



**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

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KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

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

We have audited the accompanying financial statements of the San Joaquin Hills Transportation Corridor Agency (the Agency), which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Joaquin Hills Transportation Corridor Agency as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

Adoption of New Accounting Pronouncements

As discussed in the *Significant Accounting Policies* note to the financial statements, in 2016 the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. During the year ended June 30, 2015, the Agency adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3–7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

September 29, 2016

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Management's Discussion and Analysis

(In thousands)

This discussion and analysis of the financial performance of the San Joaquin Hills Transportation Corridor Agency (the Agency) provides an overview of the Agency's financial activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the Agency's financial statements and accompanying notes.

Background

The Agency was formed in 1986 as a joint powers authority by the County of Orange and cities in Orange County, California to provide traffic relief to Orange County through the construction and operation of a toll road. The Agency was created to plan, design, finance, construct, and operate a 15-mile toll road, known as the San Joaquin Hills (State Route 73) Toll Road. The Agency's primary focus is the operation of the facility and collection of tolls to repay the tax-exempt revenue bonds that were issued to construct the toll road.

Planning began in the 1970s when local transportation studies identified the need for new highways, including the San Joaquin Hills Transportation Corridor (State Route 73), to serve Orange County's growing population. In the early 1980s, the corridor was envisioned as a free highway funded through state or federal gas-tax revenue, but with a shortage of gas-tax revenue 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 and development impact fees, the Agency issued nonrecourse, toll-revenue bonds to fund road construction, rather than relying on the uncertainty of state gas-tax revenue. The Agency also reached an agreement with the California Department of Transportation (Caltrans) to assume ownership, liability, and maintenance of the State Route 73 Toll Road as part of the state highway system. This agreement eliminated the need for the Agency to seek additional funding sources for road maintenance.

In 1996, the State Route 73 Toll Road opened to traffic, the first publicly operated toll road in Southern California. It serves as an important, time-saving alternative route to the Interstate 405 and Interstate 5 Freeways, with averages of approximately 98,000, 92,000, and 83,000 transactions per weekday as of June 30, 2016, 2015, and 2014, respectively.

Financial Highlights

Tolls, fees, and fines collected in fiscal year 2016 (FY16) totaled \$167,157 compared to \$147,733 in fiscal year 2015 (FY15), an increase of 13.1%.

As of June 30, 2016 and 2015, the Agency had \$323,551 and \$295,831, respectively, in restricted cash and investments subject to the master indentures of trust for the bonds outstanding at each date. The Agency also had \$62,503 and \$35,660, respectively, in unrestricted cash.

The Agency's net position at June 30, 2016 and 2015 was \$(1,855,210) and \$(1,899,785), respectively. The negative net position results primarily because the Agency's financial statements include its long-term debt obligations, which were used to fund construction of the corridor, but not the related capital assets, since ownership of the corridor was transferred to Caltrans upon completion.

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Management's Discussion and Analysis

(In thousands)

Overview of the Financial Statements

The Agency's financial statements include its statements of net position, statements of revenue, expenses, and changes in net position, statements 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 the assets and liabilities of the Agency as well as certain items labeled as deferred outflows and inflows of resources. The current year's revenue and expenses are taken into account regardless of when cash is received or paid. The statements of cash flows provide 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 statements of net position and the statements of revenue, expenses, and changes in net position report the Agency's net position and related changes. Net position is the difference between the total of recorded assets and deferred outflows and the total of liabilities and deferred inflows. The recorded activities include all toll revenue and operating expenses related to the operation of the San Joaquin Hills Transportation Corridor, as well as the Agency's construction-related activities and related financing costs. Activities are financed by toll revenue, development impact fees, fees and fines, and investment income.

Financial Analysis

The following table summarizes the net position of the Agency as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Percentage increase (decrease)</u>
Assets and deferred outflows:			
Current assets	\$ 116,138	111,783	3.9%
Capital assets, net	5,466	6,422	(14.9)%
Other noncurrent assets	281,969	230,428	22.4%
Deferred outflows	<u>103,263</u>	<u>108,453</u>	(4.8)%
Total assets and deferred outflows	<u>506,836</u>	<u>457,086</u>	10.9%
Liabilities and deferred inflows:			
Bonds payable	2,194,938	2,191,499	0.2%
Note payable to F/ETCA	120,495	120,195	0.2%
Net pension liability	3,795	3,126	21.4%
Other liabilities	42,478	41,619	2.1%
Deferred inflows	<u>340</u>	<u>432</u>	(21.3)%
Total liabilities and deferred inflows	<u>2,362,046</u>	<u>2,356,871</u>	0.2%
Net position	<u>\$ (1,855,210)</u>	<u>(1,899,785)</u>	(2.3)%

As described in note 6(a) to the accompanying financial statements, the Agency incurred a deferred loss for accounting purposes in connection with its November 2014 bond refinance transaction; this amount was recorded as a deferred outflow of resources. Further, as described in note 6(c) to the financial statements, the Agency's

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(In thousands)

Board of Directors and the Board of Directors of Foothill/Eastern Transportation Corridor Agency (F/ETCA) approved an agreement that provided for termination of the Mitigation Payment and Loan Agreement between the agencies, concurrently with the closing of the refinance transaction. The termination agreement also provided for the Agency to pay \$120,000 to F/ETCA, in annual installments beginning January 15, 2025 equal to 50% of the Agency's surplus funds, plus accrued interest.

As described in notes 2 and 8 to the financial statements, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 68 and recorded its proportionate share of the collective net pension liability applicable to the defined-benefit pension plan in which its employees participate, as well as deferred outflows and inflows of resources related to pensions. This resulted in an adjustment to the Agency's previously reported net position in order to record its net pension liability.

Following is a summary of the Agency's revenue, expenses, and changes in net position for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	Percentage increase (decrease)
Operating revenue:			
Tolls, fees, and fines	\$ 167,157	147,733	13.1%
Development impact fees	8,491	3,483	143.8%
Other revenue	285	1	28,400.0%
Total operating revenue	<u>175,933</u>	<u>151,217</u>	16.3%
Operating expenses	<u>15,723</u>	<u>13,710</u>	14.7%
Operating income	160,210	137,507	16.5%
Nonoperating expenses, net	<u>(115,635)</u>	<u>(260,424)</u>	(55.6)%
Change in net position	44,575	(122,917)	
Net position at beginning of year	<u>(1,899,785)</u>	<u>(1,776,868)</u>	7.1%
Net position at end of year	<u><u>\$ (1,855,210)</u></u>	<u><u>(1,899,785)</u></u>	2.3%

The Agency's revenue consists primarily of tolls, fees, and fines, which comprised 95.0% of total revenue in FY16, respectively, as compared to 97.7% in FY15. Tolls, fees, and fines increased by 13.1% and 14.4%, respectively, over each of the two preceding years, primarily due to inflationary toll rate increases and increases in toll transactions. Development impact fees increased from \$3,483 in FY15 to \$8,491 in FY16, compared to decrease of 8.5% from FY14 to FY15. The amount of development impact fees received in a given year is related to residential and nonresidential development in Orange County within the area of benefit from the San Joaquin Hills Corridor.

