Unamortized debt issuance costs	3,190,667
Capital assets, net:	
Depreciable and amortizable	171,802,416
Total noncurrent assets	208,976,896
TOTAL ASSETS	269,976,400
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	4,007,098
Accrued interest payable	2,988,607
Due to other governments	282
Unearned revenue	4,279,264
Other liabilities	364,354
Bonds payable - due within one year	4,345,000
Total current liabilities	15,984,605
NONCURRENT LIABILITIES:	
Advances from other OCTA funds - due in more than one year	42,772,242
Bonds payable – due in more than one year	159,156,032
Total noncurrent liabilities	201,928,274
TOTAL LIABILITIES	217,912,879
NET ASSETS	
Invested in capital assets, net of related debt	30,126,843
Restricted for debt service	15,349,021
Unrestricted	6,587,657
TOTAL NET ASSETS	$ 52,063,521

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

An Enterprise Fund of the Orange County Transportation Authority

OPERATING REVENUES:	
User fees and charges	$ 46,236,247
OPERATING EXPENSES:	
Contracted services	5,887,842
Administrative services	1,851,123
Other	268,994
Insurance claims	389,687
Professional services	5,103,119
General and administrative	563,187
Depreciation and amortization	9,332,703
Total operating expenses	23,396,655
Operating income	22,839,592
NONOPERATING REVENUES (EXPENSES):	
Federal operating assistance grants	9,780
Investment earnings	4,629,113
Interest expense	(11,977,097)
Other	173,890
Total nonoperating revenues (expenses)	(7,164,314)
Change in net assets	15,675,278
Total net assets – beginning	36,388,243
Total net assets – ending	$ 52,063,521

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

An Enterprise Fund of the Orange County Transportation Authority

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	$ 45,097,004
Payments to suppliers	(11,668,491)
Payments for interfund services used	(1,851,123)
Miscellaneous	174,840
Net cash provided by operating activities	31,752,230
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payment on advances from other funds	(2,000,000)
Proceeds from sale of capital assets	(950)
Payment of long term debt	(4,225,000)
Interest paid	(8,638,082)
Acquisition and construction of capital assets	(1,119,116)
Net cash used for capital and related financing activities	(15,983,148)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	4,580,397
Net cash provided by investing activities	4,580,397
Net increase in cash and cash equivalents	20,349,479
Cash and cash equivalents at beginning of year	47,832,730
Cash and cash equivalents at end of year	$ 68,182,209
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 22,839,592
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	2,001,858
Amortization of franchise agreement	7,330,845
Amortization of cost of issuance	142,335
Miscellaneous	174,840
Change in assets and liabilities:	
Receivables	(383,915)
Other assets	(7,352)
Accounts payable	409,355
Due to other governments	(499,718)
Unearned revenue	(240,428)
Other liabilities	(15,182)
Total adjustments	8,912,638
Net cash provided by operating activities	$ 31,752,230
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS:	
Cash and investments	52,833,188
Restricted cash and cash equivalents	15,349,021
Total cash and cash equivalents	$ 68,182,209
SCHEDULE OF NONCASH ACTIVITIES:	
Increase in interest expense incurred on advances from other OCTA funds	$ 2,567,322

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

1. REPORTING ENTITY

On January 3, 2003, the Orange County Transportation Authority (OCTA) purchased from the California Private Transportation Company (CPTC) its interest in a franchise agreement for a toll facility on a 10-mile segment of the Riverside Freeway/State Route (SR) 91 between the Orange/Riverside County line and the Costa Mesa Freeway/SR 55. The purchase was enabled by State Assembly Bill 1010 (Correa), which was passed by the California legislature and signed by the governor in September 2002. The legislation provided the authority for OCTA to collect tolls and pay related financing costs no later than 2030 and eliminated noncompete provisions in the franchise agreement for needed improvements on SR 91. OCTA purchased the assets and liabilities of the franchise interest for $207,500,000, consisting of cash of $72,500,000 and certain assets and the assumption of certain liabilities.