Operating expenses were \$15,723 in FY16 compared to \$13,710 in FY15, an increase of 14.7%. Included in FY16 operating expenses is noncash depreciation expense on fixed assets of \$1,918, compared to \$1,687 in FY15. Excluding depreciation, operating expenses were \$13,805 in FY16 and \$12,023 in FY15, an increase of \$1,782.

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Management's Discussion and Analysis

(In thousands)

Net nonoperating expenses for FY16 include investment income of \$1,372, compared to \$1,133 in FY15; arbitrage rebate expense of \$686, compared to \$1,205 in FY15; and interest expense of \$116,321, compared to \$123,370 in FY15. The total in FY15 also included bond refunding transaction costs of \$16,982 and the \$120,000 cost to terminate the Mitigation Payment and Loan Agreement with F/ETCA.

Capital Assets, Net

The following table summarizes the Agency's capital assets, net of accumulated depreciation at June 30:

	2016	2015	2014
Right-of-way acquisitions, grading, or improvements	\$ 119	119	119
Furniture and equipment	5,347	6,303	6,345
Total capital assets, net	\$ 5,466	6,422	6,464

Right-of-way acquisitions, grading, or improvements include easements and environmental mitigation parcels. Furniture and equipment includes transponders, toll and violations collection equipment, 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

At June 30, 2016, 2015, and 2014, the Agency had outstanding bonds payable of \$2,194,938, \$2,191,499, and \$2,148,605, respectively. The net changes during 2016 and 2015 were partially attributable to accretion of principal on capital appreciation bonds totaling \$43,034 and \$48,352, respectively. The remainder of the change in each year is attributable to principal payments of \$37,345 in FY16 and the bond refunding transaction in FY15.

The Agency's tolls, fees, fines, and development impact fee revenue, less certain expenses, as defined in the indentures of trust, is pledged to repay these bonds. 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 years ended June 30, 2016 and 2015.

Economic Factors

After consideration of toll rate recommendations from the Agency's traffic consultant and the potential effects of traffic diversion, toll rates were approved by the Agency's Board of Directors for implementation effective July 1, 2016. The new toll rates are projected to result in a 4.1% increase in transactional toll revenue and reflect increases of 2% for FasTrak® toll rates and maintenance of the \$1.00 increment above the FasTrak® rates for non-FasTrak transactions.

The Agency continues to focus on customer incentives and promotions to attract new drivers, reward current customers, and increase total transactions and revenue.

**SAN JOAQUIN HILLS TRANSPORTATION
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Management's Discussion and Analysis

(In thousands)

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 requests for additional financial information should be addressed to the Controller, San Joaquin Hills Transportation Corridor Agency, 125 Pacifica, Suite 100, Irvine, CA 92618 or to info@thetollroads.com.

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Statements of Net Position

June 30, 2016 and 2015

(In thousands)

	2016	2015
Assets:		
Current assets:		
Cash and investments	\$ 40,614	29,114
Restricted cash and investments	63,471	71,949
Receivables:		
Accounts, net of allowance of \$3,099 and \$2,906, respectively	3,633	3,291
Other	377	210
Due from Foothill/Eastern Transportation Corridor Agency	7,577	6,444
Other assets	466	775
Total current assets	116,138	111,783
Noncurrent assets:		
Cash and investments	21,889	6,546
Restricted cash and investments	260,080	223,882
Capital assets, net	5,466	6,422
Total noncurrent assets	287,435	236,850
Deferred outflows of resources:		
Unamortized deferral of bond refunding costs	102,455	108,078
Pension costs	808	375
Total assets and deferred outflows	506,836	457,086
Liabilities:		
Current liabilities:		
Accounts payable	1,507	1,339
Unearned revenue	7,315	6,623
Employee compensated absences payable	252	182
Interest payable	31,513	32,270
Current portion of bonds payable	21,686	37,241
Total current liabilities	62,273	77,655
Net pension liability	3,795	3,126
Arbitrage rebate payable	1,891	1,205
Long-term bonds payable	2,173,252	2,154,258
Note payable to Foothill/Eastern Transportation Corridor Agency	120,495	120,195
Total liabilities	2,361,706	2,356,439
Deferred inflows of resources:		
Pension costs	340	432
Total liabilities and deferred inflows	2,362,046	2,356,871
Net position:		
Net investment in capital assets	(2,207,512)	(2,197,194)
Restricted	290,880	262,696
Unrestricted	61,422	34,713
Total net position	\$ (1,855,210)	(1,899,785)

See accompanying notes to financial statements.

**SAN JOAQUIN HILLS TRANSPORTATION
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Statements of Revenue, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

(In thousands)

	2016	2015
Operating revenue:		
Tolls, fees, and fines	\$ 167,157	147,733
Development impact fees	8,491	3,483
Other revenue	285	1
Total operating revenue	175,933	151,217
Operating expenses:		
Toll compliance and customer service	5,752	5,668
Salaries and wages	3,187	2,652
Toll systems	1,041	751
Depreciation	1,918	1,687
Professional services	943	547
Insurance	708	707
Facilities rent	471	386
Toll facilities	189	243
Marketing	515	694
Other operating expenses	999	375
Total operating expenses	15,723	13,710
Operating income	160,210	137,507
Nonoperating revenue (expenses):		
Investment income	1,372	1,133
Costs of bond refunding	—	(16,982)
Arbitrage rebate	(686)	(1,205)
Termination of Mitigation Payment and Loan Agreement	—	(120,000)
Interest expense	(116,321)	(123,370)
Nonoperating expenses, net	(115,635)	(260,424)
Change in net position	44,575	(122,917)
Net position at beginning of year	(1,899,785)	(1,776,868)
Net position at end of year	\$ (1,855,210)	(1,899,785)