The Franchise Agreement with the State of California's Department of Transportation (Caltrans) had granted CPTC the right to develop and construct the toll facility and to operate it for 35 years under a lease arrangement. Caltrans retains legal title to the real property components of the toll facility.

These financial statements include only the activities of the 91 Express Lanes Fund, an enterprise fund of OCTA. These financial statements are not intended to present the activities of OCTA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 91 Express Lanes Fund are in conformity with 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.

Basis of Accounting

The financial statements of the 91 Express Lanes Fund are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, consisting substantially of tolls and fees, are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Toll amounts are collected from customers on a prepaid basis, and unearned tolls are reported as deferred revenue.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the 91 Express Lanes Fund are charges to customers for use of the toll facility. Operating expenses for the 91 Express Lanes Fund include the cost of services, administrative expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. The 91 Express Lanes Fund has elected not to follow subsequent private-sector guidance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Cash and Investments

OCTA maintains cash and investments in accordance with an Annual Investment Policy (AIP) adopted initially by the Board on May 8, 1995, and amended May 23, 2008. The AIP complies with, or is more restrictive than, the California Government Code (Code). The majority of OCTA's investments are managed by four private sector investment managers. At June 30, 2008, the investment portfolios were maintained at The Bank of New York Trust Company, N.A. as custodial bank. Separate investment manager accounts are maintained for the proceeds of bond issues, with the earnings for each bond issue accounted for separately. Cash from other OCTA revenue sources is commingled for investment purposes, with investment earnings allocated to the different accounts based on average daily dollar account balances.

The AIP requires the assets in the portfolio to consist of the following investments and maximum permissible concentrations based on book value and are more restrictive than the Code for the following cases: OCTA notes and bonds (25%); commercial paper of a high rating of A-1 or P-1 as provided by one of the nationally recognized rating agencies, Standard & Poor's Corporation (S & P) or Moody's Investors Service (Moody's), and must be issued by corporations rated A3 or better by Moody's, A- or better by S & P and A- or better by Fitch Ratings (Fitch) with further restrictions to issuer size and maximum maturity of 180 days (25%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or be a state licensed branch of a foreign bank, which have been rated by at least two of the nationally recognized rating services with minimum credit ratings of A-1 by S & P, P-1 by Moody's, F1 by Fitch, with maximum maturity of 180 days (30%); bankers acceptances which have been rated by at least two of the nationally recognized rating services with minimum credit ratings of A-1 by S & P, P-1 by Moody's, F1 by Fitch and may not exceed the 5% limit by any one commercial bank (30%); mortgage or asset-backed securities rated AAA by S & P, Aaa by Moody's, or AAA by Fitch and issued by an issuer; repurchase agreements collateralized at 102% (75%), reverse repurchase agreements and securities lending are not permitted; medium-term notes (MTN's) rated A- or better by S & P, A3 or better by Moody's or A- by Fitch or an equivalent rating by two of the three nationally recognized rating services. MTN's may not represent more than ten percent (10%) of the issue in the case of a specific public offering. Under no circumstance can any one corporate issuer represent more than 5% of the portfolio.

Other allowable investment categories include money market funds, mutual funds, and the state-managed Local Agency Investment Fund (LAIF). LAIF is regulated by Code Section 16429 under the oversight of the Treasurer of the State of California. Investment is also allowed in the Orange County Investment Pool (OCIP), but is limited to those funds legally required to be deposited in the County Treasury. The OCIP is managed by the Orange County Treasurer and oversight of the OCIP is conducted by the County Treasury Oversight Committee.

All investments are subject to a maximum maturity of five years, unless specific direction to exceed the limit is given by the Board as permitted by the Code.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of the AIP.

Outside portfolio managers must review the portfolios they manage (including bond proceeds portfolios) to ensure compliance with OCTA's diversification guidelines on an ongoing basis.