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	2016	2015
Cash flows from operating activities:		
Cash received from toll road patrons	\$ 166,374	145,464
Cash received from development impact fees	8,540	3,438
Cash received from other revenue	285	1
Cash payments to suppliers	(10,402)	(9,218)
Cash payments to employees	(2,916)	(2,795)
Net cash provided by operating activities	161,881	136,890
Cash flows from capital and related financing activities:		
Cash payments for acquisition of capital assets	(758)	(2,637)
Cash payments for interest and principal	(107,716)	(42,423)
Cash paid in connection with bond refunding transaction	—	(157,645)
Net cash used in capital and related financing activities	(108,474)	(202,705)
Cash flows from investing activities:		
Cash receipts for interest and dividends	1,254	3,993
Cash receipts from the maturity and sale of investments	129,458	447,087
Cash payments for purchase of investments	(238,041)	(332,532)
Net cash provided by (used in) investing activities	(107,329)	118,548
Net increase (decrease) in cash and cash equivalents	(53,922)	52,733
Cash and cash equivalents at beginning of year	105,453	52,720
Cash and cash equivalents at end of year (note 4)	\$ 51,531	105,453
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 160,210	137,507
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,918	1,687
Changes in operating assets and liabilities:		
Accounts receivable	(342)	(1,221)
Fees receivable	49	(45)
Due from Foothill/Eastern Transportation Corridor Agency	(1,133)	(1,342)
Other assets	309	(3)
Accounts payable	(93)	157
Unearned revenue	692	294
Net pension liability and related accounts	144	(137)
Employee compensated absences payable	127	(7)
Total adjustments	1,671	(617)
Net cash provided by operating activities	\$ 161,881	136,890

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Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	2016	2015
Noncash capital and related financing and investing activities:		
Bond refunding, including the following elements:		
Face amounts of new bonds issued	\$ —	1,392,760
Bond premium	—	78,347
Transaction costs charged to expense	—	(16,982)
Escrow deposits to repay principal and accrued interest on refunded bonds	—	(1,499,944)
Bond refunding costs recorded as deferred outflows of resources	—	(111,826)
Note payable to Foothill/Eastern Transportation Corridor Agency	—	120,000
Amortization of bond premium recorded as reduction of interest expense	2,250	1,500
Amortization of deferred bond refunding costs	(5,623)	(3,748)
Interest expense recorded for accretion of bonds and note payable	(43,334)	(48,547)
Change in unrealized gain/loss on investments	572	281
Amortization of discount/premium on investments	(300)	(1,473)
Arbitrage rebate	686	1,205

See accompanying notes to financial statements.

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Notes to Financial Statements

(In thousands)

(1) Reporting Entity

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

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

(2) Summary of Significant Accounting Policies

The accounting policies of the Agency are in conformity with U.S. generally accepted accounting principles (U.S. GAAP) 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 revenue and expenses from nonoperating items in the preparation of its financial statements. Operating revenue and expenses generally result from the collection of tolls, fees, and fines on the corridor. The Agency's operating expenses include depreciation, materials, services, and other expenses related to the operation of the corridor. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

(b) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when incurred. During the year ended June 30, 2015, the Agency implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The effect of the

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Notes to Financial Statements

(In thousands)

adoption of these standards was a decrease in beginning net position as of July 1, 2015 of \$3,320. During the year ended June 30, 2016, the Agency implemented GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. There was no effect on net position as a result of adoption of these standards.

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 revenue 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. GAAP. 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, except for money market funds, are stated at fair value on a recurring basis. Money market funds with maturities of one year or less are recorded at amortized cost.

The Agency adopted GASB Statement 72, *Fair Value Measurement Applications*, effective July 1, 2015. This statement addresses accounting and fair value reporting issues related to fair value measurements by clarifying the definition of fair value, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. This statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value.

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.

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(In thousands)

(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, receivables from patrons for violations and tolls, 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, 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 that are valued in total, and an estimated useful life in excess of one year.

As described further in note 5, the San Joaquin Hills Transportation Corridor and the related purchases of rights 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 these assets. The costs of normal maintenance and repairs and mitigation that do not add value to the assets or materially extend asset lives are not capitalized.

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

Asset type	Useful life
Buildings	20–30 years
Changeable message signs	15 years
Toll revenue equipment	5 years
Vehicles	5 years
Leasehold improvements, other equipment, and furniture	5–10 years

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

(h) Unearned Revenue

Unearned revenue represents prepaid tolls collected from patrons, including those using FasTrak®, an electronic toll collection system.

(i) Unamortized Deferral of Bond Refunding Costs

Deferred bond refunding costs represent certain costs related to the issuance of the 2014 Bonds. These costs have been recorded as deferred outflows of resources, and are being amortized over the remaining period during which the refunded bonds were scheduled to be repaid, as more fully detailed in note 6.

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Notes to Financial Statements

(In thousands)

(j) Pension Plan

Qualified permanent employees of the Agency participate in a cost-sharing multiple-employer defined-benefit pension plan administered by the Orange County Employees Retirement System (OCERS). For purposes of measuring the Agency's net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by OCERS. For this purpose, plan contributions are recognized when they are due and payable in accordance with plan terms. Investments are reported at fair value.

(k) Revenue Recognition

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

(l) Allocation of Common Costs

Expenses directly related entirely to the Agency are charged to the Agency, and those incurred on behalf of both the Agency and F/ETCA are allocated between the two agencies based on the estimated benefit to each. In addition, the Agency has amounts due from F/ETCA related to F/ETCA customers who incur tolls on the Agency's corridor and has amounts due to F/ETCA related to the Agency's customers who incur tolls on State Routes 241, 261, and 133 and other expenses. At June 30, 2016 and 2015, the Agency had net receivables due from F/ETCA of \$7,577 and \$6,444, respectively.

(m) Net Position

The Agency's net position is classified within the following categories:

Net investment in capital assets: Represents the Agency's capital assets, net of accumulated depreciation and the outstanding principal balances of debt attributable to the acquisition, construction, and improvement of those assets.

Restricted: Represents the Agency's assets subject to externally imposed conditions, related primarily to restricted bond proceeds and certain revenue collected, net of related liabilities.

Unrestricted: Represents the remainder of the Agency's net position not included in the categories above.

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY**

Notes to Financial Statements

(In thousands)

(3) Development Impact Fees

The sources of development impact fees for the years ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
City of Irvine	\$ 5,512	1,328
City of Laguna Niguel	820	219
City of Costa Mesa	721	81
City of San Clemente	493	1,259
City of San Juan Capistrano	252	(370)
County of Orange	250	115
City of Newport Beach	217	125
City of Dana Point	179	153
City of Santa Ana	37	—
City of Aliso Viejo	10	198
City of Laguna Hills	—	375
	<u>\$ 8,491</u>	<u>3,483</u>

(4) Cash and Investments

Cash and investments as of June 30, 2016 and 2015 are classified in the accompanying financial statements as follows:

	<u>2016</u>	<u>2015</u>
Current cash and investments	\$ 40,614	29,114
Noncurrent cash and investments	21,889	6,546
Current restricted cash and investments	63,471	71,949
Noncurrent restricted cash and investments	260,080	223,882
	<u>\$ 386,054</u>	<u>331,491</u>

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(In thousands)

Cash and investments as of June 30, 2016 consist of the following:

	Cash and cash equivalents	Investments	Total
Cash on hand	\$ 1	—	1
Deposit accounts	774	—	774
Money market funds	22,547	—	22,547
Commercial paper	2,499	5,395	7,894
U.S. Treasury securities	—	13,767	13,767
Federal agency securities	—	19,991	19,991
Corporate notes	—	17,569	17,569
Investments held with trustee per debt agreements:			
Commercial paper	—	399	399
U.S. Treasury securities	25,710	224,650	250,360
Federal agency securities	—	42,819	42,819
Corporate notes	—	9,933	9,933
Total	<u>\$ 51,531</u>	<u>334,523</u>	<u>386,054</u>

Cash and investments as of June 30, 2015 consist of the following:

	Cash and cash equivalents	Investments	Total
Cash on hand	\$ 1	—	1
Deposit accounts	3,727	—	3,727
Money market funds	16,228	—	16,228
Commercial paper	—	8,761	8,761
U.S. Treasury securities	—	5,449	5,449
Federal agency securities	—	15,840	15,840
State and local bonds	—	4,770	4,770
Investments held with trustee per debt agreements:			
Commercial paper	—	599	599
U.S. Treasury securities	—	165,821	165,821
Federal agency securities	85,497	15,716	101,213
State and local bonds	—	9,082	9,082
Total	<u>\$ 105,453</u>	<u>226,038</u>	<u>331,491</u>

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CORRIDOR AGENCY**

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(In thousands)

(a) Cash Deposits

Custodial Credit Risk Related to Cash Deposits

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the Agency will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party.

At June 30, 2016 and 2015, the carrying amounts of the Agency's cash deposits were \$774 and \$3,727, and the corresponding aggregate bank balances were \$791 and \$4,792, respectively. The differences of \$17 and \$1,065 were principally due to outstanding checks and deposits in transit. The Agency's custodial credit risk is mitigated in that the full amounts of the bank balances outlined above were insured by federal depository insurance or collateralized in accordance with Section 53652 of the California Government Code with securities held by the pledging financial institution in the Agency's name.

(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, maximum maturity, and maximum percentage investment. Both the policy and the Agency's debt agreements generally require that all securities must be issued by companies with a long-term debt rating of at least "A" by two of the Nationally Recognized Statistical Rating Organizations (NRSRO) or at least "AA" by one NRSRO. The policy also indicates specific rating requirements for certain types of investments. Further, there are percentage limitations on the purchase of specific types of securities, based on the purchase price of the security as compared to the market value of the total portfolio at the time of purchase. However, the policy does not require sales of individual securities due to subsequent changes in market value that cause their values to exceed the prescribed maximum percentages of the portfolio.

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(In thousands)

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

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
U.S. Treasury bills, notes, and bonds	5 years	100	100	N/A
Federal agency and U.S. government-sponsored enterprise notes and bonds	5 years	100	35	N/A
Federal agency mortgage-backed securities	5 years	20	15	Second highest ratings category by an NRSRO
Certificates of deposit	** 5 years	100	5	Long-term debt rating in one of highest ratings categories by two NRSROs
Certificates of deposit account registry service	5 years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs
Negotiable certificates of deposit	5 years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs
Banker’s acceptances	180 days	30	5	Drawn on and accepted by a bank that carries the highest short-term ratings category by one NRSRO

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(In thousands)

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
Commercial paper	270 days	25	Lesser of 5% of portfolio or 10% of outstanding paper of issuer	Highest short-term rating by an NRSRO
Repurchase agreements	90 days	25	5	N/A
Medium-term maturity corporate notes	5 years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs
State of California Local Agency Investment Fund	N/A	Lesser of \$65 million or 15% of portfolio	5	N/A
County or local agency investment pools	N/A	15	5	N/A
Shares in a California common law trust	N/A	20	5	Highest rating category by an NRSRO
Asset-backed securities	5 years	20	5	Highest rating by one NRSRO; issuer must also have one of the three highest ratings from two NRSROs
Money market mutual funds	N/A	20	5	Highest applicable rating by two NRSROs
Bonds or notes issued by the State of California, any local agency in the state, or any other state	5 years	30	5	One of the three highest rating categories by at least two NRSROs

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

** The full amounts of principal and accrued interest must be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

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(In thousands)

The investment of debt proceeds and toll revenue held by the Agency's bond trustee is 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 funds, and if applicable, the specific rating requirements.

Investments authorized by debt agreements	Specific rating requirement
U.S. government obligations	N/A
U.S. federal agency debt instruments	N/A
State and local government debt 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
Certificates of deposit, savings accounts, deposit accounts, or money market deposits insured by the Federal Deposit Insurance Corporation (FDIC)	N/A
Certificates of deposit collateralized by U.S. government or federal agency obligations	N/A
Federal funds or bankers' 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 with terms up to 30 days, secured by U.S. government or federal agency obligations	A or better by both Moody's and S&P and, if rated by Fitch, A or better
Medium-term corporate notes with maximum maturity of five years	One of the three highest applicable rating categories, or approved in writing, by S&P, and, if rated by Fitch, 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

* 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.

**SAN JOAQUIN HILLS TRANSPORTATION
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Notes to Financial Statements

(In thousands)

At June 30, 2016 and 2015, all of the Agency's investments were rated at or above the minimum levels required by its investment policy and its debt agreements, as shown below:

<u>Investment type</u>	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>S&P</u>	<u>Moody's</u>	<u>S&P</u>	<u>Moody's</u>
U.S. Treasury bills and notes	AA+	Aaa	AA+	Aaa
U.S. Treasury State and Local Government Series (SLGS)	AA+	Aaa	AA+	Aaa
Federal agency and U.S. government- sponsored enterprise notes and bonds*	AA+/A-1+	Aaa/ P-1	AA+/A-1+	Aaa/ P-1
Money market funds	AAAm	Aaa-mf	AAAm	Aaa -mf
Commercial paper:				
Abbey National LLC	—	—	A-1	P-1
Bank of Tokyo-Mitsubishi UFJ Ltd	A-1	P-1	—	—
General Electric Capital	—	—	A-1+	P-1
Rabobank Nederland NV	A-1	P-1	—	—
Toyota Motor Corp	A-1+	P-1	A-1+	P-1
Praxair	A-1	P-1	—	—
Corporate notes – Medium term:				
Apple Inc.	AA+	Aa1	—	—
Berkshire Hathaway Inc.	AA	Aa2	—	—
Charles Schwab Corporation	A	A2	—	—
Chevron Corporation	AA-	Aa2	—	—
Coca-Cola Company	AA-	Aa3	—	—
Deere & Company	A	A2	—	—
Exxon Mobil Corp	AA+	Aaa	—	—
General Electric Company	AA+	A1	—	—
Honda Motor Corporation	A+	A1	—	—
IBM Corporation	AA-	Aa3	—	—
Intel Corporation	A+	A1	—	—
JP Morgan Chase & Company	A-	A3	—	—
Oracle Corporation	AA-	A1	—	—
Pepsico Inc.	A	A1	—	—
Toyota Motor Corp	AA-	Aa3	—	—
U.S. Bancorp	A+	A1	—	—
Visa Inc.	A+	A1	—	—
Wells Fargo Corporation	A	A2	—	—

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(In thousands)

Investment type	June 30, 2016		June 30, 2015	
	S&P	Moody's	S&P	Moody's
State and local bonds:				
San Francisco Bay Area Toll Authority	—	—	AA	Aa3
Indiana State Revenue	—	—	AA+	Aa1
Missouri State Revenue	—	—	AAA	Aaa
University of California Regents Revenue	—	—	AA	Aa2

* Ratings are indicated to the extent available. However, in some instances, discounted federal agency bonds are not rated.