- Issuer/Counter-Party Diversification Guidelines for all securities except Federal Agencies, Government Sponsored Enterprises, Investment Agreements, and Repurchase Agreements – any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities (5%).
- Issuer/Counter-Party Diversification Guidelines for Federal Agencies, Government Sponsored Enterprises and Repurchase Agreements – any one Federal Agency or Government Sponsored Enterprise (35%); any one repurchase agreement counter-party name if maturity/term is < 7 days (50%), if maturity/term is > 7 days (35%).

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

Restricted Investments

Investments set aside in the Reserve Fund, Supplemental Reserve Fund, Major Maintenance Reserve Fund, and Operating Reserve Fund are pursuant to terms of the 2003 Indenture for the $195,265,000 Toll Road Revenue Refunding Bonds and their use is limited by applicable debt covenants.

Permitted investments per the debt covenants include: Government Obligations, State of California and Local Agency Obligations, Bankers Acceptances, Commercial Paper, Negotiable Certificates of Deposit, Repurchase Agreements, Money Market Funds, Other Mutual Funds, Investment Agreements, Orange County Investment Pool and Variable and Floating Rate Securities.

Receivables

Violations receivable represent an estimate of the total outstanding unpaid violations that the 91 Express Lanes anticipate to collect. This estimate is based upon twelve month average collections on outstanding unpaid violations for violations with a due date of 90 days or less. For violations over 90 days, this estimate is based upon a 3½ year average collections on outstanding unpaid violations. The 91 Express Lanes utilizes an outside collection agency to assist in the recovery of unpaid violations over 90 days.

Other receivables include amounts due from other California toll road agencies related to their customers who use the 91 Express Lanes as well as customer fees, interest, and other.

Other Assets

Other assets include prepaid expenses and refundable deposits.

Costs of Issuance

Costs of issuance represent issuance costs associated with the 2003 Toll Road Revenue Refunding Bonds issued to refund the $135,000,000 taxable debt and are deferred and amortized over the life of the debt.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Capital Assets

Capital assets include the toll facility franchise, improvements, equipment, furniture and fixtures, and transponders. Capital assets are defined by the 91 Express Lanes Fund as assets with an initial, individual cost of more than $5,000 and a useful life in excess of one year. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized.

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

CAPITAL ASSET TYPE	USEFUL LIFE
Improvements	10-30 years
Equipment, furniture, and fixtures	3-10 years
Transponders	5 years

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

Risk Management

The 91 Express Lanes Fund purchases commercial property insurance including business interruption, earthquake and flood coverage related to the toll facility. Additionally, the 91 Express Lanes Fund participates in OCTA's self-insurance general liability program. The liability claims are resolved by OCTA and are expensed against the 91 Express Lanes Fund.

Net Assets

Net assets represent the difference between assets and liabilities and are classified into three categories:

- **Invested in capital assets, net of related debt** – This reflects the net assets of the 91 Express Lanes Fund that are invested in capital assets, net of related debt. Usually this indicates that these net assets are not accessible for other purposes; however, a deficit indicates that the related debt exceeds the capital assets.
- **Restricted net assets** – This represents the net assets that are not accessible for general use, because their use is subject to restrictions enforceable by third parties. The statement of net assets reports $15,349,021 of restricted net assets, all of which is restricted by enabling legislation.
- **Unrestricted net assets** – This represents those net assets that are available for general use.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures during the reporting period. As such, actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

3. CASH AND INVESTMENTS

Cash and investments are comprised of the following at June 30, 2008:

Deposits:	
Petty cash	$ 150
Deposits	91,861
Total deposits	92,011
Investments:	
With OCTA Commingled Investment Pool	52,552,846
With Trustee	34,172,144
Total investments	86,724,990
Total cash and investments	$86,817,001

Total deposits and investments are reported in the financial statements as:

Unrestricted cash and investments	$52,833,188
Restricted cash and investments:	
Cash equivalents	15,349,021
Investments	18,634,792
Total restricted cash and investments	33,983,813
Total cash and investments	$86,817,001