(c) 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 that is deposited in the Agency's primary bank. Securities are not held in broker accounts.

(d) 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 held at June 30, 2016 that are governed by the Agency's investment policy and its bond agreements, including money market funds of \$22,547, commercial paper of \$2,499, and federal agency securities of \$25,710 that are considered cash equivalents, is as follows:

Investment type	Fair value	Remaining maturity (in years)			
		Less than one	One to two	Two to five	More than five
U.S. Treasury SLGS	\$ 178,358	—	—	—	178,358
Other U.S. Treasury securities	85,769	62,702	12,968	1,684	8,415
Federal agency and U.S. government-sponsored enterprise notes	62,810	35,974	16,204	10,632	—
Corporate notes	27,502	3,409	11,840	12,253	—
Money market funds	22,547	22,547	—	—	—
Commercial paper	8,293	8,293	—	—	—
	\$ 385,279	132,925	41,012	24,569	186,773

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At June 30, 2016, with the exception of investments issued or explicitly guaranteed by the U.S. government and money market mutual funds, there were no investments in any issuers that accounted for 5% or more of the Agency's total investments except for the following: Federal Home Loan Bank and Federal Home Loan Mortgage Corporation. Investments in these issuers represented 6% and 5%, respectively, of the Agency's total investments, as permitted by the Agency's investment policy and the applicable bond indentures.

A summary of the Agency's investments held at June 30, 2015 that are governed by the Agency's investment policy and its bond agreements, including money market funds of \$16,228 and federal agency securities of \$85,497 that are considered cash equivalents, is as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than one</u>	<u>One to two</u>	<u>Two to five</u>	<u>More than five</u>
U.S. Treasury SLGS	\$ 155,557	—	—	—	155,557
Federal agency securities	117,053	112,551	4,502	—	—
Money market funds	16,228	16,228	—	—	—
Other U.S. Treasury securities	15,713	5,103	5,057	5,553	—
State and local bonds	13,852	13,852	—	—	—
Commercial paper	9,360	9,360	—	—	—
Total	<u>\$ 327,763</u>	<u>157,094</u>	<u>9,559</u>	<u>5,553</u>	<u>155,557</u>

At June 30, 2015, with the exception of investments issued or explicitly guaranteed by the U.S. government and money market mutual funds, there were no investments in any issuers that accounted for 5% or more of the Agency's total investments except for the following: Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank. Investments in these issuers represented 15%, 9%, and 7%, respectively, of the Agency's total investments, as permitted by the Agency's investment policy and the applicable bond indentures.

Facts and Assumptions

Because investing is not a core part of the Agency's mission, the Agency determines that the disclosures related to these investments only need to be disaggregated by major type. The Agency chooses a tabular format for disclosing the levels within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets.
- Level 2 inputs are significant other observable inputs or quoted prices in active markets for similar assets.
- Level 3 inputs are significant unobservable inputs.

Debt securities classified as Level 2 in the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities' relationship to benchmark quoted prices. Commercial paper is valued based on quoted prices in active markets of similar securities.

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Notes to Financial Statements

(In thousands)

At June 30, 2016 and 2015, the Agency had the following fair value measurements:

June 30, 2016				
Investment type	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
U.S. Treasury SLGS	\$ 178,358	—	178,358	—
Other U.S. Treasury securities	85,769	—	85,769	—
Federal agency and U.S. government-sponsored enterprise notes	62,810	—	62,810	—
Corporate notes	27,502	—	27,502	—
Commercial paper	8,293	—	8,293	—
	\$ 362,732	—	362,732	—

Money market funds in the amount of \$22,547 are excluded from the table above because they are reported at amortized cost.

June 30, 2015				
Investment type	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
U.S. Treasury SLGS	\$ 155,557	—	155,557	—
Federal agency securities	117,053	—	117,053	—
Other U.S. Treasury securities	15,713	—	15,713	—
State and local bonds	13,852	—	13,852	—
Commercial paper	9,360	—	9,360	—
	\$ 311,535	—	311,535	—

Money market funds in the amount of \$16,228 are excluded from the table above because they are reported at amortized cost.

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Notes to Financial Statements

(In thousands)

(5) Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	<u>Balance at beginning of year</u>	<u>Additions</u>	<u>Transfers/ deletions</u>	<u>Balance at end of year</u>
Right-of-way acquisitions, grading, or improvements	\$ 119	—	—	119
Furniture and equipment	13,270	962	(309)	13,923
	13,389	962	(309)	14,042
Accumulated depreciation	(6,967)	(1,918)	309	(8,576)
	<u>\$ 6,422</u>	<u>(956)</u>	<u>—</u>	<u>5,466</u>

Capital assets activity for the year ended June 30, 2015 was as follows:

	<u>Balance at beginning of year</u>	<u>Additions</u>	<u>Transfers/ deletions</u>	<u>Balance at end of year</u>
Construction in progress	\$ —	795	(795)	—
Right-of-way acquisitions, grading, or improvements	119	—	—	119
Furniture and equipment	12,063	1,645	(438)	13,270
	12,182	2,440	(1,233)	13,389
Accumulated depreciation	(5,718)	(1,687)	438	(6,967)
	<u>\$ 6,464</u>	<u>753</u>	<u>(795)</u>	<u>6,422</u>

Right-of-way acquisitions, grading, and improvements include easements and environmental mitigation parcels. Furniture and equipment include transponders, toll and violations collection equipment, buildings, vehicles, and leasehold improvements.

Transfer of Ownership

Ownership of the San Joaquin Hills Transportation Corridor construction, rights-of-way, grading, and improvements was transferred to Caltrans during the year ended June 30, 1997, upon satisfaction of all conditions contained within the Cooperative Agreement between the Agency and Caltrans. The Agency incurs additional costs for improvements and enhancements to the thoroughfares previously transferred to Caltrans. These improvements and enhancements are covered by separate project-specific Cooperative Agreements with Caltrans and are transferred to Caltrans and recognized as contribution expense.

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(In thousands)

(6) Long-Term Obligations

Following is a summary of changes in long-term obligations during the year ended June 30, 2016:

	<u>Balance at beginning of year</u>	<u>Additions/ accretions</u>	<u>Reductions</u>	<u>Balance at end of year</u>	<u>Due within one year</u>
Series 2014 toll road refunding revenue bonds:					
Current interest bonds	\$ 1,392,760	—	(33,710)	1,359,050	17,835
Series 1997A toll road refunding revenue bonds:					
Restructured convertible capital appreciation bonds	538,574	32,675	—	571,249	—
Capital appreciation bonds	183,318	10,359	(3,635)	190,042	3,851
Subtotal	2,114,652	43,034	(37,345)	2,120,341	21,686
Plus unamortized premium on 2014 bonds	76,847	—	(2,250)	74,597	—
Total bonds payable	2,191,499	43,034	(39,595)	2,194,938	21,686
Note payable to F/ETCA	120,195	300	—	120,495	—
Total long-term obligations	\$ 2,311,694	43,334	(39,595)	2,315,433	21,686

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(In thousands)

Following is a summary of changes in long-term obligations during the year ended June 30, 2015:

	<u>Balance at beginning of period</u>	<u>Additions/ accretions</u>	<u>Reductions</u>	<u>Balance at end of period</u>	<u>Due within one year</u>
Series 2014 toll road refunding revenue bonds:					
Current interest bonds	\$ —	1,392,760	—	1,392,760	33,710
Series 1997A toll road refunding revenue bonds:					
Current interest bonds	604,885	—	(604,885)	—	—
Convertible capital appreciation bonds	250,000	—	(250,000)	—	—
Restructured convertible capital appreciation bonds	508,201	30,373	—	538,574	—
Capital appreciation bonds	565,339	17,979	(400,000)	183,318	3,531
Series 1993 Senior Lien toll road revenue bonds:					
Current interest bonds	220,180	—	(220,180)	—	—
Subtotal	2,148,605	1,441,112	(1,475,065)	2,114,652	37,241
Plus unamortized premium on 2014 bonds	—	78,347	(1,500)	76,847	—
Total bonds payable	2,148,605	1,519,459	(1,476,565)	2,191,499	37,241
Note payable to F/ETCA	—	120,195	—	120,195	—
Total long-term obligations	<u>\$ 2,148,605</u>	<u>1,639,654</u>	<u>(1,476,565)</u>	<u>2,311,694</u>	<u>37,241</u>

(a) Toll Road Revenue Bonds

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

In May 2011, bondholders consented to amending the master indentures and approved a supplemental indenture to amend certain terms of \$430 million of the convertible capital appreciation bonds (Restructured Bonds) that had maturity dates in 2018, 2020, 2022, 2023, and 2024. The primary change in terms for these bonds was to extend the originally scheduled maturity dates to 2037, 2038, 2040, 2041, and 2042, respectively. The Restructured Bonds ceased to bear interest on July 15, 2011 and a 10-year accretion period through July 15, 2021 began during which interest on the bonds was scheduled to accrue at the same rates, ranging from 5.65% to 5.75% compounded semiannually, as

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(In thousands)

had applied prior to the amendment. Commencing January 15, 2022, interest on the accreted value of the bonds was scheduled to be payable semiannually. The bonds were scheduled to mature in annual installments from January 15, 2037 to 2042, subject to early redemption from mandatory sinking fund payments beginning January 15, 2037 by payment of accrued interest and principal with no premium. In connection with the 2014 transaction described below, the terms of the Restructured Bonds were amended to provide for interest rates that range from 5.90% to 6.00%; adjusted maturity dates that range from January 15, 2038 to 2046; and an increase of \$12,400 in the aggregate maturity value, to \$768,700.

In November 2014, the Agency issued \$1,098,850 of Series 2014 Senior Lien Current Interest Toll Road Refunding Revenue Bonds (2014 Senior Bonds) and \$293,910 of Junior Lien Current Interest Toll Road Refunding Revenue Bonds (2014 Junior Bonds) (collectively, the 2014 Bonds); the proceeds of the issuance were used to refund the outstanding balances of the 1993 bonds, at par value plus accrued interest; the 1997 current interest bonds, at par value plus accrued interest; the 1997 convertible capital appreciation bonds that had not been amended as described above, at par value plus accrued interest and a redemption premium of 1.0%; and a portion of the 1997 capital appreciation bonds, at accreted value of \$400,000 plus a redemption premium of \$109,326.

As a result of this transaction, the ultimate maturity of the Agency's long-term debt obligations was extended from 2042 to 2050. The reacquisition price of the refunded bonds exceeded their net carrying amount by \$111,826; this amount is considered a deferred loss for accounting purposes, and is being amortized through 2036, the remaining period during which the refunded bonds were scheduled to be repaid. In addition, the Agency incurred other transaction costs of \$16,982, which were recorded as expense. The 2014 Bonds were issued at a premium of \$78,347, which is being amortized over the life of the bonds. In connection with this transaction, total scheduled debt service payments increased by \$793,761, and the Agency realized an economic gain (as measured by the difference in present value of the scheduled debt service payments on the old and new debt) of approximately \$44 million.

The 2014 Senior Bonds are scheduled to mature in installments from January 2016 through January 2050, and interest is payable semiannually at 5.00%. The 2014 Junior Bonds are scheduled to mature in installments from January 2037 through January 2049, and interest is payable semiannually at 5.25%. The 2014 Senior Bonds scheduled to mature after 2028 and the 2014 Junior Bonds are subject to early redemption on or after January 15, 2025, at the option of the Agency, by payment of principal and accrued interest.

The 1997 convertible capital appreciation bonds not amended by the supplemental indenture accrued interest at rates ranging from 5.60% to 5.75% compounded semiannually, through January 15, 2007. Interest was payable semiannually based on accreted value of the bonds on that date. The bonds were scheduled to mature in installments during 2016, 2017, 2019, and 2021. The bonds were subject to early redemption, at the option of the Agency, beginning January 15, 2014 by payment of accrued interest, principal, and a premium of up to 2.00%.

The remaining outstanding balance of the 1997 capital appreciation bonds accrues interest at rates ranging from 4.20% to 5.67% compounded semiannually. The bonds mature in annual installments through January 15, 2036.

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(In thousands)

A portion of the Series 1997 bonds was used to purchase U.S. government securities, which were placed in an irrevocable escrow fund to be used for the debt service payments related to the refunded portion of the 1993 bonds. As of June 30, 2016 and 2015, the amounts of the refunded bonds outstanding, which were previously eliminated from the financial statements as a result of the refunding, are \$879,321 and \$880,350, respectively.

Included in principal at June 30, 2016 and 2015 are \$436,585 and \$395,822, respectively, related to accreted principal on convertible capital appreciation bonds and capital appreciation bonds.

(b) Debt Compliance

The Agency is subject to debt service coverage ratio requirements of 1.3x for its Senior Lien Bonds and 1.1x for the Junior Lien Bonds.