As of June 30, 2008, the 91 Express Lanes Fund had the following investments:

INVESTMENT	FAIR VALUE	PRINCIPAL
OCTA Commingled Investment Pool	$ 52,552,846	$ 51,657,710
Held by Trustee:		
Money Market Mutual Funds	4,572,560	4,572,560
Negotiable Certificates of Deposit	10,964,792	10,964,792
Investment Agreements	18,634,792	18,634,792
Total Investments	$ 86,724,990	$ 85,829,854

INVESTMENT (continued):	INTEREST RATE RANGE	MATURITY RANGE	WEIGHTED AVERAGE MATURITY (YEARS)
OCTA Commingled Investment Pool	1.50%-7.50%	7/1/08-6/19/13	1.97
Held by Trustee:			
Money Market Mutual Funds	1.66%-1.98%	7/1/08	1 Day
Negotiable Certificates of Deposit	2.25%	7/1/08	1 Day
Investment Agreements	4.51%-5.125%	8/15/15-12/15/30	17.53

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Interest rate risk

OCTA manages exposure to declines in fair value from increasing interest rates by having an investment policy that limits maturities to five years while also staggering maturities, with the exception of investment agreements which are not subject to term restrictions due to the bond indenture. OCTA maintains a low duration strategy, targeting an estimated average portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile, therefore less sensitive to interest rate changes.

As of June 30, 2008, the 91 Express Lanes Fund was a participant in OCTA's Commingled Investment Pool which had asset-backed securities totaling $61,808,994. The underlying assets are consumer receivables that include credit cards, auto and home loans. The securities have a fixed interest rate and are rated AAA by at least two of the three nationally recognized rating services.

As of June 30, 2008, the 91 Express Lanes Fund was a participant in OCTA's Commingled Investment Pool which had the following variable rate notes:

INVESTMENT	FAIR VALUE	COUPON MULTIPLIER	COUPON RESET DATE
Allstate Life Global	987,890	LIBOR + 60 basis points	Quarterly
American Express Credit Corp	923,788	LIBOR + 170 basis points	Monthly
American Honda Financial Corp	1,228,270	LIBOR + 40 basis points	Quarterly
Bank New York Inc	499,680	LIBOR + 40 basis points	Quarterly
Caterpillar Financial Services	998,700	LIBOR + 45 basis points	Quarterly
Hewlett Packard Co	1,320,058	LIBOR + 40 basis points	Quarterly
John Deere Capital Corp	1,185,072	LIBOR + 45 basis points	Quarterly
JP Morgan Chase & Co	1,750,000	LIBOR + 3 basis points	Quarterly
PNC Bank NA	1,498,200	LIBOR + 40 basis points	Quarterly
PNC Bank NA	574,645	LIBOR + 22 basis points	Quarterly
USB AG	1,976,660	LIBOR – 1 basis point	Quarterly
VTB Capital SA LN Partnership	505,700	LIBOR + 170 basis points	Quarterly
Wachovia Bank NA	1,425,825	LIBOR + 7 basis points	Quarterly
Western Union	497,645	LIBOR + 15 basis points	Quarterly
Total Investments	15,372,133		

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. OCTA's investment policy requires that a third party bank custody department hold all securities owned by OCTA. All trades are settled on a delivery versus payment basis through OCTA's custodial agent. At June 30, 2008, OCTA did not have any deposits or securities exposed to custodial credit risk and there was no securities lending.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Credit risk

The AIP sets minimum acceptable credit ratings for investments from any of the three nationally recognized rating services S & P, Moody's, and Fitch. For an issuer of short-term debt, the rating must be no less than A-1 (S & P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an "A" by two of the three rating services. LAIF is not rated.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2008. (NR means Not Rated):

INVESTMENTS	S & P	MOODY'S	FITCH	% OF PORTFOLIO
OCTA Commingled Investment Pool	NR	NR	NR	60.60%
Held by Trustee:				
Money Market Mutual Funds	AAA	Aaa	NR	5.27%
Negotiable Certificates of Deposit	AA	Aa2	AA	12.64%
Investment Agreements	NR	NR	NR	21.49%
Total				100.00%

As of June 30, 2008, the 91 Express Lanes Fund was a participant in OCTA's Commingled Investment Pool which held two investments in Lehman Brothers Holding Inc. Medium Term Notes. The par amount of the notes totaled $3,000,000. One investment had a $2,000,000 par maturing on July 26, 2010. The second had a $1,000,000 par maturing on January 24, 2013. On September 15, 2008, Lehman Brothers Holding Inc. filed for bankruptcy. As of September 30, 2008, the market value of the securities were 15.000% of par for the July 26, 2010 Notes and 13.125% for the January 24, 2013 Notes.

Concentration of credit risk

At June 30, 2008, OCTA did not exceed the AIP limitation that states that no more than:

- 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government sponsored enterprises, investment agreements and repurchase agreements.
- 20% may be invested in money market mutual funds.

The AIP limitation excludes investment agreements pursuant to the 2003 Indenture. The 91 Express Lanes Fund had the following investment agreements outstanding as of June 30, 2008:

		RATINGS	
INVESTMENT AGREEMENTS	AMOUNT	S & P	MOODY'S
MBIA Incorporated	$12,634,792	AA	A2
AIG Matched Funding Corporation	6,000,000	AA-	Aa3

On September 15, 2008, AIG Matched Funding Corporation (AIG) was downgraded to A- by Standard and Poor's and A2 by Moody's Investors Service. Additionally, AIG was placed under review by the rating agencies for possible further downgrades. On September 29 and 30, 2008, respectively, OCTA's Commingled Investment Pool and 91 Express Lanes Fund terminated and liquidated all investment agreements with AIG. The full balance of the agreements were received with no penalty assessed for early termination.

The 91 Express Lanes Fund's reserve fund investment agreement with MBIA Incorporated (MBIA) is fully collateralized at 104%. MBIA was downgraded to AA by Standard and Poor's and A2 by Moody's Investors Service. The downgrades occurred on June 5, 2008 and June 19, 2008, respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

4. CAPITAL ASSETS

Capital asset activity for the 91 Express Lanes Fund for the year ended June 30, 2008 is as follows:

	BEGINNING BALANCE	INCREASES
Capital assets, being depreciated and amortized:		
Toll facility franchise	$205,263,668	$ -
Improvements	2,740,126	13,852
Communications equipment	5,237,105	285,829
Computer hardware and software	1,042,854	92,245
Transponders	5,208,521	727,190
Equipment, furniture and fixtures	107,891	-
Total capital assets, being depreciated and amortized	219,600,165	1,119,116
Less accumulated depreciation and amortization for:		
Toll facility franchise	(32,988,803)	(7,330,845)
Improvements	(374,250)	(172,942)
Communications equipment	(1,984,237)	(859,935)
Computer hardware and software	(807,107)	(119,515)
Transponders	(3,402,233)	(835,678)
Equipment, furniture and fixtures	(27,532)	(13,788)
Total accumulated depreciation and amortization	(39,584,162)	(9,332,703)
Total capital assets, being depreciated and amortized, net	$180,016,003	$ (8,213,587)

Capital asset activity (continued):

	DECREASES	ENDING BALANCE
Capital assets, being depreciated and amortized:		
Toll facility franchise	$ -	$205,263,668
Improvements	-	2,753,978
Communications equipment	-	5,522,934
Computer hardware and software	9,115	1,125,984
Transponders	1,306,908	4,628,803
Equipment, furniture and fixtures	-	107,891
Total capital assets, being depreciated and amortized	1,316,023	219,403,258
Less accumulated depreciation and amortization for:		
Toll facility franchise	-	(40,319,648)
Improvements	-	(547,192)
Communications equipment	-	(2,844,172)
Computer hardware and software	(9,115)	(917,507)
Transponders	(1,306,908)	(2,931,003)
Equipment, furniture and fixtures	-	(41,320)
Total accumulated depreciation and amortization	(1,316,023)	(47,600,842)
Total capital assets, being depreciated and amortized, net	$ -	$171,802,416