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

(c) Note Payable to F/ETCA

On November 10, 2005, the Agency's Board of Directors and the Board of Directors of F/ETCA entered into a Mitigation Payment and Loan Agreement (the Agreement). The terms of the Agreement called for F/ETCA to make payments to the Agency totaling \$120,000 over four years to mitigate for the anticipated loss of revenue due to the construction of the 241 to I-5 connection project. All scheduled payments totaling \$120,000 were made by F/ETCA as of June 2009. In addition, F/ETCA committed to provide loans, subject to the terms of the Agreement, on an as-needed basis, up to \$1,040,000 to assist the Agency in achieving its debt service coverage ratio. However, no amounts were borrowed.

The Agreement was designed to meet the near term needs of each Agency while preserving the flexibility to continue to pursue alternatives. The Agreement provided that F/ETCA loans would be made only to the extent that surplus revenue was available and all findings and determinations required by law were met, including California Government Code Section 66484.3, paragraph (f), which required that the following findings must be met before F/ETCA could make a loan: 1) F/ETCA will benefit mutually financially by sharing and/or loaning revenue with the Agency, 2) F/ETCA possesses adequate financial resources to fund all costs of construction of existing and future projects that it plans to undertake prior to the final maturity of the loan, and 3) funding the loan will not materially impair F/ETCA's financial condition or operations during the term of the loan. The Agency's obligation to repay the loans was, in turn, secured by and payable only from its toll stabilization and surplus revenue funds. The Agreement also stipulated that F/ETCA would not be obligated to make loans to the Agency prior to securing the necessary funds for constructing the 241 to I-5 connection project unless F/ETCA has determined that it would not build the project. If the commencement and diligent pursuit of the construction of the 241 to I-5 connection project did not occur by June 30, 2016 and 2015, the mitigation payments would be added to the principal amount of the loan.

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(In thousands)

On August 14, 2014, the Agency’s Board of Directors and the Board of Directors of F/ETCA approved an agreement that provided for termination of the Mitigation Payment and Loan Agreement concurrently with the closing of the refinance transaction described above in note 6(a). The termination agreement also provided for the Agency to pay \$120,000 to F/ETCA, in annual installments beginning January 15, 2025 equal to 50% of the Agency’s surplus funds as defined in the agreement. Interest accrual based on the average annual yield of the State of California Pooled Money Investment Account commenced upon closing of the transaction and interest is payable annually beginning January 15, 2025.

(d) Scheduled Debt Service

Following is a summary of the annual debt service requirements by fiscal year for the Agency’s long-term debt obligations, exclusive of the note payable to F/ETCA and related interest, as of June 30, 2016:

	<u>Principal</u>	<u>Interest⁽¹⁾</u>	<u>Junior lien interest⁽¹⁾</u>	<u>Total</u>
2017	\$ 21,686	52,925	15,430	90,041
2018	3,440	52,665	15,430	71,535
2019	3,646	52,904	15,430	71,980
2020	906	52,559	15,430	68,895
2021	9,659	55,091	15,430	80,180
2022–2026	122,389	563,919	77,151	763,459
2027–2031	113,068	496,489	77,151	686,708
2032–2036	255,384	489,601	77,151	822,136
2037–2041	390,040	439,329	70,466	899,835
2042–2046	554,408	333,548	42,559	930,515
2047–2051	645,715	56,781	7,664	710,160
	<u>\$ 2,120,341</u>	<u>2,645,811</u>	<u>429,292</u>	<u>5,195,444</u>

⁽¹⁾ Includes payments scheduled on January 1 and January 15 of the indicated fiscal year and July 1 and July 15 of the following fiscal year, to coincide with the annual debt service calculations used for covenant compliance purposes.

(7) Commitments and Contingencies

(a) Toll Collection and Revenue Management System Agreements

The Agency and F/ETCA have entered into agreements with various contractors for various services, including toll collection systems operation and maintenance. The agreements expire on various dates through June 30, 2025 and are generally cancelable by the Agency, without further obligation, with advance written notice.

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(In thousands)

(b) Corridor Operations Facility Lease

In January 2000, the Agency relocated to the corridor operations facility and signed a lease agreement with F/ETCA. Lease payments are based on the estimated fair market rental value and are adjusted annually. The Agency incurred lease expense for the years ended June 30, 2016 and 2015 of \$471 and \$386, respectively. The Agency's commitment for the year ending June 30, 2017 is \$605.

(c) Commitment

The Agency has agreed with Caltrans to provide a maintenance facility for State Route 73. As of June 30, 2016, the Agency has earmarked approximately \$8 million for this project.

(d) Litigation

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

(e) Risk Management

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

(8) Employees' Retirement Plans

Defined-Benefit Plan - Qualified permanent Employees of the Agency participate in a cost-sharing multiple-employer defined-benefit pension plan (the Plan) administered by OCERS, a public employee retirement system established in 1945. The Plan is subject to the provisions of the County Employees Retirement Law of 1937 (California Government Code Section 31450 et. seq.); the California Public Employees' Pension Reform Act of 2013 (Government Code Section 7522 et. seq.); and other applicable statutes.

(a) Benefits

The Plan provides retirement, disability, and death benefits to eligible plan members and their beneficiaries. Monthly retirement benefits are determined by benefit formulas that depend upon the classification of employees; the date of entering membership in OCERS or a reciprocal plan; retirement age; years of service; and final average compensation. The Agency's members hired prior to January 1, 2013 are subject to a benefit formula of 2.0% of final average compensation per year of service, based upon retirement at age 55. Members hired on or after January 1, 2013 are subject to a benefit formula of 2.5% at 67.

Amounts payable for retired members are subject to annual cost-of-living adjustments based upon changes in the Consumer Price Index for the prior calendar year. Adjustments are limited to a maximum increase or decrease of 3% per year.

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(b) Contributions

Employer and employee contribution requirements are determined as percentages of covered payroll amounts and vary based upon the age of each employee at the date of entering membership in OCERS or a reciprocal plan. Employer contribution rates are determined using the entry age normal actuarial cost method based upon a level percentage of payroll. Employer contribution rates ranged from 21.08% to 56.35% for the year ended December 31, 2015, and from 21.04% to 57.28% for the year ended December 31, 2014. Employee contributions are established by the OCERS Board of Retirement and guided by applicable state statutes. Employee contribution rates ranged from 9.08% to 15.63% for the year ended December 31, 2015, and from 8.93% to 15.63% for the year ended December 31, 2014. The contributions from the Agency recognized by the plan, measured as the total amounts of additions to the plan's fiduciary net position for the years ended December 31, 2015 and 2014, were \$467 and \$384, respectively, and equaled 100% of the required contributions, and represented 23.3% and 21.0% of the Agency's covered payroll, respectively.