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

5. BONDS PAYABLE

Taxable Senior Secured Bonds

On January 3, 2003, as part of the purchase agreement, the 91 Express Lanes Fund assumed $135,000,000 of taxable 7.63% Senior Secured Bonds. On November 12, 2003, the taxable bonds were refunded as noted below. As required by the tax-exempt indenture, OCTA paid $26,428,197 Yield Maintenance Premium which is deferred and amortized over the life of the tax-exempt bonds.

Toll Road Revenue Refunding Bonds

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

Interest Rate Swaps

As a means to lower its borrowing costs, when compared against fixed rate bonds at the time of issuance in November 2003, OCTA entered into two parity interest rate swaps totaling $100,000,000 in connection with its $195,265,000 Toll Road Revenue Refunding Bonds. $95,265,000 was issued on a fixed rate basis and $100,000,000 was issued on a variable rate basis. The Series 2003-B-1 swap was for $75,000,000 and the counterparty is Lehman Brothers Special Funding Incorporated (Lehman Brothers). The Series 2003-B-2 swap was for $25,000,000 and the counterparty was Bear Stearns Capital Markets Incorporated. On May 30, 2008, JP Morgan completed its acquisition of The Bear Stearns Companies Incorporated. As a result of the merger, JP Morgan assumed the $25,000,000 interest rate swap between OCTA and Bear Stearns Capital Markets Incorporated. The effective rate on the parity swaps was to effectively change OCTA's variable rate bonds to a synthetically fixed rate of 4.06227%.

On November 23, 2005, Lehman Brothers Holding Inc. named Lehman Brothers Commercial Bank as the counterparty for the interest rate swap replacing Lehman Brothers Special Financing Inc. On September 15, 2008, Lehman Brothers Holding Inc. declared bankruptcy. As of September 30, 2008, Lehman Brothers Commercial Bank had not declared bankruptcy.

On October 2, 2008, OCTA provided a Notice of Event of Default and Reservation of Rights letter to Lehman Brothers Special Financing and Lehman Brothers Commercial Bank regarding the rating downgrade and the missed counterparty payment of $228,340 on October 1, 2008. OCTA is working with general counsel and bond counsel to determine the impact of the bankruptcy on OCTA's interest rate swap.

Terms

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Fair Value

As of June 30, 2008, the negative fair value for the $75,000,000 swap with Lehman Brothers was estimated by Lehman Brothers to be $7,260,741. As of June 30, 2008, the negative fair value for the $25,000,000 swap with JP Morgan was estimated by JP Morgan to be $1,746,745. Therefore, if the swaps were terminated on June 30, 2008, OCTA would have made a termination payment of $7,260,741 and $1,746,745 to Lehman Brothers and JP Morgan, respectively. The termination payments that would have been owed by OCTA if the swaps were terminated on June 30, 2008 are a result of the change in interest rate levels and certain interest rate relationships. The rate used to calculate the fixed swap payment owed by OCTA to the swap providers is 4.06227%. As of June 30, 2008, this fixed rate was higher than the current rate for a swap of identical terms and conditions. The fair values were estimated by the counterparties using proprietary methodologies.

Credit Risk

To mitigate the potential for credit risk, the $75,000,000 swap with Lehman Brothers and the $25,000,000 swap with JP Morgan require collateralization with U.S. government securities at all times if a termination payment is required. Due to the fact that interest rates declined since the swaps were executed, the counterparties did not owe OCTA a termination payment as of June 30, 2008.