(c) Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources

For purposes of reporting under GASB Statement No. 68, OCERS arranged for determination of the plan's collective net pension liability; deferred outflows and inflows of resources related to pensions; and pension expense, as well as the proportionate share of each amount applicable to the plan's participating employers, using measurement dates of December 31, 2015 and 2014, with respective actuarial valuations as of December 31, 2014 and 2013 and standard procedures to roll forward to the respective measurement dates. The Agency's reporting dates are June 30, 2016 and 2015. The proportionate shares of these amounts attributable to the Transportation Corridor Agencies have been determined by OCERS's actuary based upon actual employer contributions within each rate group and further allocated between the Agency and F/ETCA on the basis of their respective shares of covered payroll to determine the amounts reportable by the Agency, as indicated below:

		<u>Percentage of collective amount</u>		<u>Covered payroll</u>
OCERS Collective net pension liability at December 31, 2015	\$ 5,716,605	100%	\$	1,521,036
Proportionate share attributable to Transportation Corridor Agencies	12,713	0.22%		6,088
Share allocable to San Joaquin Hills Transportation Corridor Agency	3,795	0.07%		2,005
Agency's share of collective net pension liability as a percentage of its covered payroll				189%
Plan's fiduciary net position as a percentage of the total pension liability	67.10%			

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(In thousands)

		<u>Percentage of collective amount</u>		<u>Covered payroll</u>
OCERS Collective net pension liability at December 31, 2014	\$ 5,082,481	100%	\$	1,513,206
Proportionate share attributable to Transportation Corridor Agencies	10,683	0.21%		6,118
Share allocable to San Joaquin Hills Transportation Corridor Agency	3,126	0.06%		1,831
Agency's share of collective net pension liability as a percentage of its covered payroll				171%
Plan's fiduciary net position as a percentage of the total pension liability	69.42%			
December 31				
		<u>2015</u>		<u>2014</u>
OCERS Collective deferred outflows of resources	\$	987,429		389,055
Proportionate share attributable to Transportation Corridor Agencies		1,824		453
Share allocable to San Joaquin Hills Transportation Corridor Agency		587		136
Collective deferred inflows of resources	\$	987,429		538,504
Proportionate share attributable to Transportation Corridor Agencies		1,165		1,443
Share allocable to San Joaquin Hills Transportation Corridor Agency		340		432
Year ended June 30				
		<u>2015</u>		<u>2014</u>
OCERS Collective pension expense	\$	669,600		566,324
Proportionate share attributable to Transportation Corridor Agencies		1,796		1,594
Share allocable to San Joaquin Hills Transportation Corridor Agency		592		477

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The Agency's deferred outflows of resources related to pensions as of June 30, 2016 and 2015 are attributable to the following:

	2016	2015
Net difference between projected and actual earnings on pension plan investments	\$ 572	136
Differences between expected and actual experience	15	—
Contributions to the plan subsequent to the measurement date of the collective net pension liability	221	239
Total deferred outflows related to pensions	\$ 808	375

The Agency's deferred inflows of resources related to pensions as of June 30, 2016 and 2015 are attributable to the following:

	2016	2015
Differences between expected and actual experience	\$ 149	190
Changes of assumptions or other inputs	191	242
Total deferred inflows related to pensions	\$ 340	432

The amount of \$221, representing as of June 30, 2016 the Agency's balance of deferred outflows of resources related to contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. The other amounts of the Agency's balances of deferred outflows and deferred inflows of resources as of June 30, 2016 will be recognized in pension expense as follows:

Year ending June 30:		
2017	\$	76
2018		76
2019		76
2020		34
2021		(15)
	\$	247

(d) Actuarial Assumptions and Other Inputs

The following significant methods and assumptions were used to measure the plan's total pension liability as of December 31, 2015 and 2014:

- Actuarial experience study – Three-year period ended December 31, 2013
- Inflation rate – 3.00%

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- Projected salary increases – 4.25% to 17.50%, depending upon service and nature of employment
- Cost-of-living adjustments – 3.00%

The mortality assumptions were based on the results of the actuarial experience study for the period January 1, 2011 through December 31, 2013 using the RP-2000 Combined Healthy Mortality Table projected with the Society of Actuaries Scale BB to 2020. The mortality assumptions were then customized to account for the plan's membership experience.

The discount rate used to measure the plan's total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at actuarially determined rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return should be determined without reduction for plan administrative expense. The 7.25% investment return assumption is net of administrative expenses, assumed to be 16 basis points. The investment rate of return assumption remained the same for reporting purposes due to the immaterial impact administrative expenses has on the overall assumed rate of return. The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation and deducting expected investment expenses.

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The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected rate of return assumption are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Large cap U.S. equity	14.90%	5.92%
Small/Mid cap U.S. equity	2.73	6.49
Developed international equity	10.88	6.90
Emerging international equity	6.49	8.34
Core bonds	10.00	0.73
Global bonds	2.00	0.30
Emerging market debt	3.00	4.00
Real estate	10.00	4.96
Diversified credit (U.S.)	8.00	4.97
Diversified credit (Non-U.S.)	2.00	6.76
Hedge funds	7.00	4.13
GTAA	7.00	4.22
Real return	10.00	5.86
Private equity	6.00	9.60
Total	100.00%	

The following table presents the Agency's proportionate share of the plan's net pension liability, calculated using the discount rate of 7.25%, as well as what its proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current discount rate:

	December 31	
	2015	2014
Net pension liability, calculated:		
With current discount rate of 7.25%	\$ 3,795	3,126
With a 1% decrease, to 6.25%	5,924	4,673
With a 1% increase, to 8.25%	2,758	1,984

(e) Plan's Fiduciary Net Position

OCERS provides publicly available financial information, including comprehensive annual financial reports and actuarial valuations, on the following Web site: www.ocers.org. Detailed information about the plan's fiduciary net position is included in the comprehensive annual financial report for the fiscal year ended December 31, 2015, which may also be obtained by calling (714) 558-6200.

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(f) Employee Contributions

As described above, plan members contribute a percentage of their annual covered salaries at actuarially determined rates based on the age of entry into the plan. For employees who were hired prior to January 1, 2013, the Agency paid up to 7% of each employee's required contribution through June 30, 2013. However, this percentage was reduced to 4.5% as of July 1, 2013 and to 2.0% as of July 1, 2014. As of July 1, 2015, the Agency's payments toward the employees' required contributions were fully eliminated. In addition to the pension expense determined in accordance with the requirements of GASB No. 68 as described above, the Agency incurred expense of \$26 for the year ended June 30, 2015 related to its subsidization of employee contributions.

Defined-Contribution Plan - The Agency also sponsors a defined-contribution plan under the provisions of Internal Revenue Code Section 457 that permits employees to defer portions of their pretax compensation. The Agency provides matching contributions to a related Section 401(a) plan, at a rate of 50% of the employees' deferral contributions, up to a maximum of 2% of each employee's related compensation. In connection with this plan, the Agency incurred \$36 and \$24 of expense for the years ended June 30, 2016 and 2015, respectively.