Basis Risk

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

Under the parity swap agreements, OCTA pays the counterparties a fixed payment of 4.06227% and the counterparties pay OCTA a floating rate equal to 67% of LIBOR if LIBOR is equal to or greater than 4.0% or the SIFMA Index if LIBOR is less than 4.0%. As of June 30, 2008, OCTA experienced $478,033 in cumulative negative basis differential. This negative amount was funded with toll road revenues.

Termination Risk

Termination risk is the risk that an event occurs that causes a termination of the parity swaps and OCTA would incur replacement costs. As of the June 30, 2008 valuation, there had not been a termination event.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Swap Payments and Associated Debt

As of June 30, 2008, debt service requirements of outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are as follows:

	$75,000,000 SERIES 2003-B-1 [1]		
YEAR ENDING JUNE 30	PRINCIPAL	INTEREST	INTEREST RATE SWAPS, NET
2009	$ -	$ 4,500,000	$ 1,884,203
2010	-	4,500,000	1,884,203
2011	-	4,500,000	1,884,203
2012	-	4,500,000	1,884,203
2013	-	4,500,000	1,884,203
2014-2018	-	22,500,000	9,421,013
2019-2023	11,100,000	21,558,300	9,026,712
2024-2028	37,240,000	12,666,300	5,303,528
2029-2031	26,660,000	1,646,700	689,493
	$75,000,000	$80,871,300	$33,861,761

Swap Payments and Associated Debt (continued):

	$25,000,000 SERIES-B-2 [1]			
YEAR ENDING JUNE 30	PRINCIPAL	INTEREST	INTEREST RATE SWAPS, NET	TOTAL
2009	$ -	$ 1,500,000	$ 628,068	$ 8,512,271
2010	-	1,500,000	628,068	8,512,271
2011	-	1,500,000	628,068	8,512,271
2012	-	1,500,000	628,068	8,512,271
2013	-	1,500,000	628,068	8,512,271
2014-2018	-	7,500,000	3,140,338	42,561,351
2019-2023	3,695,000	7,186,500	3,009,071	55,575,583
2024-2028	12,420,000	4,221,900	1,767,759	73,619,487
2029-2031	8,885,000	548,400	229,621	38,659,214
	$25,000,000	$26,956,800	$11,287,129	$252,976,990

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

As rates vary, variable-rate bond interest payments and net swap payments will vary. The variable rate on the 2003 B-1 and B-2 debt was 6.00% on June 30, 2008. As part of the swap agreement, OCTA receives the SIFMA Index which was 1.55% on June 30, 2008.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

Issuance date	11/12/03
Original issue amount	$195,265,000
Cash reserve requirements	$31,584,792
Cash reserve balance	$33,983,813
Interest rate	2.0% to 5.375%*
Maturity	December 2030
Principal payment date	August 15
Current balance	$179,285,000
Unamortized premium	$5,661,136
Deferred amount on refunding	($21,445,103)

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

The Toll Road Revenue Refunding Bonds contain certain financial covenants, and management believes the 91 Express Lanes Fund is in compliance with such covenants as of June 30, 2008.

Annual debt service requirements on the tax-exempt bonds as of June 30, 2008, are as follows:

Year ending June 30	Principal	Interest	Total
2009	$ 4,345,000	$ 7,909,876	$ 12,254,876
2010	4,515,000	7,742,901	12,257,901
2011	4,740,000	7,517,170	12,257,170
2012	4,980,000	7,274,170	12,254,170
2013	5,245,000	7,008,711	12,253,711
2014-2018	30,730,000	30,543,838	61,273,838
2019-2023	39,525,000	21,823,420	61,348,420
2024-2028	49,660,000	12,442,733	62,102,733
2029-2031	35,545,000	2,221,689	37,766,689
Total	$179,285,000	$104,484,508	$283,769,508

The interest rate used to determine the future annual debt service requirements for the variable rate bonds was 4.06227% at June 30, 2008.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2008, was as follows:

	BEGINNING BALANCE	ADDITIONS
Tax-exempt bonds	$183,510,000	$ -
Unamortized premium	5,913,677	-
Unamortized deferred amount on refunding	(22,512,909)	-
Total Long-Term Liabilities	$166,910,768	$ -

Changes in Long-Term Liabilities (continued):

	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Tax-exempt bonds	$ 4,225,000	$179,285,000	$4,345,000
Unamortized premium	252,541	5,661,136	-
Unamortized deferred amount on refunding	(1,067,806)	(21,445,103)	-
Total Long-Term Liabilities	$ 3,409,735	$163,501,033	$4,345,000

6. ADVANCES FROM OTHER OCTA FUNDS

In connection with the purchase of the toll facility franchise, to fund the debt service payment required on February 15, 2003, and to establish operations, the 91 Express Lanes Fund borrowed $83,640,595 from other OCTA funds at an interest rate, adjusted each January, representing OCTA's rate of return on short-term investments (6.76% at June 30, 2008). Interest accrues monthly, and the advances from other OCTA funds plus accrued interest will be repaid on an annual basis with net revenues or as a result of a refinancing. Total interest of $2,567,322 accrued on the advances for the year ended June 30, 2008. At June 30, 2008, these advances were $42,772,242 and are reported as advances from other OCTA funds.

7. COMMITMENTS AND CONTINGENCIES

Operator Agreement

In connection with the purchase of the toll facility interest, OCTA entered into an operating agreement with Cofiroute Global Mobility (Cofiroute), to provide operating services in the annual amount of $4,994,000 plus inflation for three initial years with two one-year extension options, subject to Board of Directors approval. The agreement was in effect from January 3, 2003 through January 2, 2006. Cofiroute is responsible for the day-to-day operations of the toll facility. On January 6, 2006, OCTA entered into a second operating agreement with Cofiroute, effective January 3, 2006 through January 2, 2011. The annual amount of the base contract is $5,448,768 plus inflation adjustments after the first year. The agreement carries two two-year extension options through January 2, 2015, subject to Board of Directors approval.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Lease Commitments

The 91 Express Lanes Fund is committed under two leases for office space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the year ended June 30, 2008 were $396,218.

Future minimum payments for these leases approximate the following:

FOR THE YEAR ENDING JUNE 30	
2009	$ 378,991
2010	387,953
2011	117,756
2012	121,293
2013	124,929
2014	31,461
	$1,162,383

8. SUBSEQUENT EVENTS

As mentioned in footnote 3, the OCTA Commingled Investment Pool held investments in Lehman Brothers Holding Inc. Medium Term Notes (MTN). As of September 30, 2008, the market value of the securities was 15.000% of par for the July 27, 2010 MTN and 13.125% for the January 24, 2013 MTN. Additionally, the OCTA Commingled Investment Pool and the 91 Express Lanes held investments in AIG and MBIA. On September 29 and 30, OCTA terminated and liquidated all investment agreements with AIG with no penalty. The MBIA investment was downgraded to AA by Standard and Poor's and A2 by Moody's Investor Services. The downgrades occurred on June 5, 2008 and June 19, 2008 respectively.

As mentioned in footnote 5, Lehman Brothers Holding Inc. filed for bankruptcy on September 15, 2008. As of October 1, 2008, Lehman Brothers did not fulfill its swap counterparty payment obligation in the amount of $228,340 and is considered in default. OCTA is working with general counsel and bond counsel to determine the impact of the bankruptcy on OCTA's interest rate swap.

On August 11, 2008, the OCTA investment policy was amended to reflect investments in the 91 Express Lanes debt. Specifically, Issuer/Counter-Party Diversification Guidelines for OCTA's 91 Express Lanes Debt – OCTA can purchase all or a portion of the Orange County Transportation Authority's Toll Road Revenue Refunding Bonds (91 Express Lanes) Series B Bonds maturing December 15, 2030 providing the purchase does not exceed 25% of the maximum portfolio.

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